

EDGAR Submission Header Summary

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| Submission Form Type | 20-F |
| XBRL | External XBRL Submission |
| Period of Report | 12-31-2020 |
| Filer | Optibase Ltd |
| CIK | 0001077618 |
| CCC | f#pt8wgv |
| EDGAR Accelerated Filer Status | Non-Accelerated Filer |
| Voluntary Filer | No |
| Shell Company | Off |
| Well-known Seasoned Issuer | Off |
| Emerging Growth Company | Off |
| Ex Transition Period | Off |
| Exchanges | NASD |
| Co-Registrants | |
| Submission Contact | Yaron Kleiner |
| Contact Phone Number | 972542233054 |
| Documents | 22 |

Notification Emails

| | |
|--------|-----------------|
| Emails | edgar@z-k.co.il |
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Documents

| | |
|-------------|------------------|
| 20-F | zk2125885.htm |
| Description | 20-F |
| EX-2.1 | exhibit_2-1.htm |
| Description | Exhibit 2.1 |
| EX-4.7 | exhibit_4-7.htm |
| Description | Exhibit 4.7 |
| EX-4.8 | exhibit_4-8.htm |
| Description | Exhibit 4.8 |
| EX-4.18 | exhibit_4-18.htm |
| Description | Exhibit 4.18 |
| EX-4.23 | exhibit_4-23.htm |
| Description | Exhibit 4.23 |
| EX-8.1 | exhibit_8-1.htm |
| Description | Exhibit 8.1 |
| EX-12.1 | exhibit_12-1.htm |
| Description | Exhibit 12.1 |
| EX-12 | exhibit_12-2.htm |
| Description | Exhibit 12.2 |
| EX-13 | exhibit_13-1.htm |
| Description | Exhibit 13.1 |
| EX-13 | exhibit_13-2.htm |
| Description | Exhibit 13.2 |
| EX-15.1 | exhibit_15-1.htm |
| Description | Exhibit 15.1 |
| EX-15 | exhibit_15-2.htm |
| Description | Exhibit 15.2 |

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|-------------|---|
| EX-101.INS | obas-20201231.xml |
| Description | XBRL Instance Document |
| EX-101.SCH | obas-20201231.xsd |
| Description | XBRL Taxonomy Extension Schema |
| EX-101.CAL | obas-20201231_cal.xml |
| Description | XBRL Taxonomy Extension Calculation Linkbase |
| EX-101.DEF | obas-20201231_def.xml |
| Description | XBRL Taxonomy Extension Definition Linkbase |
| EX-101.LAB | obas-20201231_lab.xml |
| Description | XBRL Taxonomy Extension Label Linkbase |
| EX-101.PRE | obas-20201231_pre.xml |
| Description | XBRL Taxonomy Extension Presentation Linkbase |
| GRAPHIC | ex4-8img101.jpg |
| GRAPHIC | ex4-8img102.jpg |
| GRAPHIC | image00001.jpg |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission File Number 000-29992

OPTIBASE LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

8 Hamenofim Street, Herzliya 4672559, Israel

(Address of principal executive offices)

Mr. Amir Philips, Chief Executive Officer

8 Hamenofim Street, Herzliya 4672559, Israel

Tel: +972-73-7073700, Fax: +972-73-7946331, Email: amirp@optibase-holdings.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Ordinary Shares, par value NIS 0.65 per share (2) | OBAS | Nasdaq Global Market |

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **5,216,256 Ordinary Shares, par value NIS 0.65 per share, including 17,895 Ordinary Shares held by the Registrant awarding their holders no voting or equity rights.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "accelerated filer," "large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financing Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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CERTAIN DEFINED TERMS

In this annual report, unless otherwise provided, references to the “Company,” “Optibase,” “we,” “us” or “our” are to Optibase Ltd., a company organized under the laws of Israel, and its wholly owned subsidiaries. In addition, references to our financial statements are to our consolidated financial statements, except as the context otherwise requires. References to “U.S.” or “United States” are to the United States of America, its territories and its possessions.

In this annual report, references to “\$” or “dollars” or “U.S. dollars” or “USD” are to the legal currency of the United States, references to “CHF” are to Swiss Francs, references to “€” or “Euro” or “EUR” are to the legal currency of the European Union and references to “NIS” are to New Israeli Shekels, the legal currency of Israel. The Company’s financial statements are presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Except as otherwise specified, financial information is presented in U.S. dollars. References to a particular “fiscal” year are to the Company’s fiscal year ended December 31 of such year.

FORWARD-LOOKING STATEMENTS

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTIONS ENTITLED “RISK FACTORS”, “INFORMATION ON THE COMPANY” AND “OPERATING AND FINANCIAL REVIEW AND PROSPECTS” AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT’S BELIEFS, ASSUMPTIONS AND EXPECTATIONS OF OUR FUTURE OPERATIONS AND ECONOMIC PERFORMANCE, TAKING INTO ACCOUNT CURRENTLY AVAILABLE INFORMATION. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN THE COMPANY’S PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME. WE DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS MAY BE REQUIRED UNDER APPLICABLE SECURITIES LAWS AND REGULATIONS.

SUMMARY OF RISK FACTORS

The following is a summary of some of the principal risks we face. The list below is not exhaustive, and investors should read the “Risk Factors” section included in “Item 3.D Key Information – Risk Factors” in full.

- We may incur losses as a result of unforeseen or catastrophic events, such as the global COVID-19 pandemic that has created significant business disruptions and affected our business and is likely to continue to create business disruptions and adversely affect our business in the future.
- We may be affected by instability in the global economy, including the recent European economic and financial turmoil.
- A large percentage of our ordinary shares are held by one shareholder which could significantly influence the outcome of actions.
- We are currently, and may be in the future, the target of securities class action, derivative claim or other litigation, which could be costly and time consuming to defend.
- Our effective tax rate could be materially affected by several factors including, among others, changes in the amount of income taxed by or allocated to the various jurisdictions in which we operate that have differing statutory tax rates, changing tax laws, regulations and interpretations of such tax laws in multiple jurisdictions.
- There is a substantial risk that we are a passive foreign investment company, and holders of our ordinary shares who are United States residents face income tax risks.

- We are obligated to develop and maintain proper and effective internal controls over financial reporting. These internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our ordinary shares.
- The real estate sector continues to be cyclical and affected by changes in general economic, or other business conditions that could materially adversely affect our business or financial results.
- We rely on one large property for a significant portion of our revenue.
- With respect to our commercial properties, we are dependent on the continued tenant demand for our properties. If there is a decrease in tenant demand and an increase in vacancy of our commercial properties, it would adversely affect our financial condition and results of operations.
- We may have difficulties leasing real-estate properties.
- We are depended on the solvency of our tenants and may lease properties at below expected rental rates.
- We may experience future unanticipated expenses.
- The fair value of our real estate may be harmed by certain factors, which may entail impairment losses not previously recorded which, in turn, will adversely affect our financial results.
- We may not be able to raise additional financing for our future capital needs on favorable terms, or at all, which could limit our growth and increase our costs and could adversely affect the price of our ordinary shares.
- In the event we are unable to continuously comply with the covenants, including with respect to financial covenants, which we undertook with respect to our properties, our results of operations may be adversely affected.
- Rapid and significant changes in interest rates may adversely affect our profitability.
- An adverse change in the Swiss real estate market will adversely affect our results of operations.
- Because of our small size, we rely on a small number of personnel who possess both executive and financial expertise, and the loss of any of these individuals would hurt our ability to implement our strategy and may adversely affect our financial results.
- We face risks associated with property acquisitions.
- An adverse change in the U.S. real estate market will adversely affect our results of operations.
- With respect to our residential properties in Miami, Florida, the success of our investment will depend on market conditions.
- We depend on partners in our partnerships and collaborative arrangements.
- Cause of physical damages and other nature losses may affect our properties.
- Competition for acquisitions may reduce the number of acquisition opportunities available to us and increase the costs of those acquisitions.
- Environmental discoveries may have a significant impact on the value, viability and marketability of our assets.
- Israeli courts might not enforce judgments rendered outside of Israel, which may make it difficult to collect on judgments rendered against us.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable.

3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

3.D. RISK FACTORS

Our business operations are subject to various risks resulting from changing economic, political, industry, business and financial conditions. In addition, this annual report contains various forward-looking statements that reflect our current views with respect to future events and financial results. Below we attempt to identify and describe the principal uncertainties and risk factors that in our view at the present time may affect our financial condition, cash flows and results of operations and our forward-looking statements. Readers are reminded that the uncertainties and risks identified below in this annual report do not purport to constitute a comprehensive list of all the uncertainties and risks, which may affect our business and the forward-looking statements in this annual report. In addition, we do not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Risks Relating to the Economy, Our Financial Condition and Shareholdings

We have a history of losses and we might not be able to sustain profitability.

In 2016 and 2020 we were profitable, while in 2017 through 2019 we operated at a loss. During 2017, 2018 and 2019, we operated at a loss mainly due to equity losses related to the investment in 300 River Holdings, LLC, which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago, IL. In 2020 we were profitable, mainly due to a sale of our portfolio in Germany comprised of twenty-seven (27) separate commercial properties for a total consideration of EUR 35 million (app. \$38.9 million). For further information, see Item 4.B. "Business Overview - Real Estate Business", and item 10.C. "Material Contracts".

As of December 31, 2020, we have accumulated losses of \$80 million. Given current market conditions, the demand for our real estate properties and other expenses, we may operate at a loss and may not be able to sustain profitability in the future, and our operating results for future periods will continue to be subject to numerous uncertainties and risks. We cannot assure you that we will be able to increase our revenues and sustain profitability. For further details regarding our cash flow, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources".

We may incur losses as a result of unforeseen or catastrophic events, such as the global COVID-19 pandemic that has created significant business disruptions and affected our business and is likely to continue to create business disruptions and adversely affect our business in the future.

The occurrence of unforeseen or catastrophic events such as terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, emergence of a pandemic, or other widespread health emergencies (or concerns over the possibility of such an emergency), could create economic and financial disruptions, and could lead to operational difficulties that could impair our ability to manage our business. In particular, the current outbreak of COVID-19 pandemic that was first reported from Wuhan, China, and has spread to many countries around the world.

In March 2020, the World Health Organization declared the outbreak of novel coronavirus COVID-19 a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, created significant volatility and disruption in financial markets and increased unemployment levels. To prevent the further spread of the COVID-19 pandemic, many countries have taken various actions in order to create social distancing, such as, declared a temporary closure of businesses and institutions, imposed travel restrictions and quarantines. These actions, and other actions that may be taken in unforeseen or catastrophic events, may dramatically affect our ability to conduct our business effectively, affect our ability to dispose of or liquidate part of our real estate, and may lead to a global economic slowdown or even a recession. During periods of economic slowdown or recession, declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. If we cannot operate our properties so as to meet our financial expectations, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations may be negatively impacted. Such events may adversely affected our business, financial condition and results of operations. The duration, scope and effects of the ongoing COVID-19 pandemic, government and other third-party responses to it, and the related macroeconomic effects, including to our business and the business of our suppliers and customers are uncertain, rapidly changing and difficult to predict. We considered the impact of COVID-19 on the estimates and assumptions and determined that there were no material adverse impacts on our consolidated financial statements for the period ended December 31, 2020. As events continue to evolve and additional information becomes available, our estimates and assumptions may change in future periods.

We may be affected by instability in the global economy, including the recent European economic and financial turmoil.

Instability in the global credit markets, including the European economic and financial turmoil related to sovereign debt issues in certain countries, the instability in the geopolitical environment in many parts of the world, and other disruptions, such as changes in energy costs, and the outbreak of the coronavirus (COVID-19) may continue to put pressure on global economic conditions. The world has experienced a global macroeconomic downturn, and if global economic and market conditions, or economic conditions in key markets, remain uncertain, stagnant or deteriorate further, we may experience material adverse impacts on our business, operating results, and financial condition.

Our ability to freely operate our business is limited as a result of certain covenants included in the deed of trust of our Series A Bonds.

The deed of trust governing the Series A Bonds, or the Series A Deed of Trust, contains a number of covenants that limit our operating and financial flexibility (such as our minimum equity (excluding minority interest) will not be less than \$33 million; our equity (including minority interest) to balance sheet ratio will not be less than 25%; and the net financial debt to CAP ratio will not be greater than 70%). For a description of Series A Deed of Trust, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources". As of December 31, 2020, the outstanding amount under the Series A Bonds was 3.1 million.

Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. Such covenants may hinder our ability to finance our future operations or the manner in which we operate our business. In particular, any non-compliance with our financial covenants and other undertakings under Series A Deed of Trust could result in demand for immediate repayment of the outstanding amount under the Series A Bonds and restrict our ability to obtain additional funds, which could have a material adverse effect on our business, financial condition and our results of operations.

We may continue to seek to expand our business through acquisitions that could result in a diversion of resources and our incurring additional expenses, which could disrupt our business and harm our financial condition.

As we have done in the past, we may in the future continue to pursue acquisitions of businesses, or the establishment of joint ventures, that could expand our business. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, could cause diversion of management's time as well as our resources. Future acquisitions could result in:

- Additional operating expenses without additional revenues;
- Potential dilutive issuances of equity securities;
- The incurrence of debt and contingent liabilities;
- Amortization of bargain purchase gain and other intangibles;
- Impairment charges; and
- Other acquisition-related expenses.

Acquired businesses or joint ventures may not be successfully integrated with our operations. If any acquisition or joint venture were to occur, we may not receive the intended benefits of the acquisition or joint venture. If future acquisitions disrupt our operations, our business may suffer.

A large percentage of our ordinary shares are held by one shareholder which could significantly influence the outcome of actions.

The Capri Family Foundation, or Capri, a foundation organized under the laws of the Republic of Panama, beneficially owns, directly and indirectly through its subsidiaries, approximately 78.82% of our outstanding ordinary shares as of April 16, 2021, or within 60 days thereafter. For further information, see Item 4.A. "History and Development of The Company" and Item 7.A. "Major Shareholders" below. As a result of such holdings in our ordinary shares, Capri can significantly influence the outcome of corporate actions requiring an ordinary majority approval by our shareholders, including the election of directors and the approval of mergers or other business combination transactions.

We are currently, and may be in the future, the target of securities class action, derivative claim or other litigation, which could be costly and time consuming to defend.

In the past, following a period of volatility in the market price of a company's securities, securities class action lawsuits, derivative claims and other actions have often been taken against public companies and their directors and officers. Recent years have been characterized by a substantial increase in the number of requests for certification of class actions and derivative claims filed and approved in Israel. In May 2015, we were served with a motion to approve the filing of a derivative claim against the Company's controlling shareholder, directors and CEO and certain former controlling shareholder and directors, in which we were sued for approximately \$41.9 million. On June 16, 2019, the Israeli Central (Lod) District Court denied the motion to approve the filing of a derivative claim, rejected all the plaintiffs' claims and ruled significant legal costs in favor of the defendants. On September 22, 2019, the claimant filed a petition appealing the Court decision. If this appeal is approved and the derivative claim is accepted, this may have a material adverse effect on our financial results. Additionally, and due to the nature of derivative claims, regardless of its outcome, and even if the claims are without merit, we may incur substantial costs and our management resources that are diverted to defending such litigation. For information regarding past litigation and out-of-court settlement with LEM Switzerland SA, or LEM, one of our material tenants pursuant to which LEM argued a reduction of its rent as well as related damages, see Item 8. "Financial Information - Legal Proceedings".

We have experienced significant fluctuations in our results of operations at times in the past and expect these fluctuations to continue. These fluctuations may result in volatility in our share price.

We have experienced at times in the past, and may in the future experience, significant fluctuations in our quarterly and annual results. Factors that may contribute to the fluctuations in our quarterly results of operations include:

- The purchase or failure to purchase real-estate assets;
- Changes in rent prices for our properties;

- Changes in presence of tenants and tenants' insolvency;
- Changes in the availability, cost and terms of financing;
- The ongoing need for capital improvements;
- Changes in foreign exchange rates;
- Changes in interest rates; and
- General economic conditions, particularly in those countries or regions in which we operate.

It is likely that in some future periods, our operating results may be below expectations of public market analysts or investors. If this occurs, the market price of our ordinary shares may drop.

Our effective tax rate could be materially affected by several factors including, among others, changes in the amount of income taxed by or allocated to the various jurisdictions in which we operate that have differing statutory tax rates, changing tax laws, regulations and interpretations of such tax laws in multiple jurisdictions.

We conduct our business globally and file income tax returns in multiple jurisdictions. We report our results of operations based on our determination of the amount of taxes owed in the various jurisdictions in which we operate. The determination of our consolidated provision for income taxes and other tax liabilities requires estimation, judgment and calculations where the ultimate tax determination may not be certain. Our determination of tax liability is always subject to review or examination by authorities in various jurisdictions.

If a tax authority in any jurisdiction reviews any of our tax returns and proposes an adjustment, including as a result of a determination that the transfer prices and terms we have applied are not appropriate, such an adjustment could have a negative impact on our financial results.

There is a substantial risk that we are a passive foreign investment company, and holders of our ordinary shares who are United States residents face income tax risks.

There is a substantial risk that we are a passive foreign investment company, commonly referred to as PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such ordinary shares. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash and real estate properties are considered to be an asset, which produces passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that there is a substantial risk that we may have been a PFIC during the taxable year ended December 31, 2020, under a literal application of the asset test described above, which looks solely to the market value. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. In addition, there can be no assurance that we will not be classified as a PFIC in the future, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, and such determination cannot be made with certainty until the end of a calendar year. United States residents should carefully read "Item 10.E. Taxation" under the heading "United States Federal Income Tax Consequences" below for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

We do not intend to pay dividends.

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future.

We manage our available cash through investments in various bank deposits and money market funds with leading banks. We are exposed to the credit risk of such banks.

During 2020, our available cash was invested in various bank deposits and money market funds with various banks. Our available cash is subject to the credit risk of the banks with which the funds are deposited and as such we may suffer losses if those banks fail to repay those deposits.

The extenuations given to us as a foreign private issuer impact our publicly available information.

As a foreign private issuer, we are permitted to file less information with the SEC than a company incorporated in the United States. Accordingly, there may be less publicly available information concerning us than there is for companies incorporated in the United States.

Risks Relating to our Business

The real estate sector continues to be cyclical and affected by changes in general economic, or other business conditions that could materially adversely affect our business or financial results.

The real estate sector has been cyclical historically and continues to be significantly affected by changes in industry conditions, as well as in general and local economic conditions, such as:

- employment levels;
- availability of financing for homebuyers and for real estate investors/funds;
- interest rates;
- consumer confidence and expenditure;
- levels of new and existing homes for sale;
- demographic trends;
- urban development and changes;
- housing demand;
- local laws and regulations; and
- acts of terror, floods or earthquakes.

These may occur on a global scale, like the recent housing downturn, or may affect some of the regions or markets in which we operate. An oversupply of alternatives to our real estate properties can also reduce our ability to lease spaces and depress lease prices, thus reducing our margins.

As a result of the foregoing matters, we may face difficulties in the leasing of our projects and we may not be able to recapture any increased costs by raising lease payments.

We rely on one large property for a significant portion of our revenue.

For the year ended December 31, 2020, our commercial property, CTN complex, in Geneva, Switzerland, accounted for approximately 73% of our portfolio annualized rent. Our revenue would be materially adversely affected if this property was materially damaged or destroyed. Additionally, our revenue would be materially adversely affected if rental payments at this property decrease or if tenants at this property fail to timely make rental payments due to adverse financial conditions or otherwise, default under their leases or file for bankruptcy. For information regarding the CTN complex and regarding a past litigation and out-of-court settlement with LEM pursuant to which LEM argues a reduction of its rent as well as related damages, see Item 8 “Financial Information - Legal Proceedings”.

With respect to our commercial properties, we are dependent on the continued tenant demand for our properties. If there is a decrease in tenant demand and an increase in vacancy of our commercial properties, it would adversely affect our financial condition and results of operations.

We own, through our subsidiaries, holdings in several commercial real estate properties, which are currently leased to third parties. In most of our commercial properties we rely on a few tenants which occupy a significant portion of the available rentable area in such properties. For further details regarding the leases of tenants in our properties see Item 4.B. "Business Overview - Properties". If the lease agreements with such tenants are terminated, there is no assurance that we will be able to attract new lessees in favorable terms or at all, which would materially adversely affect our financial condition and results of operations.

Economic recession, pressures that affect consumer confidence, job growth, energy costs and income gains can affect the financial condition of prospective tenants, and a continuing soft economic cycle may impact our ability to find tenants for our properties. Failure to attract tenants, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant may adversely affect the rent fees for our properties and adversely affect our financial condition and results of operations.

We may have difficulties leasing real-estate properties.

The fixed income real-estate sector relies on the presence of tenants in the real-estate assets. The failure of a tenant to renew its lease, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant can have a material adverse effect on the economic performance of the real-estate asset. There can be no assurance that if a tenant were to fail to renew its lease, we would be able to replace such tenant in a timely manner or that we could do so without incurring material additional costs. In addition, we are dependent on our ability to enter into new leases on favorable terms with third parties, in order to receive a profitable price for each real-estate property. We may find it more difficult to engage tenants to enter into leases during periods when market rents are increasing, or when general consumer activity is decreasing, or if there is competition for tenants from competing properties. The existence of competitive alternatives could have a material adverse effect on our ability to lease space and on the level of rents we can obtain. The global economic condition, pressures that affect consumer confidence, job growth, energy costs and income gains can affect retail sales growth, and a continuing soft economic cycle, may impact our ability to find tenants for our properties. Failure to attract tenants, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant may adversely affect the price obtainable for our real estate projects and adversely affect our financial condition and results of operations. The failure of tenants to abide by the terms of their agreements may cause delays or result in a temporary or long term decline in rental income, the effects of which we may not be able to offset due to difficulties in finding a suitable replacement tenant.

We are depended on the solvency of our tenants and may lease properties at below expected rental rates.

Rental leases may decrease below our expectations. In the case of such decrease, or if circumstances arise beyond our control, such as market prices, market demand and negative trends, we may have to sell a project at a price below our projections. In addition, we could be in a position where there would be no demand at acceptable prices and we would be required to hold, operate and maintain the project until the financial environment would improve and allow its disposal.

In addition, the ability to collect rents depends on the solvency of the tenants. Tenants may be in default or not pay on time, or we may need to reduce the amount of rents invoiced by lease incentives, to align lease payments with the financial situation of some tenants. In all of these cases, tenant insolvency may hurt our operational results.

We may experience future unanticipated expenses.

Our performance depends, among others, on our ability to pay for adequate maintenance, insurance and other operating costs, including real estate taxes. All of these expenditures could increase over time, and may be more expensive than anticipated. Sources of labor and materials required for maintenance, repair, capital expenditure or development may also be more expensive than we expected. An unplanned deviation from one of the above expenditures, and other, could increase our operating costs.

There is a very remote risk of the German authorities trying to impose trade tax on our Germany portfolio sale transaction which will effectively increase our tax obligation. (For further details, see Item 4.B. "business overview" and item 10.C. "Material Contracts".)

The fair value of our real estate may be harmed by certain factors, which may entail impairment losses not previously recorded which, in turn, will adversely affect our financial results.

Certain circumstances may affect the fair value of our real estate assets and/or on certain of our shareholding rights in the companies owning such assets, including, among other things, (i) the absence of or modifications to permits or approvals required for the operation of any real estate asset; (ii) lawsuits that are pending, whether or not we are a party thereto. In addition, certain laws and regulations, applicable to our business in certain countries where the legislation process undergoes constant changes, may be subject to frequent and substantially different interpretations; (iii) agreements which may be interpreted by governmental authorities so as to shorten the term of use of real estate, and which may be accompanied by a demolition order with or without compensation, may significantly affect the value of such real estate asset. The fair value of our real estate assets may be significantly decreased, thereby resulting in potential impairment losses not previously recorded in our financial results.

Since market conditions and other parameters (such as macroeconomic environment trends, and others), which affect the fair value of our real estate, vary from time to time, the fair value may not be adequate on a date other than the date the measurement was executed (in general, immediately after the annual balance sheet date). In the event the projected forecasts regarding the future cash flows generated by those assets are not met, we may have to record an additional impairment loss not previously recorded.

In addition, any change in the yield rate of any of our real estate assets may cause a significant decrease to the fair value of such assets, thereby resulting in potential impairment losses not previously recorded in our financial results.

We may not be able to raise additional financing for our future capital needs on favorable terms, or at all, which could limit our growth and increase our costs and could adversely affect the price of our ordinary shares.

Real estate activities are largely financed from external sources. We cannot be certain that we will be able to obtain financing on favorable terms for our future real estate activities, or at all, and an adverse change can occur in the terms of the financing that we receive. In addition, under the terms of our financing agreement of the CTN complex, in Geneva, Switzerland, which accounted for approximately 73% of our portfolio annualized rent, we financed the CTN by way of a revolving facility on a quarterly basis. Although we do not expect not to be able to continue drawing money from the credit facility, the lender may terminate our financing agreement. Any such occurrence could increase our financing costs and/or result in a material adverse effect on our results and ability to develop our real estate business. The amount of long term loans currently outstanding may inhibit our ability to obtain additional financing for our future capital needs, inhibit our long-term expansion plans, increase our costs and adversely affect the price of our ordinary shares.

It is probable that we will need to raise additional capital in the future to support our strategic plans. We cannot be certain that we will be able to obtain additional financing on commercially reasonable terms or at all. If we are unable to obtain additional financing, this could inhibit our growth and increase our operating costs.

In the event we are unable to continuously comply with the covenants, including with respect to financial covenants, which we undertook with respect to our properties, our results of operations may be adversely affected.

In connection with the financing of most of our properties, we have long-term agreements with several banks. The agreements that govern the provision of financing include, among other things, undertakings and financial covenants that we are required to maintain for the duration of such financing agreements. For further details see Item 5.B. "Liquidity and Capital Resources". Those existing agreements allow the lender to demand an immediate repayment of the loans in certain events (events of default), including, among other things, a material adverse change in the Company's business and noncompliance with the financial covenants set forth in those agreements. The occurrences of any event of default may have an adverse effect on our financial position and results of operations and on our ability to obtain outside financing for our continued growth.

Rapid and significant changes in interest rates may adversely affect our profitability.

We have financed the purchase of the CTN complex and the Rumlang property with loans bearing floating interest rates and further refinanced during 2017 and 2020 the existing loan secured by our condominium units in Miami with a loan which bears a floating interest rate (as of December 31, 2020 the balance of all such loans was \$119.4 million, see also Item "Item 5.B Operating and Financial Review and Prospects – Liquidity and Capital Resources."). As a result, we are exposed to changes in the LIBOR interest rate (LIBOR on the US Dollar and LIBOR on the CHF). An increase in the LIBOR interest rate could materially adversely affect our financial expenses and thereby our profitability. In light of the low interest rate environment we have also decided at this stage not to perform hedging against our exposure to such changes in interest rates.

An adverse change in the Swiss real estate market will adversely affect our results of operations.

Two of our investments, including our most significant property (the CTN complex in Geneva), are located in Switzerland. From 2014 to 2020, as Swiss interest rates declined, Swiss real estate prices increased mainly due to the low interest rates and lack of investment alternatives. Along with the historically low interest rates, the overall availability of financing has decreased significantly as LTV (Loan to Value) rates have been reduced by lenders, leading to more pressure on leveraged transactions further decreasing investments yields. At the same time, there was no increase in the demand for new rental spaces and the rental market appeared to be keeping stable with a slight slowdown, in particular the demand for prime office space and the price for such real estate properties. In addition and partially due to the low available yields in the investment market, there is a significant increase in new developments, based on available equity investments (as opposed to leveraged investments). Such investments will mature and be available in the near future and may have a significant impact on our rental properties as they will significantly increase the availability of rentable area in the vicinity of our rental properties. Any significant adverse change in the real estate market in Switzerland, such as lack of attractive financing, a decline in the real estate rates or decrease in demand for the type of properties we own and more recently any negative affect of the Coronavirus outbreak, will adversely affect our results of operations.

We may suffer adverse consequences if our revenues decline since our operating costs do not necessarily decline in proportion to our revenue.

We earn a significant portion of our income from renting our properties. Our operating costs, however, do not fluctuate in relation to changes in our rental revenue. As a result, our costs will not necessarily decline even if our revenues do. Similarly, our operating costs could increase while our revenues stay flat or decline. In either such event, we may be forced to borrow to cover our costs or we may incur losses.

Because of our small size, we rely on a small number of personnel who possess both executive and financial expertise, and the loss of any of these individuals would hurt our ability to implement our strategy and may adversely affect our financial results.

Because of our small size and our reliance on a limited financial and management personnel, our continued growth and success depends upon the continued contribution of the managerial skills of our financial and management personnel. If any of the current members of the management is unable or unwilling to continue in our employ, our results of operations could be adversely affected.

We may experience difficulties in finding suitable real-estate properties for investment, either at all or at viable prices.

Being a company that engages in investments in real-estate, finding a suitable real-estate property for investment is critical to our income. Such finding becomes difficult as the demand for real-estates in the markets we are involved in grows, and the supply decreases. Therefore, difficulties in finding suitable real-estate properties for investment may affect our growth and the number of assets we have to offer, and therefore, materially affect our potential profit and our business and results of operation.

The choice of suitable locations for real estate projects is an important factor in the success of the individual projects. For example, office space should ideally be located within, or near, the city center, with well-developed transportation infrastructure (road and rail) located in close proximity to facilitate customer access. If we are not able to find sites in the target cities which meet our criteria or which meet our price range, this may materially adversely affect our business and results of operation.

In addition, we may be unable to proceed with the acquisition of properties because we cannot obtain financing on favorable terms or at all. We may require substantial up-front expenditures for property acquisition. Accordingly, we may require substantial amounts of cash and financing from banks and other capital resources (such as institutional investors and/or the public) for our real estate operations. We cannot be certain that such external financing would be available on favorable terms or on a timely basis or at all.

We face risks associated with property acquisitions.

We may acquire individual properties and portfolios of properties, including large portfolios that could significantly increase our size and alter our capital structure. Our acquisition activities may be exposed to, and their success may be adversely affected by, the following risks:

- even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing, including due diligence investigations to our satisfaction;
- we may be unable to finance acquisitions on favorable terms or at all;
- acquired properties may fail to perform as we expected;
- we may not be able to obtain adequate insurance coverage for new properties; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and therefore our results of operations and financial condition could be adversely affected.

We may acquire properties or property holding companies subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us arising from our ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our cash flow. Unknown liabilities with respect to properties acquired might include:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by tenants, vendors or other persons arising from dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

The illiquidity of real-estate properties may affect our ability to sell our properties.

Real estate properties in general are relatively illiquid. Such illiquidity may affect the ability to dispose of or liquidate part of real-estate assets in a timely fashion and at satisfactory prices in response to changes in the economic environment, the real estate market or other conditions.

An adverse change in the U.S. real estate market will adversely affect our results of operations.

We own, through our wholly-owned subsidiary, several U.S. real estate properties located in Philadelphia, Texas, Chicago and Miami. From 2014 to 2017, the U.S. real estate market has shown signs of improvement and a consistent increase in assets prices as the demand for investments increased significantly also driven by financial institutions increased willingness to finance new transactions along with low interest rates. Since 2018 and during 2019, we have witnessed certain changes in the U.S real estate market. While the commercial segment has remained stable along with a steady demand for commercial and office space rental, the high-end residential market has experienced a significant decrease in the demand for investment properties along with an increase in the availability of such assets, which in turn, has put pressure on the prices of such properties. In 2020, following the COVID-19 pandemic, the U.S real estate market has continued to suffer in the commercial real estate sector as well as the high-end residential market and other sectors. Any significant adverse change in the real estate market in the United States, such as a significant increase of interest rates, a decline in the real estate rates or decrease in demand for the type of properties we own and more recently the negative affect of the Coronavirus outbreak, will adversely affect our results of operations.

With respect to our residential properties in Miami, Florida, the success of our investment will depend on market conditions.

We own, through our wholly-owned subsidiary, 24 residential properties in Miami and Miami Beach, Florida, including 21 luxury condominium units and two penthouse units in the Marquis Residences, and one condominium units in the Continuum on South Beach Condominium. On May 4, 2020 we sold one penthouse unit in Ocean One Condominium, in consideration for an aggregated gross price of approximately \$2.4 million and recorded a gain of \$133,000. To date, the units have been fully constructed and are in rentable condition. Currently 13 of the units are occupied by tenants and the remaining units are being marketed to potential tenants and potential buyers. For further information, see Item 4.B. "Business Overview - Real Estate Business".

We intend to keep holding the units for investment purposes and will consider renting or selling the units in accordance with our business considerations and market conditions. Depending on our decision, we may be unable to sell or lease up these condominium properties on schedule or on favorable terms, which may result in a decrease in expected rental revenues and/or lower yields, if any.

We depend on partners in our partnerships and collaborative arrangements.

We currently own our real-estate properties in Geneva, Switzerland, Philadelphia, Chicago and Texas, and we may, in the future, own interests in real-estate assets or real-estate holding companies in partnership with other entities. Our investments in these partnerships may, under certain circumstances, be subject to (i) the risk that one of our partners may become bankrupt or insolvent or may not fulfill its financial obligations under our partnership agreements, which may cause us to provide financing in excess of our ownership share or which may cause us to be unable to fulfill our financial obligations, possibly triggering a default under our bank financing agreements or, in the event of a liquidation, preventing us from managing or administering our business or entail a compulsory sale of the asset at less favorable terms; (ii) the risk that one of our partners may have economic or other interests or goals that are inconsistent with our interests and goals, and that such partner may be in a position to veto actions which may be in our best interests; and (iii) the possibility that disputes may arise regarding the continued operational requirements of our assets that are jointly owned. In addition, we hold approximately 30%, approximately 22% and approximately 4%, respectively, of the beneficial interest in the real-estate properties located in Chicago, Philadelphia and Texas. Our minority interest causes us to rely on our partners to manage the properties, and our influence over decisions regarding the properties and their management is limited.

Cause of physical damages and other nature losses may affect our properties.

Properties could suffer physical damage caused by fire or other causes, resulting in losses which may not be fully compensated by insurance. In addition, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, terrorism or acts of war that may be uninsurable or are not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds may be inadequate to restore the economic position with respect to the affected properties. Should an uninsured loss or a loss in excess of insured limits occur, we could lose capital invested in the affected property as well as anticipated profits from that property. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

Competition for acquisitions may reduce the number of acquisition opportunities available to us and increase the costs of those acquisitions.

We plan to continue acquiring properties as we are presented with attractive opportunities. We may face competition for acquisition opportunities from other investors, particularly private investors who can incur more leverage, and this competition may adversely affect us by subjecting us to the following risks:

- an inability to acquire a desired property because of competition from well-capitalized real estate investors, including publicly traded and privately held REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, sovereign wealth funds, pension trusts, partnerships and individual investors; and
- an increase in the purchase price for such acquisition property, in the event we are able to acquire such desired property.

Environmental discoveries may have a significant impact on the value, viability and marketability of our assets.

We may encounter unforeseen decrease in value of our assets due to factors beyond our control caused by previously unknown soil contamination or the discovery of archaeological findings which may have a significant impact and a detrimental effect on the value, viability or marketability of our assets or cause legal liability in connection with our real estate properties. We may be liable for the costs of removal, investigation or remedy of hazardous or toxic substances located on or in a site owned or leased by us, regardless of whether we were responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remedy of such substances may be substantial and/or may result in significant budget overruns. The presence of such substances, or the failure to remedy such substances properly, may also adversely affect our ability to sell or lease such property or to obtain financing using the real estate as security. Additionally, any future sale of such property will be generally subject to indemnities and warranties to be provided by us to the purchaser against such environmental liabilities. Accordingly, we may continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Laws and regulations may also impose liability for the release of certain materials into the air or water from a property, and such release can form the basis for liability to third persons for personal injury or other damages. Other laws and regulations can limit the development of, and impose liability for, the disturbance of wetlands or the habitats of threatened or endangered species. Any environmental issue may significantly cause decrease in value of our assets or vacancy periods in our leased properties, which could have a material adverse effect on the profitability of that asset and our results of operations and cash flows.

Risks Relating to the Sale of our Video Solutions Business

On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement for the sale of all of the assets and liabilities related to our Video Solutions Business. The following is a risk related to the sale of our Video Solutions Business:

We have been and may, in the future, be subject to further review in connection with government programs that we participated in or received.

During our activities in the Vitec Solutions Business, we received grants from the Israel Innovation Authority, or the IIA, in the Israeli Ministry of Industry, Trade and Labor for research and development programs that meet specified criteria. In addition, we were also involved in joint research projects with European Companies under the auspices of, and with financial assistance from, the European Union Research and Development Framework Programs.

In that respect, during 2009 and 2010 we were audited by the European Union, or the EU, for grants received under three FP6 contracts. As a result of the audit findings implementation, during 2012, we paid an aggregate amount of approximately Euro 340,000 which settled and concluded the financial audit.

Furthermore, we were undergoing an audit by the IIA for royalties paid before the sale of our Video Solutions Business. A payment to the IIA will adversely affect our cash flow, although from financial prospective, at this time, we believe that we have sufficient provisions to cover the final outcome of such review processes. For further details see Item 4.B "Business Overview - Remaining items of the Video Solution Business".

In addition to such audits, we may in the future be subject to further reviews in connection with government programs that we participated in or received during our activities in the Video Solutions Business. Any review of such kind could result in substantial cost which would have a negative impact on our financial condition.

Risks Relating to Operations in Israel

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our articles of association and by the Israeli Companies Law, 1999, or the Companies Law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, pursuant to the Companies Law each shareholder of an Israeli company has to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at the general meeting of shareholders and class meetings, on amendments to a company's articles of association, increases in a company's authorized share capital, mergers, and transactions requiring shareholders' approval under the Companies Law. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote, or who has the power to appoint or prevent the appointment of a director or officer in the company, or has other powers toward the company, has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

Because a significant amount of our revenues is generated in Swiss Francs and in Euro but a portion of our expenses is incurred in New Israeli Shekels and in US dollars, our results of operations may be harmed by currency fluctuations.

Our management believes that the U.S. dollar is the currency in the primary economic environment in which we operate. Thus, our functional and reporting currency is the U.S. dollar. Notwithstanding, we generate a significant amount of our revenues in CHF (Swiss Franc) and in Euro and incur a portion of our expenses in NIS and in U.S. dollars. As a result, we are exposed to currency fluctuation of the U.S. dollar against the CHF the Euro and the NIS.

The fluctuations in the dollar costs of our operations in Israel related primarily to the costs of salaries in Israel, which are paid in NIS and constitute a portion of our expenses and the interest and principal payments of our series A bonds are made in NIS. We cannot assure you that we will not be adversely affected in the future if inflation in Israel exceeds the fluctuation of NIS against the U.S. dollars or if the timing of such fluctuation lags behind increases in inflation in Israel.

Our operations could also be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we perform hedging transactions from time to time according to our board's approval. In the future we may enter into additional currency hedging transactions to decrease the risk of financial exposure from fluctuations. These measures, however, may not adequately protect us from adverse effects due to the impact of inflation in Israel.

The inflation rate in Israel was approximately -0.2%, 0.6% and -0.7% in 2018, 2019 and 2020, respectively. The changes of the NIS against the dollar was a devaluation of approximately 8.1%, 7.8% and 7% in 2018, 2019, and 2020, respectively. The change of the CHF against the dollar was a devaluation of approximately 0.8% in 2018, and an appreciation of approximately 1.4% and 10% in 2019, and 2020, respectively. The change of the Euro against the dollar was a devaluation of approximately 4.5% and 2.1% in 2018 and in 2019, and an appreciation of approximately 9.5% in 2020.

Our shares are listed for trade on more than one stock exchange, which may result in price variations.

Our ordinary shares are listed for trade on The NASDAQ Global Market and on the Tel Aviv Stock Exchange Ltd., or TASE. This may result in price variations. Our ordinary shares are traded on these markets in different currencies, U.S. dollars on The NASDAQ Global Market and New Israeli Shekels on the TASE. These markets have different opening times and close on different days. Different trading times and differences in exchange rates, among other factors, may result in our shares being traded at a price differential on these two markets. In addition, market influences in one market may influence the price at which our shares are traded on the other.

Potential political, economic and military instability in Israel and its region may adversely affect our results of operations.

We are incorporated under the laws of the State of Israel, our principal offices are located in central Israel and some of our officers, employees and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly influence us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Any hostilities involving Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our operations and results of operations and could make it more difficult for us to raise capital. It is also widely believed that Iran, which has previously threatened to attack Israel, has been stepping up its efforts to achieve nuclear capability. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. The tension between Israel and Iran and/or these groups may escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular. Any armed conflicts, terrorist activities or political instability in the region could adversely affect our business conditions, harm our results of operations and adversely affect our share price. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or our operations.

Anti-takeover provisions could negatively impact our shareholders.

The Companies Law provides that certain purchases of securities of a public company are subject to tender offer rules. As a general rule, the Companies Law prohibits any acquisition of shares in a public company that would result in the purchaser holding 25% or more, or more than 45% of the voting power in the company, if there is no other person holding 25% or more, or more than 45% of the voting power in a company, respectively, without conducting a special tender offer.

The Companies Law further provides that a purchase of shares or voting rights of a public company or a class of shares of a public company, which will result in the purchaser's holding 90% or more of the company's shares or class of shares, is prohibited unless the purchaser conducts a full tender offer for all of the company's shares or class of shares. The purchaser will be allowed to purchase all of the company's shares or class of shares (including those shares held by shareholders who did not respond to the offer), if either (i) the shareholders who do not accept the offer hold, in the aggregate, less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholder who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class. The shareholders, including those who indicated their acceptance of the tender offer (except if otherwise detailed in the tender offer document), may, at any time within six months following the completion of the tender offer, petition the court to alter the consideration for the acquisition. At the request of an offeree of a full tender offer which was accepted, the court may determine that the consideration for the shares purchased under the tender offer, was lower than their fair value and compel the offeror to pay to the offerees the fair value of the shares. Such application to the court may be filed as a class action.

Israeli courts might not enforce judgments rendered outside of Israel, which may make it difficult to collect on judgments rendered against us.

We are incorporated in Israel. Most of our directors and officers are not residents of the United States and some of their assets and our assets are located outside the United States. Service of process upon our non-U.S. resident directors and officers and enforcement of judgments obtained in the United States against us, and our directors and executive officers may be difficult to obtain within the United States.

We have been informed by our Israeli legal counsel, that there is doubt as to the enforceability of civil liabilities under U.S. securities laws in original actions instituted in Israel. However, subject to certain time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that all of the following terms are met:

- The judgment was rendered by a court which was, according to the laws of the state of the court, competent to render the judgment;
- The judgment can no longer be appealed;
- The obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy; and
- The judgment is executory in the state in which it was given.

Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel. An Israeli court will also not declare a foreign judgment enforceable in the occurrence of any of the following:

- The judgment was obtained by fraud;
- There was no due process;
- The judgment was rendered by a court not competent to render it according to the laws of private international law in Israel;
- The judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid; or
- At the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel.

General Risks -

The trading price of our ordinary shares has been volatile, and may continue to fluctuate due to factors beyond our control.

The trading price of our ordinary shares is and will continue to be subject to significant fluctuations in response to numerous factors, including:

- Availability of funding resources for the acquisition of new real estate assets;
- General market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors;
- Seizure of a substantial business opportunity by our competitors or us;
- Changes in interest rates;
- Changes in foreign exchange rates;
- The entering into new businesses;
- Quarterly variations in our results of operations or in our competitors' results of operations; and
- Changes in earnings estimates or recommendations by securities analysts.

This volatility may continue in the future. In addition, any shortfall or changes in our revenues, operating income, earnings or other financial results could cause the market price of our ordinary shares to fluctuate significantly. In recent years, the stock market has experienced significant price and trading volume fluctuations, which have particularly affected the market price of many companies and which may not be related to the operating performance of those companies. These broad market fluctuations have affected and may continue to affect adversely the market price of our ordinary shares. In recent years, the trading price of our ordinary shares has been highly volatile. From January 2020 through April 16, 2021, the closing price of our ordinary shares listed on the NASDAQ Global Market fluctuated reaching a high of \$12.8 and decreasing to a low of \$9.9. The fluctuations and factors listed above, as well as general economic, political and market conditions may further materially adversely affect the market price of our ordinary shares.

We are obligated to develop and maintain proper and effective internal controls over financial reporting. These internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our ordinary shares.

We are required, pursuant to Section 404 of the Sarbanes–Oxley Act of 2002, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. We are required to disclose changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 since the company is non-accelerated filer.

We are exposed to cyber security risks that, if materialized, may adversely affect our business and operations.

Our operations rely on computer, information and communications technology and various computer hardware and software applications. Despite our implementation of network security measures, our tools and servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites, or could be subject to system failures or malfunctions for other reasons. System failures or malfunctioning could disrupt our operations and our ability to timely and accurately process and report key components of our financial results.

ITEM 4. INFORMATION ON THE COMPANY

4.A. HISTORY AND DEVELOPMENT OF THE COMPANY

History

We are a real estate company engaged through our subsidiaries in purchasing and operating of real estate properties intended for leasing and resale primarily for the purpose of commercial, industrial, office space use as well as for residential purposes.

We were founded and incorporated in the State of Israel in 1990 under the name of Optibase Advanced Systems (1990) Ltd. In November 1993 we changed our name to Optibase Ltd. Our ordinary shares have been trading on The NASDAQ Global Market under the symbol “OBAS” since our initial public offering on April 7, 1999.

We listed our ordinary shares for trade on the Tel Aviv Stock Exchange Ltd., or the TASE, on August 6, 2007. On September 23, 2008, we decided to delist our ordinary shares from trade on the TASE. The delisting of our ordinary shares from trade on the TASE was effective on September 28, 2008. The last day for trading of our ordinary shares on the TASE was September 24, 2008. In April 2015, we listed again our ordinary shares for trade on the TASE under the symbol "OBAS". According to the Israeli legislation, Israeli companies whose shares are traded on certain stock exchanges outside of Israel are allowed to have shares listed on the TASE, while reporting, in substance, in accordance with the provision of the relevant foreign securities law applicable to the Company. In August 2015, we completed an offering of NIS 60 million non-convertible bonds to the public in Israel and such bonds have been traded on the TASE. For further information, see “Item 5.B Operating and Financial Review and Prospects – Liquidity and Capital Resources.”

Commencing in February 2001, Festin Management Corp., a British Virgin Island corporation jointly owned by Shlomo (Tom) Wyler and Arthur Mayer-Sommer began to acquire our ordinary shares on the open market. On September 10, 2004, Festin Management Corp. transferred all of its holdings in us to its shareholders. In addition, during 2008 and 2011, we issued an aggregate number of 1,063,381 ordinary shares in a private placement to Mr. Wyler, who was considered, until September 12, 2012, our controlling shareholder, and as of the date of this annual report, serves as the Chief Executive Officer of our subsidiary, Optibase Inc. Since 2012, Capri, our current controlling shareholder, and Gesafi Real Estate S.A., a Panama Corporation, or Gesafi, acquired 1,797,290 of our ordinary shares from Mr. Wyler. In addition, during November 2013, Gesafi transferred all of our ordinary shares held by it to Capri and on December 31, 2013, we issued a net sum of 1,300,580 of our ordinary shares to Capri, in consideration for twelve luxury condominium units purchased by us. During January-February 2015, Capri acquired an additional 71,229 of our ordinary shares in two different transactions with an unrelated third party and on the Nasdaq Global Market, and during May 2019 Capri acquired an additional 300,917 of our ordinary shares on the Nasdaq Global Market. For additional information see Item 7.A. “Major Shareholders”.

From our formation until 2010 we were engaged in the Video Solution Business. On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia), pursuant to which Optibase Technologies Ltd. and Stradis Inc. purchased all of the assets and liabilities related to our video solutions business. The closing of the transaction occurred on July 1, 2010.

During the first half of 2009, we decided to enter into the fixed income real-estate sector and we have been operating in this sector ever since.

Our principal executive offices are located at 8 Hamenofim Street, Herzliya 4672559, Israel, and our telephone number at that location is +972-73-7073700. Our website is located at www.optibase-holdings.com. We use a local agent in California for administrative purposes and domestic filings, which is Formation Solutions Inc. 400 Continental Boulevard, 6th Floor El Segundo, CA 90245.

4.B. BUSINESS OVERVIEW

The real estate market includes the purchasing and operating of real estate properties intended for leasing and resale primarily for the purpose of commercial, industrial, office space, parking garage, warehouse use as well as for residential purposes. The real estate market is affected by growth or slowdown in the economy, and by changes in the demand and the available supply of commercial and/or residential properties, as well as the construction of additional commercial and/or residential properties. The real estate market is also affected by governmental, municipal and tax authority policies regarding planning, building, marketing and taxation of land.

As a result of the 2008 global economic and financial market crisis, there has been a slowdown in the real estate market which is evidenced by a decline in the number of real estate transactions, a reduction in the availability of credit sources, an increase in financing costs and stricter requirements by banks for providing such financing. During the last few years and through 2016, the situation has changed in certain of the real estate markets we are active in (*i.e.*, Central and Western Europe and North America) as interest rates decreased and financial institutions were more inclined to grant financing for qualified assets. This has led to increased demand for real estate properties and an increased volume of transactions in most asset classes. During 2017 and until the first quarter of 2020, the real estate market has experienced additional changes as financial institutions have again decreased the availability of financing resulting in more equity being invested in transactions. Nevertheless, since the first quarter of 2020, in light of the outbreak of the coronavirus, the real estate market has struggled in most asset classes, and it is currently very difficult to estimate how the real estate market will be impacted in the future and the extent of such impact.

Our strategy in our real estate activities is to become a substantial owner of properties. To achieve this goal, we intend to pursue a number of operating and growth strategies, which include:

- purchase of real estate mainly in Central and Western Europe, North America and Israel;
- developing and improving existing real estate;
- maximize the leasing of existing properties to commercial users;
- increase and develop unused building rights in our existing properties; and
- acquire additional commercial, residential and other real estate assets in light of market conditions, while diversifying our real estate property base.

As of the date of this annual report, our portfolio includes the holdings of interests in five operating commercial properties as well as condominium units in three residential projects.

Properties

The following table provides details regarding real-estate assets properties wholly owned or controlled by us or by our subsidiaries, as of the date of this annual report:

| Property | Location | Acquisition Date | Company Stake | Nature of Rights | Property Type | Net Rentable Square Meters Excluding Redevelopment Space ⁽¹⁾ | Annualized Rent (\$000) ⁽²⁾ | Rate of Occupancy ⁽³⁾ | Annualized Rent per Occupied Square Meter (\$) ⁽⁴⁾ |
|--|----------------------|------------------|---------------|---------------------------|---------------------------------|---|--|----------------------------------|---|
| Centre des Technologies Nouvelles (CTN) | Geneva, Switzerland | March 2, 2011 | 51% | Ownership with land lease | Commercial | 34,800 | 12,385 | 92% | 386 |
| Rümlang | Rümlang, Switzerland | October 29, 2009 | 100% | Ownership | Commercial | 12,500 | 2,007 | 88% | 182 |
| Miami, Florida | Miami, Florida | 2010-2013 | 100% | Ownership | Residential - Condominium Units | 4,260 | 591 | 54% | 429 |
| Portfolio Total/ Weighted Average | - | - | - | - | - | 51,560 | 15,343 | 88% | 338 |

(1) Net rentable square meters at a building represents the current square meter at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square meter includes tenants' proportional share of common areas but excludes space held for redevelopment.

(2) Annualized rent represents the monthly contractual rent under existing leases as of December 31, 2020 multiplied by 12.

(3) Excludes space held for redevelopment. Includes unoccupied space for which we are receiving rent and excludes space for which leases had been executed as of December 31, 2020, but for which we are not receiving rent. We estimate the total square meter available for lease based on a number of factors in addition to contractually leased square meter, including available power, required support space and common area.

(4) Annualized rent per square meter represents annualized rent as computed above, divided by the total square meter under lease as of the same date.

* On July 8, 2020, we completed the sale of a retail portfolio of 26 separate commercial properties in Bavaria, Germany, and one commercial property in Saxony, Germany, for a total consideration of EUR 35 million (app. \$38.9). For further details, Item 4.B. "business overview" see Item 10.C. "Material Contracts".

Non-GAAP Net Operating Income (“NOI”)

Net Operating Income, or NOI, is a non-GAAP financial measure. The most directly comparable GAAP financial measure is operating income, which, to calculate NOI, is adjusted to add back real estate depreciation and amortization and general and administrative expenses and other operating costs less gain on sale of operating properties. We use NOI internally as a performance measure and believe that NOI (when combined with the primary GAAP presentations) provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense item that are incurred at the property level.

A reconciliation of GAAP operating income to Non-GAAP NOI is as follows:

| | Year Ended December 31 | | |
|---|------------------------|---------------|---------------|
| | Thousands US\$ | | |
| | 2018 | 2019 | 2020 |
| GAAP Operating income | 5,800 | 5,828 | 14,984 |
| Adjustments: | | | |
| Real estate depreciation, amortization and impairment | 4,317 | 4,321 | 3,946 |
| General and administrative | 3,500 | 3,047 | 2,523 |
| Gain on sale of operating properties | - | - | (9,127) |
| Non-GAAP Total Net Operating Income (NOI) | 13,617 | 13,196 | 12,326 |

We consider the NOI to be an appropriate supplemental non-GAAP measure to operating income because it assists management, and thereby investors, to understand the core property operations prior to depreciation and amortization expenses and general and administrative costs. In addition, because prospective buyers of real estate have different overhead structures, with varying marginal impact to overhead by acquiring real estate, we consider the NOI to be a useful measure for determining the value of a real estate asset or groups of assets.

The metric NOI should only be considered as supplemental to the metric operating income as a measure of our performance. NOI should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. NOI should also not be used as a supplement to, or substitute for, cash flow from operating activities (computed in accordance with generally accepted accounting principles in the United States).

Non-GAAP Funds From Operation (“FFO”) and Non-GAAP Recurring FFO (“Recurring FFO”)

Funds from operation, or FFO, is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income, which, to calculate FFO, is adjusted to add back depreciation and amortization and after adjustments for unconsolidated associates. We make certain adjustments to FFO, which it refers to as recurring FFO, to account for items we do not believe are representative of ongoing operating results, including transaction costs associated with acquisitions. We use FFO internally as a performance measure and we believe FFO (when combined with the primary GAAP presentations) is a useful, supplemental measure of our operating performance as it’s a recognized metric used extensively by the real estate industry. We also believe that Recurring FFO is a useful, supplemental measure of our core operating performance. The company believes that financial analysts, investors and shareholders are better served by the presentation of operating results generated from its FFO and Recurring FFO measures.

A reconciliation of GAAP net income to Non-GAAP FFO and Recurring FFO is as follows:

| | Year Ended December 31 | | |
|--|------------------------|----------------|---------------|
| | Thousands US\$ | | |
| | 2018 | 2019 | 2020 |
| GAAP Net income (loss) attributable to Optibase Ltd. | (2,781) | (1,993) | 6,433 |
| Adjustments: | | | |
| Real estate depreciation, amortization and impairment | 4,317 | 4,321 | 3,946 |
| Pro rata share of real estate depreciation and amortization from unconsolidated associates | 2,610 | 3,085 | 3,087 |
| Non-controlling interests share in the above adjustments | (1,136) | (1,162) | (1,234) |
| Non-GAAP Fund From Operation (FFO) | 3,010 | 4,251 | 12,232 |
| Gain on sale of operating properties, net | - | - | (7,570) |
| Non- GAAP Recurring Fund From Operation (Recurring FFO) | 3,010 | 4,251 | 4,662 |

We consider the FFO and Recurring FFO to be an appropriate supplemental non-GAAP measure to operating income because it assists management, and thereby investors, in analyzing our operating performance.

The metric's FFO and Recurring FFO should only be considered as supplemental to the metric net income as a measure of our performance. FFO (i) does not represent cash flow from operations as defined by GAAP, (ii) is not indicative of cash available to fund all cash flow needs, including the ability to make distributions, (iii) is not an alternative to cash flow as a measure of liquidity, and (iv) should not be considered as an alternative to net income (which is determined in accordance with GAAP) for purposes of evaluating our operating performance.

The following table provides details regarding our non-controlled real-estate assets or projects in which we indirectly own a minority stake, as of the date of this annual report:

| Property | Location | Acquisition date | Company Stake | Nature of Rights | Property Type | Net Rentable Square Feet Excluding Redevelopment Space ⁽¹⁾ | Annualized Rent (\$000) ⁽²⁾ | Rate of Occupancy ⁽³⁾ | Annualized Rent per Occupied Square Feet (\$) ⁽⁴⁾ |
|--|-------------------------------------|-------------------|---------------|--|---------------|---|--|----------------------------------|--|
| 2 Penn Center Plaza | Philadelphia, Pennsylvania | October 12, 2012 | 22.16% | Beneficial interest in the owner of the property | Commercial | 516,108 | 11,726 | 86% | 26 |
| Texas Shopping Centers Portfolio | Houston, Dallas, San Antonio, Texas | December 31, 2012 | 4% | Beneficial interest in the portfolio | Commercial | 2,036,290 | 26,755 | 92% | 14 |
| South Riverside Plaza Office Tower | 300 South Riverside Plaza, Chicago | December 29, 2015 | 30% | Beneficial interest in the owner of the property | Commercial | 1,073,040 | 20,244 | 94% | 20 |
| Portfolio Total/ Weighted Average | - | - | - | - | - | 3,325,438 | 58,725 | 92% | 18 |

(1) Net rentable square feet at a building represents the current square meter at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square meter includes tenants' proportional share of common areas but excludes space held for redevelopment.

(2) Annualized rent represents the monthly contractual rent under existing leases as of December 31, 2020 multiplied by 12.

(3) Excludes space held for redevelopment. Includes unoccupied space for which we are receiving rent and excludes space for which leases had been executed as of December 31, 2020, but for which we are not receiving rent. We estimate the total square meter available for lease based on a number of factors in addition to contractually leased square meter, including available power, required support space and common area.

(4) Annualized rent per square meter represents annualized rent as computed above, divided by the total square meter under lease as of the same date.

Set forth below is additional information with respect to our projects:

The CTN Complex in Geneva, Switzerland

On March 3, 2011, we acquired, through our newly owned subsidiary, an office building complex in Geneva, Switzerland known as Centre des Technologies Nouvelles, or CTN complex. The acquisition was undertaken by OPCTN S.A., or OPCTN, a Luxembourg company owned 51% by Optibase and 49% by The Phoenix Insurance Company Ltd. and The Phoenix Comprehensive Pension, or, collectively, The Phoenix. OPCTN executed the transaction by acquiring all of the shares of the property owner, Eldista. The seller, Apollo CTN. S.a.r.l, is an entity majority owned by area property partners.

The transaction was based on a property value of CHF 126.5 million, including existing non-recourse mortgage financing in the principal amount of CHF 85.3 million provided by Credit Suisse (app. \$136.5 million and \$92.4 million respectively, as of the purchase date). The purchase price for the transaction was approximately CHF 37.7 million (app. \$40.6 million, as of the purchase date). On January 8, 2020 Eldista GmbH executed a new framework agreement for a mortgage loan at an amount of credit facility of CHF 83.5 million (the amount of the credit facility was reduced by the sum amortization and other loan repayment made). For additional information see Item 10.C. "Material Contracts".

The CTN complex is a six-building complex located in the Plan-Les-Ouates business park in the outskirts of Geneva. The complex includes approximately 34,800 square meters of leasable space (app. 377,000 square feet), is currently leased to 44 tenants, primarily in the field of advanced industries including biotech electronic and information technology industries, and is currently 92% occupied.

The following table sets forth certain information regarding leases of tenants in the CTN Complex, as of December 31, 2020:

| | Number of tenants whose leases will expire* | Total area covered by these leases | Area covered by these leases (%) | Annual rent at expiration (\$000) | Percent of annual rent at expiration (%) |
|--------------|--|---|---|--|---|
| 2021 | 19 | 12,701 | 36% | 4,774 | 41% |
| 2022 | 7 | 3,664 | 11% | 1,215 | 10% |
| 2023 | 11 | 8,726 | 25% | 3,218 | 28% |
| 2024 | 4 | 431 | 1% | 187 | 2% |
| 2025 | 8 | 2,785 | 8% | 930 | 8% |
| Thereafter | 4 | 3,777 | 11% | 1,369 | 12% |
| Sub-total | 53 | 32,084 | 92% | 11,693 | 100% |
| Vacant | - | 2,725 | 8% | - | - |
| Total | 53 | 34,809 | 100% | 11,693 | 100% |

* The leases with the tenants described in the above table include either fixed end date, or notice periods ranging from one to twelve months. Number of tenants includes several tenants with multiple lease agreements with different expiration dates.

In connection with the transaction, Optibase and The Phoenix entered into an agreement regarding their shareholdings in OPCTN. The agreement provides that Optibase will make day-to-day decisions and provide The Phoenix with customary protective rights. For further information see Item 10.C "Material Contracts".

For a summary of the principal terms of the financing agreement and new framework agreement for a mortgage loan, entered by us for the purchase of the CTN complex, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

For information regarding a past litigation and an out-of-court settlement with LEM Switzerland SA, or LEM, one of our material tenants in the CTN complex, pursuant to which LEM argues a reduction of its rent as well as related damages, see Item 8. “Financial Information - Legal Proceedings”.

Rümlang, Switzerland

On October 29, 2009, our wholly-owned subsidiary, Optibase RE 1 s.a.r.l., acquired a commercial building located at Riedmattstrasse 9, Rümlang from the Swiss property company Zublin Immobilien AG. Rümlang is situated 15 km from Zurich and as many commercial buildings due to its strategic location in proximity to Zurich international airport. The purchase price for the transaction was approximately CHF 23.5 million of which CHF 18.8 million (app. \$22.8 million and \$18.1 million respectively, as of the purchase date) was financed by a local Swiss bank pursuant to a mortgage agreement.

The five-story building includes 12,500 square meters (approximately 135,000 square feet) of rentable space with office, laboratory and retail uses. The office building in Rümlang is currently leased to 19 tenants, and is currently 88% occupied.

The following table sets forth certain information regarding leases of tenants in the Rümlang property, as of December 31, 2020:

| | Number of tenants whose leases will expire* | Total area covered by these leases | Area covered by these leases (%) | Annual rent at expiration (\$000) | Percent of annual rent at expiration (%) |
|--------------|--|---|---|--|---|
| 2021 | 4 | 3,594 | 29% | 505 | 30% |
| 2022 | 2 | 4,617 | 38% | 702 | 42% |
| 2023 | 3 | 874 | 7% | 142 | 8% |
| 2024 | - | - | - | - | - |
| 2025 | 10 | 1,759 | 14% | 331 | 20% |
| Sub-total | 19 | 10,844 | 88% | 1,680 | 100% |
| Vacant | - | 1,434 | 12% | - | - |
| Total | 19 | 12,278 | 100% | 1,680 | 100% |

* The leases with the tenants described in the above table include either fixed end date, or notice periods ranging from three to six months.

For details regarding an option agreement granted to Swiss Pro for the purchase of twenty percent (20%) of the shares of Optibase RE 1 s.a.r.l, the owner of the property, see Item 10.C “Material Contracts”. For details on a legal claim filed by Swiss Pro against our subsidiaries, see Item 8. “Financial Information - Legal Proceedings”.

For a summary of the principal terms of the financing agreement entered by us for the purchase of the Rümlang property, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

Two Penn Center Plaza in Philadelphia, PA

On October 12, 2012, our wholly-owned subsidiary, Optibase 2 Penn, LLC, acquired an approximately twenty percent (20%) beneficial interest in the owner of a Class A twenty story commercial office building in Philadelphia known as Two Penn Center Plaza.

The transaction was based on a valuation of Two Penn Center Plaza of approximately \$66 million, including existing non-recourse mortgage financing in the principal amount of approximately \$51.7 million provided by UBS Real Estate Securities, or UBS. The UBS mortgage loan had a fixed interest rate of 5.61%, which matured in May 2021, and required monthly payments of principal and interest of approximately \$300,000. We made a capital contribution of approximately \$4 million to acquire a 19.66% indirect beneficial interest in the owner of the property. As of December 31, 2019, the indirect beneficial interest is 22.16%. For further information, see Item 7.B. "Related Party Transactions".

On April 9, 2021, Crown Two Penn Center Associates Limited Partnership, a Pennsylvania limited partnership which is 22.16% indirectly owned by the Company, refinanced a commercial office building in Philadelphia, known as Two Penn Center Plaza. Under the refinancing, the existing loan on the Property with an outstanding principal balance of approximately \$44 million, was replaced with a new loan with a principal amount of \$67.9 million. As a result of the refinancing, Crown Two Penn Center Associates, Limited Partnership, generated excess cash, of which our share is approximately \$5 million. We were informed that Crown Two Penn Center Associates, Limited Partnership, will make a distribution of \$2 million out of the said \$5 million in the upcoming weeks.

Optibase 2 Penn, LLC is a limited partner in a larger joint venture that owns 99% of the beneficial interests in the owner of the Two Penn Center. Two Penn Center has approximately 515,000 rentable square feet and is located in the Center City neighborhood of Philadelphia opposite City Hall and Love Park. The building is currently leased to 141 tenants, primarily for general office and retail related usage. As of December 31, 2020, the Two Penn Center was 86% occupied and the annual rental income for the year 2020 totaled to approximately \$12 million.

Texas Shopping Centers Portfolio

On December 31, 2012, our wholly-owned subsidiary, OPTX Equity LLC, acquired an approximately 4% beneficial interest in a portfolio of Texas shopping centers. OPTX Equity LLC undertook this investment as an approximately 16.5% limited partner in Global Texas, LP a Florida limited partnership that is controlled by Global Fund Investments. Global Texas, LP is a limited partner in Global Texas Portfolio, LP a joint venture that acquired 49% of the beneficial interests in a shopping center portfolio. The partnership agreement of Global Texas, LP provides for contributions of capital and distributions of proceeds pro rata among the partners according to their respective partnership interests. OPTX Equity LLC has the right to participate in certain major decisions of Global Texas, LP that require the approval of 51% of the Global Texas, LP partnership interests.

In connection with the transaction, our wholly-owned subsidiary, OPTX Lender LLC, became an owner of approximately 16.5% of the partnership interests in Global Texas Lender, LP a Florida limited partnership. Global Texas Lender, LP provided a loan to Global Texas Portfolio, LP to finance the purchase price paid by Global Texas Portfolio, LP to acquire its 49% beneficial interest in the shopping center portfolio. The terms of the partnership agreement of Global Texas Lender, LP are substantially similar to the terms of the partnership agreement of Global Texas, LP.

The transaction was based on a portfolio valuation of approximately \$342 million including existing nonrecourse mortgage financing in the principal amount of approximately \$252 million. The primary mortgage loan had a fixed interest rate of 5.73% and was refinanced in December 2015 with a mortgage for a \$247.5 million with a fixed interest rate of 4.1% matures in January 2026.

At the closing of the transaction, which occurred on December 31, 2012, we made an aggregate capital contribution of approximately \$4 million to OPTX Equity LLC and OPTX Lender LLC in order to fund our share in the transaction.

The shopping centers portfolio includes more than two million square feet of leasable area and is located in Houston, Dallas, and San Antonio areas of Texas. The leasable area is currently 92% occupied. For the year ended on December 31, 2020, Texas shopping centers portfolio annual rental income totaled to approximately \$26.7 million.

Marquis Residences in Miami, Florida

On December 30, 2010, our wholly-owned subsidiary, Optibase Real Estate Miami LLC, had acquired 21 luxury condominium units in the Marquis Residences in Miami, Florida. The condominium units were sold by Leviev Boymelgreen Marquis Developers, L.L.C., a Florida limited liability company. In consideration for the 21 condominium units, we paid a net purchase price of approximately \$8.6 million. In addition to the purchase price, we have invested approximately \$823,000 in finishing the units.

The Marquis Residences is a 67-story tower with 292 luxury residential units ranging from 1,477 to 4,200 square feet, a restaurant, a hotel, a spa and fitness center.

To date, 13 of the 21 units are rented out and the remaining unit is being offered for rental or sale.

24 units are pledged in connection with a financing agreement entered into by us, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources".

We intend to hold the units for investment purposes and will consider to continue renting or selling the units in accordance with our business considerations and market conditions.

Penthouses Units in Miami, Florida

On April 9, 2013 and on August 22, 2013, our wholly-owned subsidiary, Optibase Real Estate Miami LLC, had acquired two luxury condominium penthouses located in the Marquis Residence in Miami and one condominium penthouse located in the Ocean One condominium in Sunny Isles Beach, Florida. In consideration for the three penthouses, we paid a net purchase price of approximately \$4.8 million.

On May 4, 2020, our wholly-owned subsidiary, Optibase Real Estate Miami LLC, sold the Penthouse located in the Ocean One condominium, in consideration for an aggregated gross price of approximately \$2.4 million.

To date, all renovations and remodeling of the two luxury condominium penthouses located in the Marquis Residence have been completed. We are constantly monitoring the market conditions and demand for such units and are aiming to dispose of our units if market conditions allow. We intend to hold the remaining units for investment purposes and will consider renting or selling the units in accordance with our business considerations and market conditions.

Condominium Units in Miami Beach, Florida

On December 31, 2013, our two wholly-owned subsidiaries, Optibase FMC LLC and Optibase Real Estate Miami LLC, had acquired twelve luxury condominium units located in the Flamingo-South Beach One Condominium and in the Continuum on South Beach Condominium, both located in Miami Beach, Florida, in consideration for the issuance of our 1.37 million newly issued ordinary shares (of which approximately 67,000 ordinary shares were off set against the lease of one unit), representing, as of the date of the approval of the transaction by our board of directors, a value of approximately \$8.8 million. The condominium units were sold by private companies indirectly controlled by Capri, our controlling shareholder. At closing, and following the approval of the transaction by our shareholders, we issued to Capri a net sum of 1,300,580 of our ordinary shares. The net fair value of the condominium units as recorded in our financial statement as of the closing date was approximately \$7.2 million, representing the fair value of the ordinary shares issued as of the closing date.

The eleven units at the Flamingo-South Beach One Condominium, or Flamingo Condominium, are located on various floors of the South Building of the Flamingo Condominium and ranging in size from 924 to 2,347 square feet. The Flamingo Condominium is a 15-story tower with 513 luxury residential units ranging in size from approximately 450 to approximately 2,347 square feet. On October 20, 2014, we sold the eleven units located in the Flamingo Condominium, in consideration for an aggregated gross price of \$6.4 million, and we recorded a gain of approximately \$2.7 million resulting from such transaction. For further details on the transaction to sell such eleven units, see Item 7.B. "Related Party Transactions". The unit at the Continuum on South Beach Condominium, or Continuum, is located on the 33rd floor of the North Tower of the Continuum on South Beach Condominium located at 50 S. Pointe Drive, Miami Beach, Florida. The Continuum on South Beach Condominium is a 37-story ocean-front tower with 203 luxury residential units ranging in size from 1,554 to 3,497 square feet. Residences of the Continuum on South Beach Condominium enjoy the right to use the common areas of the residence, including swimming pool, tennis courts, spa and a sporting club. At the closing of the acquisition of the Continuum Unit, the seller of the unit leased the Continuum Unit from us for a term of 36 months. We intend to hold the unit for investment purposes and will consider continuing renting or selling the unit in accordance with our business considerations and market conditions.

On December 29, 2016, our shareholders approved, following the approval by our audit committee and board of directors, a lease agreement to be entered into with an affiliate of Capri, or the Tenant. The lease was in effect for a one-year term commencing on January 2, 2017 and was automatically extended by a one-year term and up to a total of three years. On December 31, 2019, our shareholders approved, following the approval by our audit committee and board of directors, an extension of the lease agreement commencing on January 2, 2020, which will be automatically extended by a one-year term and up to a total of three years. For further details, see Item 7.B. "Related Party Transaction".

3 units are pledged in connection with a financing agreement entered into by us, that was refinanced in November 2017, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources". For further information, see Item 7.B. "Related Party Transactions".

German Commercial Properties Portfolio

On July 8, 2020, our wholly owned European subsidiary, Optibase Bavaria GmbH & Co. KG had completed the sale of a retail portfolio of 26 separate commercial properties in Bavaria, Germany, and one commercial property in Saxony, Germany, for a total consideration of EUR 35 million (app. \$38.9), and we recorded a gain of \$9 million. For further details, see Item 10.C. "Material Contracts".

South Riverside Plaza Office Tower, Chicago

On December 29, 2015, our wholly-owned subsidiary, Optibase Chicago 300 LLC, completed an investment in 300 River Holdings, LLC, or the Joint Venture Company, which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago under a 99 year ground lease expiring in 2114. We invested \$12.9 million in exchange for a thirty percent (30%) interest in the Joint Venture Company.

The property is located in Chicago's premier West Loop submarket, along the Chicago River. The building, situated on the riverfront, offering 360 degree views at every level of the building, including the following major tenants: Zurich American Insurance, DeVry, Inc., National Futures Association, Federal Deposit Insurance Corporation and Newark Corporation. On June 17, 2016, and in accordance with our initial investment agreement in 300 South Riverside Plaza, Chicago, we have invested an additional amount of \$3 million which accrues interest of 12% per annum which was distributed back to the Company on November 21, 2017.

To date, approximately 94% of the rentable square feet of the building are secured by various signed lease agreements.

Material Tenants

Our commercial properties in Switzerland are supported by anchor tenants who, due to size, reputation and other factors are considered as such. Our largest tenants in Switzerland are LEM SA and Swedish Orphan Biovitrum AG, located in the CTN complex. As of December 31, 2020, these tenants occupied approximately 11,200 square meters and accounted for approximately \$4.1 million of rent income, or approximately 24% of our gross leasable area in Switzerland and approximately 33%, of our annual rent in Switzerland. For further details regarding a litigation and an out-of-court settlement with LEM, pursuant to which LEM argues a reduction of its rent as well as related damages, see Item 8. "Financial Information - Legal Proceedings.

Competition

The real estate market is highly competitive and is characterized by a large number of competitors. The main factor affecting competition in this market is geographic location of property. There are properties in close proximity to some of our properties that are similar in purpose and use, which has the effect of increasing competition for the leasing of those properties as well as reducing the rental rates for those properties. Other factors affecting competition are the leasing price, the physical condition of the properties and their energy efficiency rate, the finishing of the properties and the level of the management services provided to tenants. Furthermore, the overall economic and financial trends as reflected, among other things, in interest rates, may further increase competition, leading to a reduction of rental fees and a decline in demand for properties. However, as most of our real estate is leased under medium to long term agreements, we believe that our exposure is limited to most of the effects of slowdown in the real estate market, although a significant change in market conditions may adversely affect our ability to maintain current rates of occupancy or current rent levels.

Remaining items of the Video Solution Business

In connection with the sale of our Video Solutions Business to Vitec, we transferred all rights related to the support of the IIA for the period ending on the date of the closing of the Vitec Transaction to Vitec. Although we have no further obligation to pay royalties on revenues generated by our Video Solutions Business subsequent to its sale. We are currently undergoing an audit by the IIA, for royalties paid before the sale of our Video Solution Business. The Company believe it has sufficient provision to cover the expected outcome of such review process.

4.C. ORGANIZATIONAL STRUCTURE

As of December 31, 2020, we have been managing our activity through our four wholly-owned direct subsidiaries: Optibase Inc. which was incorporated in California in 1991, Optibase Real Estate Europe SARL, or Optibase SARL, which was incorporated in Luxembourg in October 2009, our 51% held subsidiary OPCTN S.A., which was incorporated in Luxembourg on February 24, 2011 and through Optibase RES SARL which was incorporated in Luxembourg on June 11, 2018. Our subsidiaries hold the following companies: Optibase Inc. wholly owns Optibase Real Estate Miami LLC, Optibase 2Penn LLC, OPTX Equity LLC, OPTX Lender LLC, Optibase FMC LLC, and Optibase 300 Chicago LLC, all limited liability companies which were incorporated in Delaware or Florida. Optibase SARL wholly owns Optibase Bavaria GmbH & Co. KG, a German partnership, and Optibase Bavaria Holding GmbH, a German corporation. Optibase RES SARL wholly owns Optibase RE1 SARL which was incorporated in Luxemburg, and Optibase RE2 SARL, which also were incorporated in Luxemburg, and OPCTN S.A. wholly owns Eldista GmbH, which was incorporated in Switzerland. Our real estate activity is managed through several subsidiaries held directly and indirectly by Optibase Ltd. or its abovementioned subsidiaries.

4.D. PROPERTY, PLANTS AND EQUIPMENT

Our headquarters' offices occupy approximately 3,412 square feet in Herzliya Pituach. Our lease for this space expires in 2023.

Our European subsidiaries occupy offices totaling approximately 500 square feet in Luxembourg. The current leases do not have an expiration date and can be terminated at any time with three months prior notice.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis about our financial condition and results of operations contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under “Item 3.D. Risk Factors” above and “Item 5.D. Trend Information” below, as well as those discussed elsewhere in this annual report. You should read the following discussion and analysis in conjunction with the “Selected Consolidated Financial Data” and the Consolidated Financial Statements included elsewhere in this annual report.

Overview

We invest in the fixed-income real estate field and hold properties and beneficial interest in real-estate assets and projects in various locations. Our revenues are comprised of rental income we receive from tenants in our various properties. We derive additional income as dividends and interest from various real estate investments where we hold certain beneficial interests. Our consolidated financial statements are presented in accordance with generally accepted accounting principles in the U.S., or U.S. GAAP.

The presentation currency of the financial statements is the U.S dollar.

The functional currency of the Company is the U.S Dollar.

The functional currencies of Optibase’s subsidiaries are CHF, EUR and U.S dollar. Assets and liabilities of these subsidiaries are translated at the year-end exchange rates and their statement of operations items are translated using the average exchange rates for all periods presented. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders’ equity.

As of December 31, 2020, we had available cash and cash equivalents of approximately \$28.8 million. As of April 16, 2021, we have available cash and cash equivalents, of approximately \$28.3 million. For information regarding the investment of our available cash, see Item 5.B. “Operating and Financial Review and Prospects - Liquidity and Capital Resources” below.

Our business may be affected by the condition in Israel, see Item 3.D. “Risk Factors”.

Fixed income from real estate rent

Fixed income real-estate consists primarily of revenues derived from real estate properties, held through our subsidiaries, in Switzerland, Miami and Germany.

Cost of real estate operations

Cost of real estate operations consist primarily of direct costs associated with operating the real estate properties such as building insurance, management company fees and property tax.

Real estate depreciation and amortization

Real estate depreciation and amortization consist primarily of depreciation expenses related to the value of properties net of amounts accounted for land, as well as amortization expenses associated with intangible assets derived from the purchase of real estate properties.

General and administrative expenses

General and administrative expenses consist primarily of fees to outside consultants, legal and accounting fees, expenses related to the purchase of real estate assets, stock option compensation charges and certain office maintenance costs.

Other income

Other income, net, consists of dividend received and interest income on loan to associated company.

Financial expenses, Net

Financial expenses consist primarily of interest we paid in connection with bank loans, debt issuance, currency hedging transactions, and losses from realization of securities and financial instruments. Financial income consists mainly of interest received on deposits and other financial assets held in our bank accounts and gains from realization of securities and financial instruments. Our exchange differences occur primarily as a result of the change of the NIS, CHF and Euro value relative to the U.S. dollar.

Taxes on income

Israeli companies are generally subject to corporate tax on their taxable income. As of 2020, the corporate tax rate since 2018 is 23% (in 2017 the corporate tax rate was 24%). In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the Code. The changes include, but are not limited to:

1. A corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 ("Rate Reduction");
2. The transition of U.S international taxation from a worldwide tax system to a territorial system by providing a 100 percent deduction to an eligible U.S. shareholder on foreign sourced dividends received from a foreign subsidiary;
3. A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017; and
4. Taxation of GILTI earned by foreign subsidiaries beginning after December 31, 2017. The GILTI tax imposes a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations.

Taxable income of Luxembourg, Zurich, Switzerland and Germany is subject to tax at the rate of approximately 29%, 21% and 16%, respectively, for the years 2018 through 2020. Taxable income of Geneva, Switzerland is subject to tax at the rate of approximately 14% for the year 2020 and 24% for the years 2018 through 2019.

We have final tax assessments through the tax year 2015.

As of December 31, 2020, we had approximately \$72 million of net operating loss carry-forwards for Israeli tax purposes. These net operating loss carry-forwards have no expiration date. Optibase Inc. had U.S. federal net operating loss carry-forward of approximately \$57 million that can be carried forward and offset against taxable income for 20 years, no later than 2040. Utilization of U.S. net operating losses may be subject to the substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

Equity share in losses of associates, net

Associates in which we have significant influence over the financial and operating policies without having control are accounted for using the equity method of accounting, accordingly we recorded during 2020 an equity income in associate of our holdings of Two Penn Center Plaza in Philadelphia, Pennsylvania and an equity loss in associate of our holdings of 300 South Riverside Plaza in Chicago.

Net Income Attributable to Non-Controlling Interest.

Net income attributed to non-controlling interest following the acquisition of the CTN property in Geneva, Switzerland in March 2011. We have entered into the said transaction with The Phoenix group, who owns 49% of the property. Thus, 49% of the net operating results of the property are attributed to them.

5.A. OPERATING RESULTS

The following table sets forth, for the years ended December 31, 2018, 2019 and 2020 statements of operations data as percentages of our total revenues:

| | Year Ended December 31 | | |
|--|------------------------|--------|--------|
| | 2018 | 2019 | 2020 |
| Fixed income from real estate rent | 100% | 100% | 100% |
| Costs and expenses: | | | |
| Cost of real estate operations | 18 | 18.3 | 17.1 |
| Real estate depreciation, amortization, and impairment | 26 | 26.8 | 26.5 |
| General and administrative | 21.1 | 18.9 | 17 |
| Total costs and expenses | 65.1 | 63.9 | 60.6 |
| Operating income | 34.9 | 36.1 | 100.7 |
| Other income, net | 3.7 | 4.5 | 3.1 |
| Financial expenses, net | (17.4) | (16.3) | (12) |
| Income before taxes on income | 21.2 | 24.3 | 91.8 |
| Taxes on income | (8.8) | (9.1) | (14.5) |
| Equity share in losses of associates, net | (16.6) | (14.4) | (14) |
| Net income | (4.2) | 0.7 | 63.3 |
| Net income attributable to non-controlling interest | 12.5 | 13.1 | 20 |
| Net income (loss) attributable to Optibase Ltd. | (16.7) | (12.3) | 43.2 |

Results of Operations for the Years Ended 2019 and 2020

Fixed income from real estate rent. Our fixed income real estate rent in 2020 totaled to \$14.9 million compared to \$16.1 million in 2019. The decrease was due to our Germany portfolio sale (for further details, see Item 4.B. "business overview" and item 10.C. "Material Contracts").

Cost of real estate operations. Our cost of real estate operation decreased in 2020 to \$2.5 million, compared to \$2.9 million in 2019. The decrease was mainly due to our Germany portfolio sale (for further details, see Item 4.B. "business overview" and item 10.C. "Material Contracts").

Real estate depreciation, amortization and impairment. Our real estate depreciation, amortization, and impairment in 2020 totaled to \$3.9 million, compared to \$4.3 million in 2019. The decrease was mainly due to our Germany portfolio sale (for further details, see Item 4.B. "business overview" and item 10.C. "Material Contracts").

General and Administrative Expenses. General and administrative expenses decreased in 2020 to \$2.5 million, compared to \$3 million in 2019. The decrease was mainly due to our Germany portfolio sale and due to an out-of-court settlement with our tenant LEM (for further details, see Item 8. “Financial Information - Legal Proceedings”).

Gain on sale of operating properties. In 2020 we recorded gain on sale of operating properties of \$9.1 million mainly due to our Germany portfolio sale.

Operating Income. As a result of the foregoing, we recorded operating income of \$15 million in 2020 and, compared to an operating income of \$5.8 in 2019. The increase in our operating income in 2020, is mainly attributed to our Germany portfolio sale.

Other income (loss). We recorded other income of \$454,000 in 2020, compared to other income of \$722,000 million in 2019, related to dividend received and interest income on loan to an associated company.

Financial Expenses, Net. We recorded financial expenses, net of \$1.8 million in 2020, compared with financial expenses, net of \$2.6 million in 2019. The decrease was mainly due to our Germany portfolio sale and due to exchange rate differences.

Taxes on Income. We and our subsidiaries account for income taxes in accordance with ASC Topic 740 “Income Taxes”, or ASC 740. Under the requirements of ASC 740, we reviewed all of our tax positions and determined whether the position is more-likely-than-not be sustained upon examination by regulatory authorities. The tax expenses of \$2.2 million in 2020, compared to \$1.5 million in 2019 mainly related to our Germany portfolio sale and to our Swiss subsidiaries. The tax expenses balance in 2020 includes tax expense recorded against deferred tax liability, in relation to Company’s subsidiaries’ retained earnings balances, which are currently designated to be distributed to the Company.

Equity share in losses of associates, Net. We recorded an equity loss of \$2.1 million in 2020 and \$2.3 million in 2019, mainly attributable to associated with equity losses of Optibase Chicago 300 LLC partially off set by equity gains from 2 Penn Philadelphia LP. For further details regarding 2 Penn Philadelphia LP and Optibase Chicago 300 LLC, see Item 7.B. “Related Party Transactions” and Item 10.C “Material Contracts”, respectively.

Net Income. As a result of the foregoing, we recorded net income of \$9.4 million in 2020, compared with a net income of \$127,000 in 2019. The increase in our net income is mainly related to our Germany portfolio sale.

Net Income Attributable to Non-Controlling Interest. Net income attributed to non-controlling interest was first recorded in 2011 following the acquisition of the CTN complex in March 2011. We have entered into the said transaction with The Phoenix, who owns 49% of the property. Thus, 49% of the net operating results of the property are attributed to them.

Net income (loss) attributable to Optibase Ltd. Net income attributed to Optibase Ltd., is the result of net income as affected by net income attributed to non-controlling interest. As a result of the foregoing, we recorded net gain of \$6.4 million in 2020, compared with a net loss of \$2 million in 2019.

Results of Operations for the Years Ended 2019 and 2018

This analysis can be found in Item 5 of the Company’s Annual Report on Form 20-F for the year ended December 31, 2019.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. Our management reviewed these critical accounting policies and related disclosures with our audit committee. See Note 2 to our Consolidated Financial Statements, which contain additional information regarding our accounting policies and other disclosures required by U.S. GAAP.

Our management believes the significant accounting policies which affect management's more significant judgments and estimates used in the preparation of our consolidated financial statements and which are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- ❖ Long-lived assets including intangible assets
- ❖ Investment in companies
- ❖ Contingencies; and
- ❖ Income Taxes.

Long- Lived Assets including intangible assets

The Company and its subsidiaries long-lived assets are reviewed for impairment in accordance with ASC 360, "*Property, Plant and Equipment*", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company reviewed assets on a component-level basis, which is the lowest level of assets for which there are identifiable cash flows that can be distinguished operationally and for financial reporting purposes. The carrying amount of the asset group was compared with the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. In cases where the expected future cash flows were less than the carrying amounts of the assets, those assets were considered impaired and written down to their fair values. Fair value was established based on discounted cash flows.

Investment in companies

Investments in non-marketable equity securities of companies in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies are recorded at cost.

Management evaluates investments in non-marketable equity securities for evidence of other-than temporary declines in value. When relevant factors indicate a decline in value that is other-than temporary the Company recognizes an impairment loss for the decline in value.

Contingencies

We periodically estimate the impact of various conditions, situations and/or circumstances involving uncertain outcomes to our financial condition and operating results. These events are called "contingencies", and the accounting treatment for such events is prescribed by the ASC 450 "*Contingencies*". ASC 450 defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur". Legal proceedings are a form of such contingencies.

In accordance with ASC 450, accruals for exposures or contingencies are being provided when the expected outcome is probable. It is possible, however, that future results of operations for any particular quarter or annual period could be materially affected by changes in our assumptions, the actual outcome of such proceedings or as a result of the effectiveness of our strategies related to these proceedings.

Income Taxes

The Company and its subsidiaries accounts for income taxes in accordance with ASC Topic 740, "Income Taxes" or ASC 740, which prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

ASC 740 clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue. Our policy is to accrue interest and penalties related to unrecognized tax benefits in our financial expenses.

Recently adopted accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses on Financial Instruments", which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available for sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available for sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. We adopted Topic 326 effective January 1, 2020, based on the composition of our trade receivables, investment portfolio and other financial assets, current economic conditions, historical credit loss activity and future economic conditions. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recent accounting pronouncements issued

In December 2020, the FASB issued ASU No. 2020-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which simplifies the accounting for income taxes. ASU 2020-12 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2020. We currently evaluating the impact of the new guidance on our consolidated financial statements.

5.B. LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations primarily through private and public sales of our equity securities and banks credit. As of December 31, 2020, we had cash and cash equivalents of \$28.8 million, and as of April 16, 2021, we have available cash, and cash equivalents of approximately \$28.3 million.

Net cash provided by our operating activities was \$5.1 million, \$7.4 million, and \$6.9 million, in December 31 of each of the years 2020, 2019 and 2018, respectively. Net cash provided for operation activities in 2020 was primarily the result of net income for the period, as adjusted for depreciation and amortization, equity share in losses of associates, net decrease in land lease liabilities and in other accounts receivable and prepaid expenses, increase in right-of-use assets and trade receivables, offset by gain on sale of operating properties, decrease in accrued expenses, other accounts payable and other liabilities. Net cash provided for operating activities in 2019 was primarily the result of net income for the period, as adjusted for depreciation and amortization, equity share in losses of associates, net increase in accrued expenses, other accounts payable and other liabilities and increase in lease liabilities, offset by increase in trade receivables, increase in other accounts receivable and prepaid expenses, decrease in deferred tax liabilities and land lease liabilities and increase in right-of-use assets. Net cash provided for operating activities in 2018 was primarily the result of net loss for the period, as adjusted for depreciation and amortization, equity share in losses of associates, net and decrease in other accounts receivable and prepaid expenses, offset by increase in trade receivables, decrease in deferred tax liabilities and in land lease liabilities and decrease in accrued expenses and other accounts payable.

Net cash provided by investment activities in 2020 totaling \$40.8 million reflects primarily our sale of real estate property and proceeds from our associates, offset by our investment in building improvements. Net cash used for investment activities in 2019 totaling \$596,000 reflects primarily our investment in building improvements, offset by the proceeds from our associates. Net cash used for investment activities in 2018 totaling \$2 million reflects primarily the proceeds from our associates, offset by investment in building improvements.

Net cash used for financial activities in 2020 totaling \$30.8 million reflects loans and bonds repayments. Net cash used for financial activities in 2019 totaling \$ 8.2 million reflects loans and bonds repayments, dividend distribution to non-controlling interests partially. Net cash used for financial activities in 2018 totaling \$11.1 million reflects loans and bonds repayment, dividend distribution to non-controlling interests partially.

Non-GAAP NOI decreased by \$870,000, or 7%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. The decrease in NOI was primarily driven by the decrease in our fixed income from real estate rent offset by a decrease in our cost of real estate operations due to our Germany portfolio sale. For further details regarding the definition of NOI please see Item 4.B.

Non-GAAP Recurrent FFO increased by \$411,000, or 10%, for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase in FFO was mainly due to decrease in our operating costs, general and administrative expenses and financial expenses mainly due to our Germany portfolio sale (for further details, see Item 4.B. "business overview"), offset by a decrease in our fixed income from real estate rent.

During 2020, we invested our available cash solely in various bank deposits and money market funds with various banks. As of the date hereof, we do not have any material contractual commitments related to capital expenditure.

In March 2017, our audit committee and board of directors approved, in accordance with the Israeli Companies Regulations (Relieves for Transactions with Interested Parties) of 2000, the receipt of a \$5.1 million loan, or the Loan, from our Controlling shareholder. The Loan was granted to the Company on March 28, 2017 for the purpose of strengthening the Company's liquidity. The Loan does not bear any interest or linkage differentials and is unsecured. In May 2018, the parties entered into an amendment to the Loan agreement, under which the Company repaid the Controlling Shareholder \$2.5 million on account of the Loan and the repayment by the Company of the remaining Loan amount of \$2.5 million has been postponed from April 1, 2019 to July 1, 2020. In September 2019, the parties entered into an additional amendment to the Loan agreement. Following these amendments, the repayment by the Company of the remaining Loan amount of \$2.5 million has been postponed from July 1, 2020 to October 1, 2020. On July 1, 2020 in accordance with our audit committee and board of directors' approval, we prepaid the remaining amount of a loan of approximately \$2.6 million.

In June 2017, Aberdeen Associates LLC, a Delaware limited liability company, or Aberdeen Lender, extended a \$7 million, 5-year fixed-rate loan facility, the Aberdeen Loan Facility, to the Company's subsidiary, Optibase Inc. As the date hereof, Optibase Inc. has not drawn down any funds under the Aberdeen Loan Facility. The Aberdeen Loan Facility may be drawn down in \$250,000 increments, and beginning with the first such draw-down, will bear interest at an annual rate of 5% of the amount drawn, and is compounded and paid quarterly until the maturity on June 1, 2022, at which point all outstanding principal and interest will become due and payable. The Aberdeen Loan Facility is secured by a pledge by Optibase Inc. of 100% of its membership interest in Optibase Chicago 300, LLC. Prepayments of principal on the Aberdeen Loan Facility are allowed without penalty, on ten (10) days' prior notice to the Aberdeen Lender.

On April 9, 2021, Crown Two Penn Center Associates Limited Partnership, a Pennsylvania limited partnership which is 22.16% indirectly owned by the Company, refinanced a commercial office building in Philadelphia, known as Two Penn Center Plaza. Under the refinancing, the existing loan on the Property with an outstanding principal balance of approximately \$44 million, was replaced with a new loan with a principal amount of \$67.9 million. As a result of the refinancing, Crown Two Penn Center Associates, Limited Partnership, generated excess cash, of which our share is approximately \$5 million. We were informed that Crown Two Penn Center Associates, Limited Partnership, will make a distribution of \$2 million out of the said \$5 million in the upcoming weeks.

The following table summarizes the principal terms of our material financing agreements in effect as of December 31, 2020:

| Type of Facility | Borrower | Original Date and Maturity Date | Original Amount ⁽¹⁾ | Outstanding Amount (as of December 31, 2020) ⁽²⁾ | Annual Interest | Payment Terms | Principal Securities | Principal Covenants | Additional Information |
|---|-------------|---|------------------------------------|---|-----------------|---|----------------------|---|--|
| Non-convertible Series A Bonds issued to the public in Israel | The Company | Original Date- August 9, 2015; Maturity Date- December 31, 2021 | NIS 60 million (app. \$15 million) | NIS 10 million (app. \$3.1million) | 6.7% | Interest - payable in semi-annual payments Principal - payable in semi-annual payments on June 30 and on December 31 of each of the years of 2016 through 2021 (last payment on December 31, 2021) | none | <ul style="list-style-type: none"> • negative pledge regarding the creation of a floating charge on all of the Company's assets, subject to certain exceptions. • no distributions in an amount greater than 35% of the profits • no distributions that immediately following which the Company's equity (excluding minority interest) will decrease below \$50 million • increase of interest rate in case of certain decreases in the bonds' rating. • minimum equity (excluding minority interest) will not be less than \$33 million • equity (including minority interest) to balance sheet ratio will not be less than 25% • net financial debt to CAP ratio will not be greater than 70% • net financial debt to EBITDA ratio will not be greater than 16. | <p>The bonds are rated at a rating of "Baa1/Stable" on a local scale by Midroog Ltd., an affiliate of Moody's.</p> <p>Events of default include, among which, the existence of a real concern that the Company will not meet its material undertakings towards the bondholders; breach of the Company's financial covenants during two consecutive fiscal quarters; cross default provisions; the sale of the majority of the Company's assets, subject to certain exceptions; and occurrence of certain 'change of control' events.</p> <p>No restriction on the issuance of any new series of debt instruments, subject to certain exceptions. Expansion of the series is subject to maintaining the rating assigned to the bonds prior to the expansion date and continued compliance with the financial covenants.</p> |

| Type of Facility | Borrower | Original Date and Maturity Date | Original Amount ⁽¹⁾ | Outstanding Amount (as of December 31, 2020) ⁽²⁾ | Annual Interest | Payment Terms | Principal Securities | Principal Covenants | Additional Information |
|--|---------------------------------|--|---|---|--|---|--|--|--|
| Framework agreement for mortgage loan of the CTN complex | Eldista GmbH (Senior Borrower) | Original Date- January 8, 2020; Maturity Date- 2061 | CHF 83.5 million (app. \$87.3 million). The Borrower may choose to utilize the credit facility as follows: (i) mortgage loans in CHF with terms of 1 to max 10 years; (ii) mortgage-backed fixed advanced in CHF with terms of 3, 6 or 12 months; (iii) mortgage-backed fixed advanced in USD with terms of max 3 months. ⁽⁵⁾ During 2020 and to date, the Borrower has been utilizing the credit facility every 3 months in USD or CHF. | CHF 81.5 million (app. \$92.3 million). | Floating interest rate, based on the prevailing conditions in the money and capital markets, the risk assessments of the bank and the margin determined by the bank + 0.75% for drawings in CHF or 1.05% for drawings in USD, per annum. | Interest due quarterly, beginning March 31, 2020. CHF 2 million to be paid per year on a quarterly basis, beginning March 31, 2020. | A senior ranking mortgage over the property + Deed of Assignment in favor of the bank of any rent payments from the CTN complex and all rent payments will be made directly into an account at the bank. | | <ul style="list-style-type: none"> The framework agreement may be terminated by either party at any time with immediate effect. The Borrower undertakes to refrain from providing new or additional collateral exceeding CHF 2 million in favor of a third party. The bank is authorized to assign all or any part of the lone relationship to a third party. Transfers/sales of property are prohibited. Any sale will result in the loan being repayable and a prepayment fee of 0.1%, plus difference between interest rate at time of termination and interest rate that bank can achieve for residual interest term. Loans to third parties (excluding shareholders) by the borrower are not permitted. Distributions of dividends/shareholder loans are only permitted in line with available yearly profit after loan payments. |
| Financing agreement of condominium units in Miami | Optibase Real Estate Miami, LLC | Original Date- July 7, 2015; Maturity Date- September 30, 2021 | \$8.82 million ⁽³⁾ | \$6.5 million | Libor (30-day rate) + 2.65%, but no less than 4.65%. | Interest – payable monthly commencing on October 1, 2021 Principal – the entire principal balance and all accrued interest shall be due and payable on March 31, 2023. On September 30, 2021 borrower shall make a principal payment in an amount equal to 10% of the outstanding principal balance. | (i) A senior mortgage spread over 25 residential condominium units; ⁽⁴⁾ and (ii) A collateral assignment of contracts; (iii) pledged collateral agreement; (iv) Guaranty from Optibase, Inc., under which Optibase, Inc. guarantees the obligations of the Borrower, including the punctual payment of amounts owed under the loan documents. | <ul style="list-style-type: none"> Minimum deposit by Borrower of \$1.5 million during the term of the loan. Failure to meet this covenant on the testing period requires Borrower to pay the Lender a fee in an amount of 2% of the amount of the deficiency. Interest reserve account of at least \$550,000. Guarantor and the Borrower must collectively maintain unrestricted and unencumbered Liquid Assets of at least \$2 million including any amounts held as Interest Reserve under the Loan Agreement. Guarantor not to transfer a material portion of its assets, other than in the ordinary course of business, for fair market terms, and such transfer will not have material adverse effect on its ability to perform its obligations. Guarantor can make advances to affiliates in ordinary course of business without consent. | <ul style="list-style-type: none"> Borrower has an option to extend the maturity date by 18 months if no event of default has occurred and subject to certain other conditions. The Mortgage will be partially released so that a sale of a Unit can occur, provided: no Event of Default exists at the time the Borrower presents a contract for sale to the Lender executed by a buyer; the sale is to a bona-fide third party purchaser upon the terms and conditions set out in Exhibit B of the Loan Agreement. Lender may obtain a new or updated Appraisal of the Project at Borrower's expense once annually, or more often if an Event of Default exists or if required by a governmental or banking agency or authority. |

| Type of Facility | Borrower | Original Date and Maturity Date | Original Amount ⁽¹⁾ | Outstanding Amount (as of December 31, 2020) ⁽²⁾ | Annual Interest | Payment Terms | Principal Securities | Principal Covenants | Additional Information |
|--|--------------------|--|-----------------------------------|---|---|--|---|---|--|
| Financing agreement of the property in Rumlang | Optibase RE 1 SARL | Original Date- October 2009; Maturity Date- 2059 | CHF 18.8 million (\$18.4 million) | CHF 14.7 million (app. \$16.6 million) | Libor (for a period determined by borrower per each interest payment for the next payment) + 0.8% | Interest - payable in four quarterly payments annually; The principal amount is payable in four quarterly amortization payments annually, each in the amount of CHF 94,000 (approximately \$92,000 as of the purchase date). | A senior mortgage over the property + Pledge over the holdings in borrower. | Undertaking not to grant any encumbrance or mortgage on the Rumlang property without the lender's approval. | <ul style="list-style-type: none"> The lender may adjust the margin at its sole discretion on account of deterioration in Optibase RE 1's credit standing or the value of the property. The principal payments may be adjusted at the lender's sole discretion if the lease of major tenants is terminated and no replacement tenant is found within 6 months. Borrower may repay the mortgage at any time, subject to a prior notice of three months with no subject penalty. The lender holds the right to accelerate future loan payments, upon occurrence of certain default conditions. |

⁽¹⁾ Translation of the amounts into US Dollar was made in accordance with the representative rate of exchange of the relevant currency into US Dollar as of the date the loan was taken.

⁽²⁾ Translation of the amounts into US Dollar was made in accordance with the representative rate of exchange of the relevant currency into US Dollar as of December 31, 2020

⁽³⁾ The original amount is the amount received following a second amendment to the loan agreement.

⁽⁴⁾ In May 2020, we sold one of the apartment units in consideration for approximately \$2.4 million and out of which approximately \$2.3 were used for the repayment of the loan.

⁽⁵⁾ Use in foreign currency (USD) may only occur if the resulting foreign exchange risk is hedged through a separate OTC transaction in the same currency and with the same term and nominal.

Through the year 2020 and as of the date of this Annual Report, we comply with all of the covenants of our financing agreements.

We believe that, considering the use of cash in our ongoing operations, together with the existing sources of liquidity including the consideration from the sale of the German Portfolio described above, our working capital will be sufficient to meet our present requirements and our needs for cash for at least the next 12 months. However, our liquidity and capital requirements are affected by many factors, some of which are based on the normal ongoing operations of our businesses and some of which arise from uncertainties related to global economies and the markets that we target for our services. In addition, we routinely review potential acquisitions, which may require additional funds than are currently available. Therefore, we would likely seek additional equity or debt financing, although we cannot assure you that we would be successful in obtaining such financing on favorable terms or at all.

5.C. RESEARCH AND DEVELOPMENT

Irrelevant.

5.D. TREND INFORMATION

During 2014 and through 2015 the U.S. real estate market has shown signs of improvement and a consistent increase in assets prices as the demand for investments increased significantly also driven by financial institutions increased willingness to finance new transactions along with low interest rates. Economically, that had been supported by moderate job growth, record housing affordability and fewer distressed property sales. During 2016 and 2017, we have witnessed a decrease in demand for high end residential projects in the U.S. market, while the demand for other quality projects both in the residential and the commercial markets kept stable and in certain cases showing a moderate increase. During 2018, 2019, 2020 and to date the high end residential market in the U.S. is showing a significant decrease in demand while up until recent events (the Coronavirus outbreak), other segments remained stable. Since the first quarter of 2020 and to date, following the outbreak of the pandemic, most other real estate sectors are also undergoing a challenging period with lower demand for commercial space and the overall slowdown of the economy.

In addition, during 2015 and throughout 2016, as Swiss interest rates declined, Swiss real estate prices remained stable in most segments, while other segments were showing signs of increase mainly due to the low interest rates and lack of investments alternatives. At the same time, there was no increase in the demand for new rental spaces and the rental market appeared to be slowing down further, in particular the demand for prime office space and the price for such real estate properties. Although economic conditions were promising in 2013, stagnating sales, depressed income and ongoing structural challenges meant that demand for retail floor space was modest. In addition, the two most highly developed tenant markets, Zurich and Geneva, are still exposed to growing oversupply of office space. Despite the above, during 2014 and 2015, market values on direct investments generally continued to rise, mainly due to low interest rates, and lack of investment alternatives, but have been stable since 2016 to 2019. As this was accompanied by moderate demand for rents and stability in rental prices, the overall yields on such investments have decreased further. During 2015 throughout 2020 and to date, the Swiss Central Bank has set negative interest rates for CHF deposits. This in-turn pushed investors to further invest in the real estate market while looking for investments alternatives to generate positive returns on their investments. Since the outbreak of the pandemic in the first quarter of 2020, the Swiss market has been showing a sign of weakness across most real estate sectors as the demand for commercial space has decreased due to the uncertainty in the markets.

Since the outbreak of the Coronavirus, market conditions around the world, including in the areas we operate in have taken a significant downturn, and as of now we still cannot assess the full impact of the Coronavirus outbreak on our operations.

Our financial income is affected by changes in the 6-month Libor rate, see Item 3.D. "Risk Factors - Risks Relating to the Economy, Our Financial Condition and Shareholdings" above.

In 2016 and 2020 we were profitable, while in 2017 to 2019 we operated at a loss. During 2017, 2018, and 2019 we operated at a loss mainly due to equity losses related to the investment in 300 River Holdings, LLC, which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago, IL. In 2020 we were profitable, mainly due to a sale completed by Optibase Bavaria GmbH & Co. KG, a wholly owned European subsidiary, of the Company's portfolio in Germany comprised of twenty-seven (27) separate commercial properties, located mostly in Bavaria, Germany, for a total consideration of EUR 35 million (app. \$38.9).

5.E. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Set forth below are our contractual obligations and other commercial commitments as of December 31, 2020:

| Contractual Obligations | Payments Due by Period (USD in thousands) | | | | |
|---|--|------------------|---------------|--------------|-------------------|
| | Total | Less than 1 year | 1- 3 years | 3-5 years | more than 5 years |
| Long-Term Debt* | 116,273 | 3,349 | 11,169 | 5,386 | 96,369 |
| Capital Lease Obligations | 15,241 | 277 | 554 | 554 | 13,856 |
| Lease Obligations* | 327 | 170 | 157 | - | - |
| Bonds* | 3,099 | 3,099 | - | - | - |
| Total Contractual Cash Obligations | 134,940 | 6,895 | 11,880 | 5,940 | 110,225 |

* Excluding interest

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information with respect to the individuals who are currently our directors and executive officers. All of these individuals are presently serving in the respective capacities described below:

| | Age | Position |
|---------------------------------------|-----|--|
| Alex Hilman | 68 | Executive Chairman of the board of directors |
| Amir Philips | 53 | Chief Executive Officer |
| Shlomo (Tom) Wyler | 69 | Chief Executive Officer of Optibase Inc. |
| Yakir Ben-Naim | 49 | Chief Financial Officer |
| Tali Yaron-Eldar ⁽¹⁾⁽²⁾⁽³⁾ | 58 | Director |
| Danny Lustiger ⁽¹⁾⁽³⁾ | 53 | Director |
| Haim Ben-Simon ⁽¹⁾⁽²⁾⁽³⁾ | 64 | Director |
| Reuwen Schwarz | 44 | Director |

(1) Member of our audit committee, financial statements review committee and nominating committee.

(2) External director.

(3) Member of our compensation committee.

On December 31, 2020, our shareholders approved the re-election of Alex Hilman, Danny Lustiger and Reuwen Schwarz as directors of the Company, and on December 31, 2019 our shareholders approved the election of Ms. Tali Yaron Eldar and Mr. Haim Ben-Simon as our external directors.

Alex Hilman serves as Executive Chairman of our board of directors since September 2009. He has joined our board of directors in February 2002. Mr. Hilman is a certified accountant in Israel (C.P.A. ISR.), and a partner in Hilman & Co., accountancy firm which provides auditing, tax and business consulting services to corporations. Mr. Hilman serves as a board member in other companies in Israel and abroad. Mr. Hilman was the president of the Israeli Institute of Certified Public Accountants in Israel, served on the board of IFAC (International Federation of Accountants), and was a member of the Small & Medium Practices committee in IFAC. Mr. Hilman has published professional works on tax and accounting, among them, The Israel Tax Guide. Mr. Hilman has also held professional and management positions at the ITA (the Israeli Tax Authorities) and lectured Taxation in Tel Aviv University. Mr. Hilman holds a B.A. in Accountancy and Economics from Tel-Aviv University.

Amir Philips serves as our Chief Executive Officer. Mr. Philips has been serving in this position since June 2011. Prior to this position, Mr. Philips served as our Chief Financial Officer from May 2007, and as Vice President Finance of Optibase Inc. from July 2004. From 2000 until 2004, Mr. Philips held the position of Group Controller and Financial Manager at Optibase Ltd. Before joining Optibase, Mr. Philips was an accountant and auditor at Lotker Stein Toledano and Co., currently a member of BDO Ziv Haft. Mr. Philips is a Certified Public Accountant in Israel. He holds an MBA from the Kellogg-Recanati School of Business and a B.B. degree in Accounting and Business Management from the Israeli College of Management.

Shlomo (Tom) Wyler serves as the Chief Executive Officer of our subsidiary Optibase Inc. Until December 19, 2013, Mr. Wyler has served as a president and a member our board of directors. Since his investment in us in September 2001 (then through Festin Management Corp.), Mr. Wyler has served in various senior executive positions. His other areas of involvement include investment banking, foreign exchange, financial futures and real-estate. In the early 1990s, Mr. Wyler turned his efforts to real estate interests. Mr. Wyler holds a Masters degree in Business Economics from the University of Zurich. Mr. Wyler is Reuven Schwarz' father in law.

Yakir Ben-Naim serves as our Chief Financial Officer. Ms. Ben-Naim has been serving in this position since June 2011. From 2004 until May 2011, Ms. Ben-Naim held the position of Corporate Controller and Financial Manager at Optibase Ltd. Before joining Optibase, Ms. Ben-Naim was a controller at V.Box Communications Ltd., and an accountant at Ernst & Young. Ms. Ben-Naim is a Certified Public Accountant in Israel and holds a B.A degree in Social Sciences from Bar Ilan University and an MBA in Finance from Bar Ilan University.

Danny Lustiger joined our board of directors in October 2009. Mr. Lustiger is Chief Executive Officer of MedCu Technology Ltd., and has over 25 years of experience in various aspects of Hi-Tech industry at senior positions together with Real estate and infrastructure industries, experience at senior position in public companies. From 2019 and to date, Mr. Lustiger serves as a director at the Israeli Natural Gas Company Ltd., starting 2020 and to date, Mr. Lustiger serves as the Chairman of Mei Avivim Ltd., From 2007 until 2009, Mr. Lustiger served as the Chief Financial officer of Shikun & Binui Holdings Ltd. From 2009 and until 2017 Mr. Lustiger served as the president and the former Chief Executive Officer of Cupron Scientific. From 1996 and until 2005, Mr. Lustiger served at different managerial positions at Optibase including Chief Financial Officer. From 1993 to 1996 Mr. Lustiger held the position of an accountant and auditor at Igal Brightman & Co. (currently Brightman Almagor & Co., a member of Deloitte & Touche Tomatsu International). Mr. Lustiger is a Certified Public Accountant in Israel. Mr. Lustiger holds a B.A. degree in Accounting and Economics and an MBA in Finance and International management from the Tel-Aviv University.

Reuven Schwarz joined our board of directors in July 2014. Mr. Schwarz serves as an independent contractor providing services to the Company since November 2013. Since 2012, Mr. Schwarz serves as a real estate manager for a private company. From 2008 through 2012 Mr. Schwarz has served as a manager for Centris Capital AG. From 2006 through 2008 Mr. Schwarz has served as a banker for Meindl Bank AG, Vienna. Mr. Schwarz holds a Magister (MA) degree from the University of Economic and Business Administration Vienna, Austria. Mr. Schwarz is Mr. Wyler's son in law.

Haim Ben-Simon joined our board of directors in December 2019. Mr. Ben-Simon has served in various senior positions in private companies, including as the Chief Executive Officer of Sodexo B&R Israel Ltd. and as the Chief Executive Officer and Chief Financial Officer of Cibus Business Meals Ltd. Mr. Ben-Simon currently serves as a director and strategic advisor in Sodexo B&R Israel Ltd. Mr. Ben-Simon holds a B.A. degree in Economics and Statistics from the Hebrew University and an M.B.A. specializing in finance and business from the Hebrew University.

Tali Yaron-Eldar joined our board of directors in January 2020. Ms. Yaron-Eldar is an Israeli attorney specializing in taxation and is the co-founder of Yaron-Eldar, Paller, Schwartz & Co., Law Offices, a boutique firm specializing in tax law. Ms. Yaron-Eldar further serves as a director in various Israeli public companies, such as Tedeo Technological Development & Automation Ltd., Navitas Petroleum, Limited Partnership, Panaxia Labs Israel Ltd., Lodzia-Rotex Investment Ltd., Ecoppia Scientific Ltd. and AV-GAD Holdings Ltd. From 2004 until 2007, Ms. Yaron-Eldar was a partner at two law offices in Israel. Between January 2004 and January 2008, Ms. Yaron-Eldar served as the Chief Executive Officer of Arazim Investment Company, and from 1998 until 2004, also served in various senior roles in the Israeli Tax Authority, including as the Commissioner of Income Tax and Real Property Tax Authority of the State of Israel for a period of two years. Ms. Yaron-Eldar holds an LL.B. degree from Tel Aviv University and an M.B.A. specializing in finance from Tel Aviv University. Ms. Yaron-Eldar is also a member of the Israeli Bar Association.

6.B. COMPENSATION

The compensation terms for the Company's directors and officers is derived from their employment and services agreements and comply with our compensation policy for Executive Officers and Directors as last approved by the Company's shareholders on February 14, 2019, as amended on February 18, 2020, and December 30, 2020 or the Compensation Policy.

The table and summary below outline the compensation granted to the five highest compensated directors and officers of the Company during the year ended December 31, 2020. The compensation detailed in the table below refers to actual compensation granted or paid to the director or officer during the year 2020.

| Name and Position of director or officer | Salary or Monthly Payment ⁽¹⁾ | Value of Social Benefits ⁽²⁾ | Bonuses | Value of Equity Based Compensation Granted ⁽³⁾ | All Other Compensation ⁽⁴⁾ | Total |
|--|--|---|---------|---|---------------------------------------|--------------|
| <i>(U.S. dollars in thousands)</i> | | | | | | |
| Amir Philips, Chief Executive Officer ⁽⁵⁾ | 243.1 | 68.3 | - | - | 23.8 | 335.2 |
| Shlomo (Tom) Wyler, Chief Executive Officer of Optibase Inc. ⁽⁶⁾ | 220 | 11.8 | - | - | 0.1 | 231.9 |
| Yakir Ben-Naim, Chief Financial Officer ⁽⁷⁾ | 132.6 | 44.9 | - | - | 14.1 | 191.6 |
| Alex Hilman, Executive Chairman of our board of directors ⁽⁸⁾ | - | - | - | - | 82.1 | 82.1 |
| Reuwen Schwarz, Director ⁽⁹⁾ | 55.5 | - | - | - | 2.7 | 58.2 |

- (1) "Salary" means yearly gross base salary with respect to our Executive Officers (Mr. Philips, Mr. Wyler and Ms. Ben-Naim). "Monthly Payment" means the aggregate gross monthly payments with respect to the members of our board of directors (Mr. Hilman and Mr. Schwarz) for the year 2020.
- (2) "Social Benefits" include payments to the National Insurance Institute, advanced education funds, managers' insurance and pension funds; vacation pay; and recuperation pay as mandated by Israeli law.
- (3) Consists of amounts recognized as share-based compensation (options and restricted shares) expense on our financial statements for the year ended December 31, 2020.
- (4) "All Other Compensation" includes, among other things, car-related expenses (including tax gross-up), telephone, basic health insurance, and holiday presents.
- (5) Mr. Philips' employment terms as our Chief Executive Officer provide that Mr. Philips is entitled to a monthly base gross salary of NIS 75,000 (approximately \$23,300). Mr. Philips is entitled to 24 vacation days, convalescence pay of 10 days and sick days in accordance with market practice and applicable law, monthly remuneration for a study fund, contribution by us to an insurance policy and pension fund, and additional benefits, including communication expenses. In addition, Mr. Philips is entitled to reimbursement of car-related expenses from us (including tax gross-up). Mr. Philips' employment terms include an advance notice period of 6 months. During such advance notice period, Mr. Philips will be entitled to all of the compensation elements, and to the continuation of vesting of any options or restricted shares granted to him. Mr. Philips is also entitled to bonus payments in accordance with the Compensation Policy.
- (6) For details on Mr. Wyler's compensation terms as approved by our shareholders on February 14, 2019, see Item 7.B. "Related Party Transactions", below. In February 14, 2019, following the approval by our compensation committee, audit committee and board of directors, our shareholders approved an amendment to Mr. Wyler's compensation terms in a manner that Mr. Wyler's annual gross base salary shall be \$220,000 for a full time position, as of January 1, 2019.
- (7) Ms. Ben-Naim's employment terms as our Chief Financial Officer provide that Ms. Ben-Naim is entitled to a monthly base gross salary of NIS 37,800 (approximately \$11,800). Ms. Ben-Naim is further entitled to vacation days, sick days and convalescence pay in accordance with market practice and applicable law, monthly remuneration for a study fund, contribution by us to an insurance policy and pension fund, and additional benefits including communication expenses. In addition, Ms. Ben-Naim is entitled to reimbursement of car-related expenses from us. Ms. Ben-Naim's employment terms include an advance notice period of three months. During such advance notice period, Ms. Ben-Naim may be entitled to all of the compensation elements, and to the continuation of vesting of her options or restricted shares, if granted.
- (8) The compensation terms of Mr. Hilman as the Executive Chairman of our board of directors were approved by our shareholders on October 19, 2009. For details on Mr. Hilman's compensation terms, including options and restricted shares granted to him, see Item 7.B. "Related Party Transactions", below.
- (9) Mr. Reuwen Schwarz entered into a service agreement with us, for the provision of real estate related consulting services to us, our subsidiaries and affiliates. Such agreement, including the compensation terms of Mr. Schwarz in consideration for the services under the agreement, were approved by our shareholders on December 19, 2013, on December 29, 2016 and on December 31, 2019. For further details see Item 7.B. "Related Party Transactions", below.

In addition, all of our directors and officers are entitled to benefit from coverage under our directors' and officers' liability insurance policies and were granted letters of indemnification by us. For further details see "Indemnification, exemption and insurance of Directors and Officers", below.

In accordance with our Compensation Policy (for further information, see Item 6.D. "The Compensation Committee"), each of our directors (including external directors and independent directors, but excluding the executive chairman of our board of directors and directors who serve in other roles at the Company) is entitled to a grant of compensation pursuant to the fixed amounts permitted to be paid to external directors (depending on our equity level), all in accordance with applicable regulations promulgated under the Companies Law, or the 'External Directors' Compensation Regulations, as may be from time to time. This remuneration is paid plus value added tax (as applicable). Directors are reimbursed for expenses incurred as part of their service as directors. None of the directors have agreements with us that provide for benefits upon termination of service.

As of April 16, 2021, our directors and executive officers beneficially owned 198,665 ordinary shares of the Company (of which 39,440 ordinary shares were held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, vested as of April 16, 2021 or within 60 days thereafter). For further information, see Item 6.E. "Share Ownership".

Indemnification, exemption and insurance of Directors and Officers

The Companies Law permits a company to insure its directors and officers, provide them with indemnification, either in advance or retroactively, and exempt its directors and officers from liability resulting from their breach of their duty of care towards the company, all in accordance with the terms and conditions specified under Israeli law. Our articles of association include clauses allowing us to provide our directors and officers with insurance, indemnification and to exempt them from liability subject to the terms and conditions set forth by the Companies Law, as described below.

In addition, the Israeli Securities Law of 1968, or the Securities Law, includes provisions to make the enforcement of violations of the Securities Law and certain provisions of the Companies Law more efficient by the Israel Securities Authority, or the ISA. Under the Securities Law, the ISA is allowed to initiate administrative proceedings against entities and individuals with respect to such violations, and to impose various sanctions, including fines, payment of damages to the person or entities harmed as a result of such violations, limitations on the service of any individual as director or officer and suspension or cancellation of certain permits granted to the entity. Under the Securities Law, a company is not allowed to indemnify or insure its directors and officers in connection with administrative proceedings initiated against them by the ISA, except that a company is allowed to insure and indemnify its directors and officers for any of the following: (i) financial liability imposed on any director or officer for payment to persons or entities harmed as a result of any violation for which an administrative proceedings has been initiated; (ii) expenses incurred by any director or officer in connection with administrative proceedings, including reasonable litigation fees, and including attorney fees.

Subject to statutory limitations, our articles of association provide that we may insure the liability of our directors and offices to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid we may enter into a contract to insure the liability of our directors and officer for an obligation or payment imposed on such director or officer in consequence of an act done in his capacity as a director or officer of Optibase, in any of the following cases:

- ❖ A breach of the duty of care vis-a-vis us or vis-a-vis another person;
- ❖ A breach of the fiduciary duty vis-a-vis us, provided that the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm us;
- ❖ A monetary obligation imposed on him or her in favor of another person;
- ❖ Financial liability imposed on him or her for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Israeli Securities Law;
- ❖ Expenses incurred by him or her in connection with Administrative Proceedings (as defined above) he was involved in, including reasonable litigation fees, and including attorney fees; or
- ❖ Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of our director or officer.

Our articles of association further provide that we may indemnify our directors and officers, to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid, we may indemnify our directors and officers for liability or expense imposed on them in consequence of an action made by them in the capacity of their position as directors or officers of Optibase, as follows:

- ❖ Any financial liability he or she incurs or imposed on him or her in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court.
- ❖ Reasonable litigation expenses, including legal fees, incurred by the director or officer or which he or she was ordered to pay by a court, within the framework of proceedings filed against him or her by or on behalf of Optibase, or by a third party, or in a criminal proceeding in which he or she was acquitted, or in a criminal proceeding in which he or she was convicted of a felony which does not require a finding of criminal intent.
- ❖ Reasonable litigation expenses, including legal fees he or she incurs due to an investigation or proceeding conducted against him or her by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him or her and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offence which does not require criminal intent, within the meaning of the relevant terms in the Companies Law.
- ❖ Financial liability he or she incurs for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Securities Law. For this purpose "Administrative Proceeding" shall mean a proceeding pursuant to Chapters H3 (Imposition of Monetary Sanction by the Israel Securities Authority), H4 (Imposition of Administrative Enforcement Means by the Administrative Enforcement Committee) or I1 (Settlement for the Avoidance of Commencing Proceedings or Cessation of Proceedings, Conditioned upon Conditions) of the Securities Law, as shall be amended from time to time.
- ❖ Expenses that he or she incurs in connection with Administrative Proceedings (as defined above) he was involved in, including reasonable litigation fees, and including attorney fees.
- ❖ Any other obligation or expense in respect of which it is permitted or will be permitted under law to indemnify a director or officer of Optibase.

In addition, our articles of association provide that we may give an advance undertaking to indemnify a director and/or an officer in respect of all of the matters above, provided that with respect to the first matter above, the undertaking is restricted to events, which in the opinion of our board of directors, are anticipated in light of our actual activity at the time of granting the obligation to indemnify and is limited to a sum or measurement determined by our board of directors as reasonable under the circumstances. We may further indemnify an officer therein, save for the events subject to any applicable law.

Our articles of association further provide that we may exempt a director in advance and retroactively for all or any of his or her liability for damage in consequence of a breach of the duty of care vis-a-vis Optibase, to the fullest extent permitted by the Companies Law. Notwithstanding the foregoing, the Companies Law prohibits a company to exempt any of its directors and officers in advance from their liability towards such company for the breach of its duty of care in distribution, as defined in the Companies Law, for such company's shareholders (including distribution of dividend and purchase of such company's shares by the company or an entity held by it).

The above provisions with regard to insurance, exemption and indemnity are not and shall not limit the Company in any way with regard to its entering into an insurance contract and/or with regard to the grant of indemnity and/or exemption in connection with a person who is not an officer of the Company, including employees, contractors or consultants of the Company, all subject to any applicable law.

All of the above shall apply *mutatis mutandis* in respect of the grant of insurance, exemption and/or indemnification for persons serving on behalf of the Company as officers in companies controlled by the Company, or in which the Company has an interest.

The Companies Law provides that companies may not give insurance, indemnification (including advance indemnification), or exempt their directors and/or officers from their liability in the following events:

- ❖ a breach of the fiduciary duty, except for a breach of the fiduciary duty vis-à-vis the company with respect to indemnification and insurance if the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm the company;
- ❖ an intentional or reckless breach of the duty of care, except for if such breach was made in negligence;
- ❖ an act done with the intention of unduly deriving a personal profit; or
- ❖ Fine, civil penalty, a financial sanction or penalty imposed on the directors or officers.

We have a directors and officers liability insurance policy, as described below.

On February 14, 2019 and on February 18, 2020 and December 30 2020, following the approval by our compensation committee and board of directors, our shareholders approved amendments to our Compensation Policy which includes clauses allowing us to provide our directors and officers with insurance and indemnification, and to exempt them from liability subject to the terms and conditions set forth by the Companies Law; provided however, that insurance policies purchased under the Compensation Policy comply with all of the following conditions:

- ❖ the maximum coverage amount under each policy shall not exceed the higher of: (i) \$25 million; or (ii) 25% of our shareholders equity (based on our most recent financial statements at the time of approval by our compensation committee) per incident and insurance period (for a one-year period) in addition to reasonable litigation expenses;
- ❖ the purchase of each policy shall be approved by our compensation committee (and, if required by law, by our board of directors) which shall determine that the policy reflects the current market conditions, and it shall not materially affect our profitability, assets or liabilities.

Our Compensation Policy also allows us to purchase "run off" insurance policy for up to seven (7) years, subject to the following:

- ❖ The limit of liability of the insurer shall not exceed the greater of \$25 million or 25% of our shareholders equity (based on the most recent financial statements at the time of approval by the Compensation Committee) per incident and insurance period (for a one-year period) in addition to reasonable litigation expenses;
- ❖ The purchase of such insurance policy shall be approved by the Compensation Committee (and, if required by law, by the board of directors) which shall determine that the insurance policy reflects the current market conditions, and that it shall not materially affect the Company's profitability, assets or liabilities.

We currently have an insurance policy for our directors' and officers' liability, including as directors or officers of our subsidiaries, for the period commencing on January 1, 2021 and ending on December 31, 2021, as approved by our compensation committee and board of directors. The coverage amounts under such policy and the yearly premium to be paid by us for such policy are \$7.5 million and \$625,000, respectively. The terms of such policy are in accordance with our Compensation Policy.

As approved by our shareholders on December 21, 2017, following the approval by our compensation committee and board of directors, we have undertaken to indemnify all of our directors and officers, including Mr. Tom Wyler, the Chief Executive Officer of our subsidiary Optibase Inc., to the fullest extent permitted by the Companies Law and our articles of association and entered into an indemnity letter with each of our directors and executive officers. The aggregate indemnification amount shall not exceed the higher of: (i) 25% of our shareholders' equity, as set forth in our financial statements prior to such payment; or (ii) \$20 million. For further details regarding the approval of an amendment to the indemnification letters, see Item 6.A "Directors and Senior Management".

6.C. BOARD PRACTICES

Pursuant to our articles of association, our board of directors is required to consist of three to nine members. Directors are elected at the annual general meeting of our shareholders by a vote of the holders of a majority of the voting power represented at such meeting. Each director holds office until the annual general meeting of shareholders following the annual general meeting at which the director was elected or until his or her earlier resignation or removal. A director may be re-elected for subsequent terms. At present, our board of directors consists of five members, including two external directors appointed in accordance with the Israeli law requirements, as detailed herein. Our articles of association provide that our directors may at any time and from time to time, appoint any other person as a director, either to fill in a vacancy or to increase the number of members of our board of directors.

Under the Companies Law, each Israeli public company is required to determine the minimum number of directors with "accounting and financial expertise" that such company believes is appropriate in light of the particulars of such company and its activities. A director with "accounting and financial expertise" is a person that, due to education, experience and qualifications, is highly skilled and has an understanding of business-accounting issues and financial statements in a manner that enables him/her to understand in depth the company's financial statements and stimulate discussion regarding the manner of presentation of the financial data. Our board of directors resolved on March 30, 2006 and on June 27, 2010 that the minimum number of directors with accounting and financial expertise appropriate for us in light of the size of the board of directors and nature and volume of the Company's operations is one director (such director may serve as an external director, see below).

External Directors

Under the Companies Law, Israeli public companies are required to appoint at least two external directors to serve on their board of directors (following Amendment 27 to the Companies Law all of such external directors are no longer required to be Israeli residents if a company's shares are listed on a foreign stock exchange, such as our Company). On December 31, 2019, our shareholders approved the appointment of Mr. Haim Ben-Simon and Ms. Tali Yaron-Eldar as our external directors for a three-year term commencing on December 31, 2019 and January 31, 2020, respectively. In addition, each committee of the board of directors entitled to exercise any powers of the board is required to include at least one external director. The audit committee must include all the external directors, see "Committees of the Board of Directors" below.

Pursuant to the Companies Law, at least one external director is required to have “accounting and financial expertise” and the other is required to have “professional qualification” or “accounting and financial expertise”. A director has “professional qualification” if he or she satisfies one of the following:

- (i) the director holds an academic degree in one of these areas: economics, business administration, accounting, law or public administration;
- (ii) the director holds an academic degree or has other higher education, all in the main business sector of the company or in a relevant area for the board position; or
- (iii) the director has at least five years’ experience in one or more of the following or an aggregate five years’ experience in at least two or more of these: (a) senior management position in a corporation of significant business scope; (b) senior public office or senior position in the public sector; or (c) senior position in the main business sector of the company.
- (iv) the evaluation of the professional qualification of a candidate shall be made by our board of directors and our nominating committee.

a director with “accounting and financial expertise” is a person that in light of his or her education, experience and skills has high skills and understanding of business-accounting issues and financial reports which allow him or her to deeply understand the financial reports of the company and hold a discussion relating to the presentation of financial information. The company’s board of directors will take into consideration in determining whether a director has “accounting and financial expertise”, among other things, his or her education, experience and knowledge in any of the following:

- (i) accounting issues and accounting control issues characteristic to the segment in which the company operates and to companies of the size and complexity of the company;
- (ii) the functions of the external auditor and the obligations imposed on such auditor;
- (iii) preparation of financial reports and their approval in accordance with the Companies Law and the securities law.

A company whose shares are traded in certain exchanges outside of Israel, including The NASDAQ Global Market, such as our company, is not required to nominate at least one external director who has accounting and financial expertise so long as another independent director for audit committee purposes who has such expertise serves on board of directors pursuant to the applicable foreign securities laws. In such case, all external directors will have professional qualification.

Under Israeli law, a person may not serve as an external director if he or she is a relative of any of the controlling shareholders or at the date of the person’s appointment or within the prior two years the person, or his or her relatives, partners, employers or entities under the person’s control or entities which he or she are subject to their control, have or had any affiliation with us, with our controlling shareholder, or its relative or any entity controlling, controlled by or under common control with us. Under the Companies Law, “affiliation” includes an employment relationship, a business or professional relationship maintained on a regular basis or control or service as an executive officer, excluding service as a director in anticipation of serving as an external director in a company that is about to offer its shares to the public for the first time.

Furthermore, under Israeli law, a person may not serve as an external director if he or she, or his or her relatives, partners, employers or a person or entity he or she is subordinate to directly or indirectly, or an entity controlled by the external director has business or professional relations (excluding insignificant relations) with a person or entity whose affiliation with such external director is forbidden.

A person may not serve as an external director if that person's position or other business activities create, or may create, a conflict of interest with the person's service as an external director or may otherwise interfere with the person's ability to serve as an external director. If at the time any external director is appointed, all members of the board (who are not a controlling shareholder or its relative) are the same gender, then the external director to be appointed must be of the other gender.

External directors are elected by a majority vote at a shareholders' meeting, so long as either:

- (i) the majority of shares voted for the election includes the majority of the shares of non-controlling shareholders or with no personal interest excluding a personal interest not resulting from relation with controlling shareholders, voted at the meeting (votes abstaining shall not be taken into account in counting the shareholders' votes); or
- (ii) the total number of shares to total amount of shareholders listed in subsection (i) above, who voted against the election of the external director does not exceed two percent (2%) of the aggregate voting rights of the company.

The Companies Law provides for an initial three-year term for an external director which may be extended, for two additional three-year terms subject to provision specified in the Companies Law. In the case of a company whose shares are traded in certain exchanges outside of Israel, including The Nasdaq Global Market, such as our company, regulations promulgated under the Companies Law provide that the service of an external director can be extended to additional three-year terms, if both the audit committee and the board of directors confirm that in light of the expertise and contribution of the external director, the extension of such external director's term would be in the interest of the company. Election of external directors requires a special majority, as described above and that the period which that person served as an external director together with the reasons for the extension given by the audit committee presented to the shareholders prior to such approval. External directors may be removed only by the same special majority required for their election or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. In the event the number of external directors is less than two external directors, our board of directors is required under the Companies Law to call a shareholders' meeting to appoint a new external director.

External directors may be compensated only in accordance with regulations adopted under the Companies Law.

Our board of directors has a majority of independent directors required pursuant to the NASDAQ Global Market rules.

Independent Directors

Under the Companies Law, the majority of the members of the audit committee must be independent directors. In addition, the Companies Law includes a corporate governance recommendation according to which the majority of the members of the board of directors in a public company that does not have a controlling shareholder should be independent directors, and in a company with a controlling shareholder at least third of the board of directors should be independent directors. A public company may classify an external director or an individual serving as a director, as an independent director only if (i) the audit committee has determined that he or she is qualified to serve as an external director (with the exception that such director does not have to have professional qualifications or accounting and financial expertise in order to serve as an independent director), and (ii) he or she is not serving as a director in the company for more than consecutive nine years (only a period of two or more years, in which such person did not serve as a director in the company, shall be deemed to discontinue the nine year sequence).

Pursuant to the Companies Law, an independent director, within the meaning of such term under the Companies Law, can serve for a period of up to 9 years. Nevertheless, regulations promulgated under the Companies Law provide that a company whose shares are listed on both the Nasdaq Global Market and the Tel Aviv Stock Exchange Ltd. may re-elect an independent director for additional terms of service if the company's audit committee and board of directors find that, in light of the person's expertise and special contribution to the function of the board of directors and its committees, his or her continued service as an independent director is to the benefit of the Company.

Mr. Danny Lustiger serves as our independent director for more than 11 years. On December 30, 2020, following the approval and recommendation of our board of directors and Audit Committee, our shareholders approved the continued service of Mr. Danny Lustiger as a director of the Company for an additional term.

Committees of the Board of Directors

As of the date of this annual report, we have four committees of the board of directors, which includes our audit committee, our financial statements review committee, our nominating committee and our compensation committee, as described below.

The Audit Committee

The Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include, among others, identifying irregularities and deficiencies in the management of the company's business and approval of related party transactions as required by law. An audit committee must consist of at least three members, and include all of the company's external directors. In addition, the majority of its members shall be independent directors in accordance with the requirements of The Companies Law. However, the chairman of the board of directors, any director employed by the company or by its controlling shareholder or by any other entity controlled by such controlling shareholder or a director providing, on a regular basis, services to the company, to any controlling shareholder or to other entity controlled by such controlling shareholder, or any director whose livelihood relies on any controlling shareholder, may not be a member of the audit committee. Any controlling shareholder and any relative of a controlling shareholder may also not be a member of the audit committee. The chairman of the audit committee must be an external director, who has not been serving as a chairman of the audit committee for more than nine years. An audit committee recommends approval of transactions that are deemed interested party transactions, including directors' compensation and transactions between a company and its controlling shareholder or transactions between a company and another person in which its controlling shareholder has a personal interest. The audit committee must also determine whether a transaction constitute an extraordinary transaction. Pursuant to Amendment 22 to the Companies Law, effective as of January 10, 2014, the responsibilities of the audit committee under the Companies Law also include the following matters: (i) to ensure that a competitive procedure is conducted for related party transactions with a controlling shareholder (regardless of whether or not such transactions are deemed extraordinary transactions), optionally based on criteria which may be determined by the audit committee annually in advance; and (ii) setting forth the approval process for transactions that are 'non-negligible' (*i.e.* transactions with a controlling shareholder that are classified by the audit committee as non-negligible, even though they are not deemed extraordinary transactions), as well as determining which types of transactions would require the approval of the audit committee, optionally based on criteria which may be determined annually in advance by the audit committee. An audit committee may not approve an action or a transaction with an officer or director, a transaction in which an officer or director has a personal interest, a transaction with a controlling shareholder and certain other transactions specified in the Companies Law, unless at the time of approval the audit committee meets all the criteria required under the Companies Law.

Subject to the exceptions specified in the Companies Law, any person who is not eligible to serve in the audit committee shall not participate in its meetings.

Legal quorum shall be constituted when the majority members of the audit committee shall be present at the meeting, provided that: (a) the majority of the present members are independent directors; and, (b) at least one of the present members is an external director.

Under the Companies Law there are restrictions regarding engagement or benefits with a person who served as an external director (or his or her relative) for period of two years commencing the time when such external director leaves office.

In accordance with the Sarbanes-Oxley Act of 2002 and NASDAQ requirements, our audit committee reviews our internal accounting procedures and consults with and reviews the services provided by our independent auditors.

The rules of NASDAQ currently applicable to foreign private issuers, such as us, require us to establish an audit committee of at least three members, comprised solely of independent directors. All of the members of the audit committee must be able to read and understand basic financial statements, and at least one member must have experience in finance or accounting, requisite professional certification in accounting or comparable experience or background. The board has determined that each of Ms. Tali Yaron-Eldar and Mr. Haim Ben-Simon is an audit committee financial expert as defined by applicable Securities and Exchange Commission, or the "SEC" or "Commission" regulation. The responsibilities of the audit committee under the NASDAQ rules include the selection and evaluation of the outside auditors and evaluation of their independence.

The members of our audit committee are Mr. Haim Ben-Simon, Mr. Danny Lustiger and Ms. Tali Yaron-Eldar. These include our two external directors as required under the Companies Law, and we believe that all of the members of our audit committee are independent of management, and satisfy the requirements of Companies Law, the SEC's rules and NASDAQ rules.

The Financial Statements Review Committee

Our board of directors appointed a financial statement review committee, which consists of members with accounting and financial expertise or the ability to read and understand financial statements, with at least one of the members having "accounting and financial expertise" (as defined above). According to a resolution of our board of directors, the audit committee has been assigned the responsibilities and duties of a financial statement review committee, as permitted under relevant regulations promulgated under the Companies Law. From time to time as necessary and required to approve our financial statements, the audit committee holds separate meetings, prior to the scheduled meetings of the entire board of directors regarding financial statement approval.

The function of a financial statement review committee is to discuss and provide recommendations to its board of directors (including the report of any deficiency found) with respect to the following issues: (i) estimations and assessments made in connection with the preparation of financial statements; (ii) internal controls related to the financial statements; (iii) completeness and propriety of the disclosure in the financial statements; (iv) the accounting policies adopted and the accounting treatments implemented in material matters of the company; (v) value evaluations, including the assumptions and assessments on which evaluations are based and the supporting data in the financial statements. Our independent auditors and our internal auditor are invited to attend all meetings of the audit committee when it is acting in a role of the financial statement review committee or at which matters concerning the financial statements are discussed.

The financial statement review committee is required to consist at least three members, all of its members must be directors, and the majority of its members are required to be directors who meet certain independence requirements of the Companies Law. However, the chairman of the board of directors, any director employed by the company or by its controlling shareholder or by any other entity controlled by such controlling shareholder or a director providing, on a regular basis, services to the company, to any controlling shareholder or to other entity controlled by such controlling shareholder, or any director whose livelihood relies on any controlling shareholder, may not be a member of the financial statement review committee. In addition, any controlling shareholder and any relative of a controlling shareholder may also not be a member of the financial statement review committee. All the committee members are required to give a declaration before their appointment, and the chairperson of the committee must be an external director.

Legal quorum shall be constituted when the majority members of the financial statement review committee shall be present at the meeting, provided that: (a) the majority of the present members are independent directors; and, (b) at least one of the present members is an external director.

The members of our financial statement review committee are Mr. Haim Ben-Simon, Mr. Danny Lustiger and Ms. Tali Yaron-Eldar. These include our two external directors as required under the Companies Law, and we believe that all of the members of our financial statement review committee satisfy with the requirements of the Companies Law.

The Nominating Committee

The function of our nominating committee is described in the approved charter of the committee and includes responsibility for identifying individuals qualified to become a board members and recommending director nominees to the board of directors for election at the general meeting of shareholders. The nominating committee is also responsible for developing and recommending to the board of directors a set of corporate governance guidelines applicable to the Company, periodically reviewing such guidelines and recommending any changes thereto.

The members of our nominating committee are Mr. Haim Ben-Simon, Mr. Danny Lustiger and Ms. Tali Yaron-Eldari. We believe that all of the members of our nominating committee are independent of management, and satisfy the requirements of the NASDAQ rules.

The Compensation Committee

Under the Companies Law, a public company is required to appoint a compensation committee. The compensation committee must consist of at least three directors, must include all the external directors, the majority of its members must be external directors, and its chairman must be an external director. In addition, all members of the compensation committee must meet the requirements under the Companies Law for membership in the audit committee, as described above, and all of its members shall be compensated in accordance with section 244 of the Companies Law.

Under the Companies Law and our compensation committee charter, our compensation committee is responsible, among others, for (i) recommending to the board of directors regarding its approval of a compensation policy in accordance with the requirements of the Companies Law, and any other compensation policies, incentive-based compensation plans and equity-based plans; (ii) overseeing the development and implementation of such compensation plans and policies that are appropriate in light of all relevant circumstances and recommending to the board of directors regarding any amendments or modifications that the compensation committee deems appropriate; (iii) determining whether to approve transactions concerning the terms of engagement and employment of our officers and directors that require compensation committee approval under the Companies Law or our compensation plans and policies; and (iv) taking any further actions as the compensation committee is required or allowed to under the Companies Law or the compensation plans and policies.

The members of our compensation committee are Mr. Haim Ben-Simon, Mr. Danny Lustiger and Ms. Tali Yaron-Eldar.

Our current compensation policy, or the Compensation Policy, was approved by our shareholders on February 14, 2019 (as amended on February 18, 2020 and on December 30, 2020) and is in effect for a period of three years from the date of approval. The Compensation Policy does not, by nature, grant any rights to our directors or officers. The Compensation Policy includes both long-term and short-term compensation elements and is to be reviewed from time to time by our compensation committee and our board of directors, according to the requirements of the Companies Law.

Our Compensation Policy serves as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment with respect to employment or engagement. According to the Companies Law, the compensation policy must be approved (or reapproved) not longer than every three years and relate to certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size, and nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the knowledge, skills, expertise, and accomplishments of the relevant office holder;

- the office holder's roles and responsibilities and prior compensation agreements with him or her;
- the ratio between the terms offered and the average compensation of the other employees of the company, including those employed through manpower companies, and in particular the ratio between the average wage and the median salary of such employees;
- the impact of disparities in salary upon work relationships in the company;
- the possibility of reducing variable compensation at the discretion of the board of directors;
- the possibility of setting a limit on the exercise value of non-cash variable equity-based compensation; and
- as to severance compensation, the period of service of the office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contributions towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company

The compensation policy must also include the following principles:

- the linkage between variable compensation and long-term performance and measurable criteria; however, in certain circumstances, we may grant up to three monthly salaries per year of unmeasurable criteria for an office holder who is not our chief executive officer;
- the ratio between variable and fixed compensation, and the ceiling for the value of variable compensation at the time of the payment (or with respect to variable equity compensation that is not paid for in cash, a ceiling for their value on the grant date);
- the conditions under which an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;
- the minimum holding or vesting period for variable, equity-based compensation with a view to long-term incentives; and
- maximum limits for severance compensation

Internal auditor

The Companies Law requires the board of directors of a public company to appoint an internal auditor pursuant to the audit committee's proposal. The internal auditor must satisfy certain independence requirements as required by the law. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business procedures. Our internal auditor is Mr. Doron Cohen of Fahn Kanne & Co., a member firm of Grant Thornton International Ltd.

Employment Agreements

Each of our executive officers entered into a written employment agreement with us that provides, among other things, that such officers be paid a monthly salary and bonuses. Each such agreement can be terminated either by us, or by the employee, upon prior notice, which ranges between 30 to 120 days for most of the management team. The employment agreements also provide that each executive officer will maintain confidentiality of matters relating to us and will not compete with us during the period of the officer's employment and for a certain period thereafter.

6.D. EMPLOYEES

We currently have 11 employees, including employees in our subsidiaries, all of them employed in our general and administrative, finance and human resources divisions. Out of whom 6 employees are employed in Israel, 4 are employed in the United States and 1 is employed in Europe. All of our employees are currently employed pursuant to personal employment agreements.

6.E. SHARE OWNERSHIP

As of April 16, 2021, our current directors and executive officers (eight persons) beneficially owned an aggregate of 198,665 ordinary shares of our Company, of which 39,440 ordinary shares held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, vested as of March 20, 2020 or within 60 days. All of our directors or executive officers hold less than 1% of our shares except for Mr. Wyler who holds, to the Company knowledge, approximately 159,218 ordinary, which is approximately 3.06% of the Company's outstanding shares. See Item 7.A. "Major Shareholders" for more information regarding Mr. Wyler's holdings.

Incentive Plans

As of April 16, 2021, we had no outstanding options and/or unvested restricted shares. As of December 31, 2019, and 2020, the number of options reserved for issuance under our plans was 571,260.

As of April 16, 2021, or within 60 days thereafter, an aggregate of 235,790 ordinary shares has been reserved for issuance under the 2006 Plan. As of December 31, 2019, and 2020, the number of restricted shares reserved for issuance under the 2006 Plan was 235,790.

The following is a description of our incentive plans currently in effect.

1999 Plans

In January 1999, our shareholders approved the adoption of an Israeli option plan, or the 1999 Israeli Plan, and a U.S. option plan, or the 1999 U.S. Plan, collectively the "1999 Plans" both plans have a joint pool of underlying shares to be granted thereunder. The 1999 Plans were amended from time to time to include different tax tracks. The purpose of the 1999 Plans is to attract and retain the best available personnel, to provide additional incentive to employees, directors and consultants and to promote the success of our business. In December 1999, our board of directors adopted a resolution to amend the 1999 Plans in a manner that as of April 1, 2000, the number of shares made available for grant under the 1999 Plans will be automatically increased annually, to equal 5% of our outstanding share capital at the relevant time. In May 2003 we amended our 1999 Israeli Plan to provide for the grant of options to Israeli optionees under the new capital gains track provisions of the Israeli Tax Ordinance. Unless specifically changed for a certain grantee, options vest monthly over a period of four years, starting one year after the date of grant, subject to the continued employment of the grantee. The exercise price of the options is determined by our board of directors, subject to limitations. Generally, options granted under each of the 1999 Plans will have a term of no more than seven years from the date of grant. All options are subject to earlier termination upon termination of the grantee's employment or other relationship with us, generally no less than three months from termination. We may make certain exceptions, from time to time, in the vesting and expiration terms of options granted to certain grantees.

2006 Israeli Incentive Compensation Plan

In May 2006, our board of directors approved the adoption of the 2006 Israeli Incentive Compensation Plan, or the 2006 Plan, the purpose of which is to secure the benefits arising from ownership of share capital by our employees, officers and directors who are expected to contribute to the Company's future growth and success. The 2006 Plan provides for the grant of options, restricted shares and restricted share units in accordance with various Israeli tax tracks. We currently use the 2006 Plan for the grant of restricted shares only. The restricted shares are granted for no consideration and with a vesting schedule of two years (50% each year). The restricted shares are granted in accordance with the Israeli capital gains tax track. Termination of employment of a grantee for any reason will result in the forfeiture of such grantee's unvested restricted shares. All restricted shares are subject to earlier termination upon termination of the grantee's employment or other relationship with us, generally no less than 90 days from termination. We may make certain exceptions, from time to time, in the vesting and expiration terms of the securities granted to certain grantees. In November 2013, our board of directors approved the increase of number of shares under the 2006 Plan in additional 50,000 shares and in August 2014, our board of directors approved the increase of number of shares under the 2006 Plan in additional 150,000 shares.

NASDAQ Listing Rules permit foreign private issuers to follow home country practices in regard to certain requirements, including the requirement to obtain shareholder approval in connection with the establishment of certain incentive plans. In June and September 2006, we notified NASDAQ that we elected to follow home practices with regard to the adoption of, and the amendment to, the 2006 Plan. Accordingly, the adoption of, and the amendments to, the 2006 Plan were not approved by our shareholders.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. MAJOR SHAREHOLDERS

The following table sets forth certain information known to us regarding the beneficial ownership of our outstanding ordinary shares as of April 16, 2021 of (i) each person or group known by us to beneficially own 5% or more of the outstanding ordinary shares and (ii) the beneficial ownership of all officers and directors as a group, in each case as reported by such persons:

| Name of Beneficial Owner | No. of Ordinary Shares Beneficially Owned⁽¹⁾ | Percentage of Ordinary Shares Beneficially Owned |
|--|--|---|
| The Capri Family Foundation ⁽²⁾ | 4,097,201 | 78.82% |
| Shareholding of all directors and officers as a group (eight persons) ⁽³⁾ | 198,665 | 3.82% |

(1) Number of shares and percentage ownership is based on 5,216,256 ordinary shares outstanding as of April 16, 2021. Such number excludes 17,895 ordinary shares held by us or for our benefit. Beneficial ownership is determined in accordance with rules of the SEC and includes voting and investment power with respect to such shares. Shares subject to options that are currently exercisable or exercisable within 60 days of April 16, 2021 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable. The shares beneficially owned by the directors include the ordinary shares owned by their family members to which such directors disclaim beneficial ownership.

(2) The information is accurate as of May 29, 2019, and based on Amendment No. 6 to Schedule 13D filed with the SEC on May 29, 2019, by The Capri Family Foundation. According to such Amendment No. 6 to Schedule 13D, Capri directly owns 4,097,201 of our ordinary shares. The core activity of Capri is the holding of investments. In addition, the beneficiaries of Capri are the children of Mr. Tom Wyler, the Chief Executive Officer of our subsidiary, Optibase Inc.

(3) Includes 198,665 ordinary shares, of which 39,440 ordinary shares held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, which have vested on April 16, 2021 or within 60 days thereafter. Other than Shlomo (Tom) Wyler, all of our directors or executive officers hold less than 1% of our shares.

Significant changes in the ownership of our shares

The following table specifies significant changes in the ownership of our shares held by The Capri Family Foundation. This information is based on Schedules 13D filed by The Capri Family Foundation during the period beginning on January 1, 2017, regarding ownership of our shares, and to date:

| Beneficial Owner | Date of filing | No. Of Shares Beneficially Held |
|-----------------------------|-----------------------|--|
| The Capri Family Foundation | May 29, 2019 | 4,097,201* |

* The information is based on Amendment No. 6 to Schedule 13D filed with the SEC on June 19, 2019, by Capri, in connection with the acquisition of an additional 300,917 ordinary shares by Capri on May 29, 2019, in a private transaction with an unrelated third party at a price of \$10.464 per share.

All of our shares have the same voting rights.

On April 16, 2021, registered holders in the United States hold approximately 54% of our ordinary shares. To the best of our knowledge, except as described above, we are not owned or controlled directly or indirectly by any government or by any other corporation. We are not aware of any arrangement, the operation of which may at a subsequent date result in a change in control of us.

7.B. RELATED PARTY TRANSACTIONS

For a description of the insurance, indemnification and exemption granted to our directors and officers, see Item 6.B. "Compensation" above.

Each member of our board of directors is granted compensation pursuant to the fixed amounts permitted to be paid to external directors (depending on our equity level), all in accordance with the 'External Directors' Compensation Regulations, as may be from time to time, for his/her service as a director. For additional information see Item 6.B. "Compensation" above.

On October 19, 2009, our shareholders approved the compensation of Mr. Hilman, a director of the Company, who was appointed on September 1, 2009 as Executive Chairman of the board of directors. The principal terms of such compensation are as follows: a monthly payment of NIS 20,000 plus applicable value added tax, against the receipt of a tax invoice. The Company will also reimburse Mr. Hilman for his reasonable expenses directly incurred by him in the performance of his duties against the production of appropriate receipts. In addition, Mr. Hilman was granted on October 19, 2009, 20,000 options which have been exercised into 20,000 ordinary shares NIS 0.65 nominal value each of the Company under the Company's 1999 Israeli Share Option Plan. All other terms of the options are as stated in the Company's 1999 Israeli Share Option Plan.

On May 16, 2016, and following the approval by our audit committee, compensation committee and board of directors, our shareholders approved the compensation terms of Mr. Wyler, for his service as Chief Executive Officer of our subsidiary Optibase Inc. According to the terms approved by our shareholders, Mr. Wyler serves as Chief Executive Officer of Optibase Inc. and is responsible for the implementation of our strategy in North America, recognizing new local opportunities, forming strategic alliances and overseeing the ongoing management of our current U.S. real estate portfolio. The yearly gross base salary in consideration for Mr. Wyler's services as Chief Executive Officer of Optibase Inc. was set at \$200,000 for a full time position as well as reimbursement of health insurance expenses of up to \$24,000 per year, and including reimbursement of reasonable work-related expenses incurred as part of his activities as Chief Executive Officer of Optibase Inc., of up to \$50,000 per year. On February 14, 2019, following the approval by our compensation committee, audit committee and board of directors, our shareholders approved an extension for a three-year term, of our engagement with Mr. Wyler's, including an adjustment to his compensation terms, in a manner that Mr. Wyler's annual gross base salary was set at \$220,000 for a full time position, as of January 1, 2019.

On December 21, 2017, our shareholders approved, following the approval by our compensation committee, audit committee and board of directors, the following amendment to our prospective undertaking to indemnify our current and future directors, including our Chief Executive Officer and including directors and officers who are affiliated with our controlling shareholder, and the grant of amended letters of indemnification accordingly: an increase of the aggregate and accumulated indemnification amount that the Company may pay its directors and officers, to an amount that shall not exceed the higher of: (i) 25% of the shareholders' equity of the Company, as set forth in the Company's most recent consolidated financial statements prior to such payment; (ii) 20 million U.S. Dollars.

On May 16, 2016, our shareholders approved, following the approval by our compensation committee and board of directors, certain amendments to the compensation terms of Mr. Philips and the grant of special bonus as follows: (a) Mr. Philips' monthly gross base salary was updated to NIS 65,000 for a full time position, as of January 1, 2016 and would increase to NIS 75,000 as of January 1, 2017; and (b) Mr. Philips was awarded a special bonus in the amount of NIS 120,000. On February 14, 2019, our shareholders approved, following the approval by our compensation committee and board of directors, an extension of the employment agreement with Mr. Philips, our chief executive officer, to an unlimited period. As such Mr. Philips' monthly base gross salary is NIS 75,000 (approximately \$20,800), and he is entitled to 24 vacation days, convalescence pay of 10 days and sick days in accordance with market practice and applicable law, monthly remuneration for a study fund, contribution by us to an insurance policy and pension fund, and additional benefits, including communication expenses. In addition, Mr. Philips is entitled to reimbursement of car-related expenses from us (including tax gross-up). Mr. Philips' employment terms include an advance notice period of 6 months. During such advance notice period, Mr. Philips is entitled to all of the compensation elements, and to the continuation of vesting of any options or restricted shares granted to him. Mr. Philips is also entitled to bonus payments in accordance with the Compensation Policy.

On December 31, 2019, and following the approval by our audit committee and board of directors, our shareholders approved an extension of the service agreement (which was originally signed on December 13, 2013 and extended on December 29, 2016), between the Company and Mr. Schwarz, currently serves also as a member of our board of directors, for the provision of real estate related consulting services to us, our subsidiaries and affiliates. Mr. Schwarz is a relative of the beneficiaries of Capri, our controlling shareholder. According to term of the service agreement with Mr. Schwarz, he will provide us with real estate related consulting services, including: (i) searching, introducing and advising us on real estate transactions, (ii) advising and negotiating with banks and financing institutions, (iii) advising us on our financing agreements, all as requested by us from time to time and at our sole discretion. Such services will be provided by Mr. Schwarz at the request of the Company. Mr. Schwarz will render such services faithfully and diligently for the benefit of the Company and will devote all necessary time and attention for the performance of the services. Mr. Schwarz will also use his best efforts to implement the policies established by us in the performance of such services. In consideration for such services, we will pay Mr. Schwarz a monthly fee of EURO 4,000 (approximately \$4,906) plus applicable value added tax (if applicable). Mr. Schwarz will also be reimbursed for expenses incurred as part of the services provided by him which shall not exceed EURO 12,000 (approximately \$14,718) per year. In the event the service agreement with Mr. Schwarz is terminated during a certain month, Mr. Schwarz will be entitled to a pro rata fee based on the number of days that has lapsed until the termination date of the service agreement. Mr. Schwarz may either provide the services by himself or through a corporation under his control, provided that the consideration under the service agreement remains unchanged. The service agreement with Mr. Schwarz will be in effect retroactively from November 1, 2019 for a period of three years. Each of Mr. Schwarz and us may terminate the service agreement by giving a prior written notice of 30 days. During such advance notice period, Mr. Schwarz will be required to continue the provision of the services provided by him under the agreement (unless we have instructed him otherwise) and in any event Mr. Schwarz will be entitled to receive the consideration for such period, except for cause.

On December 31, 2019, our shareholders approved the appointment of Ms. Tali Yaron-Eldar and Mr. Haim Ben-Simon as external directors of the Company for a three-year term commencing on January 31, 2020 and on December 31, 2019, respectively, including the compensation terms for their service as external directors of the Company, in the compensation terms specified in Item 6.B. "Compensation" above.

On December 31, 2019, our shareholders approved, following the approval by our audit committee and board of directors, an extension to the lease agreement signed on December 29, 2016, with an affiliate of Capri, or the Tenant. The lease will be in effect for a one-year term commencing on January 2, 2020, which will be automatically extended by a one-year term and up to a total of three years. The Tenant may decide not to extend the lease agreement provided that it has given notice to that effect to the Company at least 45 days before the end of each year. The monthly rent to be paid by the Tenant to the Company is \$26,522.50, including sales tax. The rent will be increased by 3% every year.

Registration Rights Agreement

On October 22, 2014, our shareholders approved, following the approval by our audit committee and board of directors, the entrance by us into a registration rights agreement with Mr. Wyler and Capri, or the Holders, for the filing of a registration statement in order to register for resale all of our ordinary shares of held by them. The following is a short summary of the principal terms of the agreement:

Demand registration rights

At any time after nine months following the approval of the agreement by our shareholders, at the request of the holders of at least 5% of the ordinary shares outstanding on the effective date of the agreement, we must register any or all of the Holders' ordinary shares as follows: (i) in the event that we are not eligible under applicable securities laws to file a registration statement on Form F-3, we are required to effect up to two such registrations, but only if the minimum anticipated gross aggregate offering price of the shares to be registered exceeds \$5 million, and (ii) in the event that we are eligible under applicable securities laws to file a registration statement on Form F-3, we are required to effect an unlimited number of registrations, but only (a) if the minimum gross anticipated aggregate offering price of the shares to be registered exceeds \$5 million, and (b) up to two within a period of twelve months. Such registration must also include any additional registrable securities requested to be included in such registration by any other holders who are party to the agreement or entitled thereunder.

Our obligation to effect a registration is subject to certain qualifications and limitations, including our right to postpone a registration during the period that is 90 days before our good faith estimate of the date of filing of, and ending up to 180 days after the effective date of, a registration statement initiated by us and for which the piggyback rights described below will apply, our right to postpone a registration for a period of up to 60 days in the event of our furnishing a certificate signed by our Chief Executive Officer that states that in the good faith judgment of our board of directors, it would be materially detrimental to us or our shareholders for such registration statement to either become effective or remain effective, because such action would (i) materially interfere with a significant acquisition, corporate reorganization, or other similar transaction involving us or (ii) require premature disclosure of material information that we have a bona fide business purpose for preserving as confidential. However, we may not invoke this postponement right for more than an aggregate of 90 days in any 12 month period.

Piggyback registration rights

The Holders have the right to request that we include their registrable securities in any registration statement that we file (other than a registration statement on Form S-8, S-4 or other equivalent form). The right of a Holder to include shares in the registration related thereto is conditioned upon the shareholder accepting the terms of the underwriting, if any, as agreed between us and the underwriters and then only in such quantity as the underwriters in their sole discretion determine will not jeopardize the success of our offering. However, we have agreed not to grant any other shareholders priority to have their securities registered prior the securities of a Holder.

Expenses

All expenses incurred in effecting a registration provided for under the agreement, including, without limitation, all registration and filing fees, printing expenses, reasonable fees and disbursements of counsel for us and for one U.S. counsel and one Israeli counsel, underwriting expenses (other than share transfer taxes, selling Holder underwriting discounts or commissions), road show expenses, expenses of any audits incident to or required by any such registration, shall be paid by us.

Indemnification

The agreement further includes mutual indemnification obligations between the parties, according to which, subject to applicable law, each party to the agreement shall indemnify and hold harmless the other party, from and against any and all losses, claims, expenses, damages or liabilities, joint or several as the same are incurred to which they, or any of them, may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended, other federal or state statutory law or regulation, at common law, or otherwise, insofar as such losses, claims, expenses, damages or liabilities (or action in respect thereof) arise out of or are based upon any of the events specified in the agreement.

Termination of Registration Rights

The Holders' right to request registration or to include registrable securities held by them in any registration pursuant to the agreement, shall terminate upon the earlier of (a) seven (7) years following the effective date of the agreement or (b) when all of their registrable securities can be sold without restriction pursuant to Rule 144 under the Securities Act and without the requirement for us to be in compliance with the current public information requirements under Rule 144 as confirmed by an unqualified opinion by counsel of us.

Commercial Office Building in Philadelphia

On October 12, 2012, following the approval of our audit committee and board of directors, and the approval of our shareholders during an annual general meeting of our shareholders held on August 16, 2012, our wholly-owned subsidiary, Optibase 2 Penn, LLC, became a limited partner of 2 Penn Philadelphia LP, a Pennsylvania limited partnership, or the Partnership, which acquired an approximately 20% indirect beneficial interest in the owner of a Class A 20-story commercial office building in Philadelphia known as Two Penn Center Plaza, or the 2 Penn Property, and entered into the Limited Partnership Agreement of the Partnership, or the 2 Penn LPA. As of December 31, 2020, the Company indirect beneficial interest in the 2 Penn Property is 22.16%.

The general partner of the partnership and certain other limited partners of the Partnership, are persons or entities affiliated with Mr. Wyler, the Chief Executive Officer of our subsidiary, Optibase Inc., who was then our president and member of our board of directors and considered the controlling shareholder of the Company, as detailed herein. The 2 Penn LPA sets forth the terms and conditions of the investment in the Partnership. According to the 2 Penn LPA our subsidiary acquired approximately 26% of the limited partnership interests in the Partnership in consideration for approximately \$4 million.

The Partnership owns a beneficial interest in the owner of the 2 Penn Property by being issued a 85.76% partnership interest in Two Penn Investor LP, a Pennsylvania limited partnership, or the 2 Penn Investor, which acquired 88% (As of December 31, 2020 - 99%) of the limited partnership interests in Crown Two Penn Center Associates Limited Partnership, or the Property Owner, and Two Penn General LLC from Crown Penn Associates, L.P., or Crown Penn. Two Penn General LLC, a Delaware limited liability company controlled by Mr. Alex Schwartz acquired a 1% general partner interest in the Property Owner from Two Penn Center GP Corp., a Pennsylvania corporation, or the Existing General Partner, for the aggregate sum of approximately \$12.8 million.

In connection with the closing of the sale agreement transaction, 2 Penn Investor provided a loan to Crown Penn in the original principal amount of approximately \$1.6 million, or the Purchaser Loan. The Purchaser Loan will bear interest at a rate of 12% per annum and will mature in slightly more than 3 years and will be secured by a pledge of Crown Penn's remaining 11% of the interests in the Partnership.

The 2 Penn Property has existing mortgage financing of approximately \$51.7 million from UBS Real Estate Securities Inc., or UBS. The mortgage loan has a fixed interest rate of 5.61% and matures in May 2021, and requires monthly payments of principal and interest of approximately \$300,000. The acquisition of the partnership interests in the Property Owner from Existing General Partner and Crown Penn and the performance of the transactions as a whole were conditioned on UBS consenting to the change in ownership of the Property Owner.

Below is a description of the main provisions of the 2 Penn LPA setting forth the terms and conditions of our subsidiary's investment in the Partnership:

Purpose of the Partnership

The stated purpose of the Partnership is solely to acquire, own, operate and ultimately sell beneficial interests in the 2 Penn Investor (which directly owns partnership interests in the Property Owner) and transact any lawful business that is necessary to accomplish this.

Capital Contributions

The partners will contribute initial capital contributions to the Partnership in the aggregate amount of approximately \$15.5 million (of which our subsidiary's share is approximately \$4 million). The Partnership will contribute the initial capital contribution to 2 Penn Investor which will use the funds to acquire the limited partnership interests in the Property Owner, to provide the Purchaser Loan, to pay closing costs for the transaction, and to establish reserves for improvements to the 2 Penn Property.

Additional capital contributions may be requested of limited partners at any time that Two Penn Philadelphia GP LLC (which is the general partner of the Partnership, controlled by Mr. Alex Schwartz, who is affiliated with Mr. Wyler as set forth below, or the General Partner) determines that the Partnership requires additional funds. The General Partner may request loans or capital contributions from the limited partners, provided that if the General Partner requests loans or capital calls exceeding \$2 million during any four-year period it must obtain the approval of partners owning at least 65% of the interests in the Partnership.

If a limited partner does not provide its capital contributions, the other limited partners will have the option to fund the failed contribution in proportion to their relative percentage interests. The portion of the deficiency funded shall be treated as a loan from the lending non-defaulting partners to the defaulting limited partner and shall bear a floating interest rate equal to the prime rate of PNC Bank plus 9% (which shall be compounded annually to the extent not paid). The loan shall be repaid directly on a first priority basis out of any subsequent distributions to the defaulting limited partner. A limited partner's liability for a default loan shall be limited to its share of future distributions from the Partnership.

Limited Partner Approval Rights

The General Partner has full management authority over the Partnership, subject to certain major decisions which require the approval of partners owning 65% of the interests in the Partnership. These decisions include: (a) sale or transfer of any asset of the Partnership or granting approval for the sale of the 2 Penn Property; (b) borrowing money from itself or third parties for Partnership purposes or to mortgage, pledge or assign any of the Partnerships assets; (c) requesting capital contributions or borrowing money from the partners in an amount exceeding \$2 million during any four year period; (d) admission of any new partners; (e) removal of the General Partner; (f) termination and dissolution of the Partnership; (g) amendment of the Partnership agreement; (h) merger or consolidation into or with another entity; (i) amendment of the Partnership certificate in a material manner; or (j) entering into a new line of business.

Fees Paid to the General Partner

The General Partner or its affiliates may receive an annual management fee of four percent (4%) of gross revenues from the Property from the Property Owner in connection with management of the 2 Penn Property and shall be entitled to be reimbursed for expenses incurred in the management of the Partnership business. The General Partner and its affiliates may not receive any other fees or payments from the Partnership, 2 Penn Investor or from the Property Owner without the consent of limited partners owning at least 65% of the interests in the Partnership.

Distributions

All revenue of the Partnership, less the operating expenses and any reserves established by the GP, or Net Cash Flow, will be distributed as follows:

- (a) First, to repay partners who loaned sums to other limited partners who defaulted on their capital contributions;
- (b) Second, to partners that have made voluntary loans to the Partnership;
- (c) Third, to repay the partners their capital contributions; and
- (d) Fourth, to the partners in accordance with their percentage interests in the Partnership.

The General Partner has undertaken to cause Two Penn Investor and Crown 2 Penn LLC to distribute all net cash flow received from the 2 Penn Property to their limited partners. Other than with the consent of partners holding at least 65% of the interests in the Partnership, Crown 2 Penn LLC may only withhold net cash flow in order to: (1) establish reserves not exceeding one million dollars (\$1 million) for future expenses of the 2 Penn Property, (2) reserve funds to service debt or loan document obligations of the Property Owner, and (3) avoid the violation of applicable laws and avoid the imposition of transfer taxes.

Transfer Restrictions

General Partner Consent to Transfer of the Company's Percentage Interest: After a three year and one month so long as there has not been a change in the controlling shareholder of the Company, our subsidiary shall be permitted to transfer all or part of its interests in the Partnership without obtaining the General Partner's prior consent unless:

- (1) the proposed transferee is subject to trade restrictions under US law,
- (2) the transfer would violate federal or state securities laws, or
- (3) the transfer would violate terms of debt obligations which the Property Owner has incurred.

LP Consent to GP Transfer: The General Partner must receive the consent of partners owning at least sixty five percent (65%) of the interests in the Partnership to transfer the General Partner interest. Any transfer of the General Partner must be to a person who or which agrees to serve as a replacement General Partner. So long as the Company is a limited partner, unless otherwise consented to by Partners owning at least 65% of the Partnership interests, the General Partner will ensure that, as long as it is controlled by Alex Schwartz (a) at least 20% of the percentage interests of the Partnership will at all times be held or controlled by Alex Schwartz and his family members and (b) the general partners of Two Penn Investor and the Property Owner shall be solely controlled by Alex Schwartz.

Right of First Offer: Transfers by partners of their interests in the Partnership are generally subject to a right of first offer in favor of the other partners. The selling party must first offer the portion of its percentage interest that it is looking to sell to the General Partner and other limited partners, before selling such portion to a third party. If the other partners do not send the selling party a notice of acceptance within the prescribed time or do not agree to purchase all of the percentage interest contained in the offer, the selling party shall have the right to sell such percentage interest to a third party.

Tag Along: If the General Partner or Alex Schwartz receive an offer to sell all or a portion of their percentage interests, after which Alex and his family members or entities under his control would collectively own less than 20% of the percentage interests, the other Partners shall have the right to sell to the offering third party the same portion of their percentage interests that such third party is willing to purchase from the General Partner and/or Alex Schwartz, on the same terms. If the third party refuses to purchase the other Partners' percentage interests, the General Partner and/or Alex Schwartz may not sell.

Bring Along: If the Partners receive a bona fide offer from a third party to acquire all of the percentage interests of the Partnership and the General Partner and partners holding at least 65% of the interests in the Partnership agree to accept the offer, then the other limited partners will be obligated to sell their percentage interests on the same terms as the other Partners.

Removal of the General Partner

For as long as Alex Schwartz is controlling the General Partner, a vote by partners holding 65% or more of the interests in the Partnership is necessary to remove the General Partner. If the General Partner is no longer controlled by Alex Schwartz, a vote of partners owning at least 51% of the interests in the Partnership is required to remove the General Partner. Appointment of a new General Partner requires the consent of 51% of the limited partners. If the General Partner is removed, the replacement General Partner must buy-out the General Partner's interest at fair market value.

Amendment of the LPA

Amendment of the LPA requires approval of limited partners owning at least 65% of the Partnership interests provided that any change affecting a Partner's rights must be approved by the affected Partner.

Undertaking Ensuring Limited Partner Rights

Together with the signing of the LPA, Alex Schwartz, the General Partner and the general partner of Two Penn Investor will sign an undertaking according to which they shall (1) not permit Two Penn Investor or the Property Owner to take any of the actions set forth in the Section entitled "Limited Partner Approval Rights" above without obtaining the prior written consent of 65% of the limited partners of the Partnership, and (2) not to permit Two Penn Investor or the Property Owner to withhold distributions other than as set forth in the Section entitled "Distributions" above without the consent of partners owning at least 65% of the interests in the Partnership, and (3) not to permit a change in the ownership of the general partner of the 2 Penn Investor or the Property Owner as long as Alex Schwartz controls the General Partner interest.

Indemnification

The Partnership will indemnify the General Partner and its members from any claim, judgment or liability and from any loss or expense which may be imposed on the General Partner as a result of (i) an act performed by the General Partner on behalf of the Partnership or (ii) the inaction of the General Partner or from (iii) any liabilities arising under federal and state securities laws so long as the General Partner acts in good faith in the best interest of the Partnership and the conduct of the General Partner does not constitute gross negligence or willful misconduct.

7.C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18 "Financial Statements" for a list of financial statements filed as part of this annual report on Form 20-F.

Legal proceedings

Receipt of a Motion to Approve a Derivative Claim

On October 26, 2014, we received a letter on behalf of two purported shareholders of us, or the Shareholders, demanding us to file a derivative claim against our controlling shareholder and our directors and officers, according to procedures of the Companies Law and requesting discovery of our internal documents. The demand alleges, among other things, breach of fiduciary duties by our directors and officers with respect to the approval of the transaction to acquire luxury condominium units in Miami Beach, Florida, or the Transaction. In accordance with the Companies Law, we informed the Shareholders in December 2014 of the way in which we wish to proceed with respect to the demand. At the Shareholders' request, we presented the Shareholders with certain materials in connection with the Transaction for their review.

On May 12, 2015 we have been served with a motion to approve the filing of a derivative claim (on behalf of the Company) against our controlling shareholder, directors and CEO and against certain former controlling shareholder and directors, or the Motion, and a copy of the derivative claim, or the Claim, which were submitted with the Central (Lod) District Court, by two purported shareholders of the Company, or the Applicants.

The Claim alleges, among other things, a breach of fiduciary duties by the our directors, officers and controlling shareholder, and an exploitation of a business opportunity by the our current and former controlling shareholder with respect to certain private placements of the Company's shares to our controlling shareholder conducted in June 2008, May 2011 and December 2013. The Claim further alleges, that such private placements constitute a prohibited distribution as the shares were issued for an unfair consideration. As a result of the above, the Applicants request the Court to allow them to continue with this derivative claim and ultimately to require all the defendants to pay the Company an aggregate amount of approximately \$41.9 million, as well as required our shareholder (current and former) to pay us approximately \$2.9 million plus interest (for the exploitation of a business opportunity). The Applicants further require reimbursement of expenses, legal fees and award to the Applicants.

On June 16, 2019, the District Court denied the motion to approve the filing of the derivative claim.

On September 22, 2019, the Applicants filed an appeal to the District Court's decision to the Supreme Court. On February 20, 2020, the Applicants submitted their written summations and we should file our summations by May 30, 2020. The hearing of the appeal is scheduled for May 3, 2021.

Receipt of a Claim in Connection with an Option Agreement

On March 6, 2019, we were notified that Swiss Pro Capital Limited, a company organized under the laws of Switzerland, has filed a legal claim against our subsidiaries, Optibase RE 1 s.a.r.l and Optibase Real Estate Europe SARL pursuant to which Swiss Pro mainly demands the exercise of a granted option to purchase 20% of the shares of Optibase RE 1 s.a.r.l, the owner of the Rümflang property, or the Option, in connection with an option agreement between Swiss Pro and our subsidiaries, dated March 1, 2010, or the Agreement (for further details on the Agreement see Item 10.C. "Material Contracts").

Swiss Pro alleges that by calculating the formula under the Agreement, the exercise price of the Option is zero, and as such Swiss Pro claims that it holds 20% of the shares of Optibase RE 1 s.a.r.l. as of May 25, 2016, the date on which Swiss Pro has informed our subsidiaries about the exercise of the Option. In addition, Swiss Pro alleges that our subsidiaries be ordered to carry out the actions required for the allotment of the exercisable shares, and demands that Optibase Real Estate Europe SARL be ordered to pay Swiss Pro an amount of CHF 400,000 for additional charges made since the exercise of the Option and its alleged stake in the cash held by Optibase RE 1 s.a.r.l.

On July 29, 2019, our subsidiaries filed a statement of defense, categorically denying the allegations of Swiss Pro, and claiming that the option price reflects what is stated in the Agreement and that, in complete contradiction to Swiss Pro's claims, they did not artificially raise the price of the Option as alleged. The parties were referred to mediation that ended without reaching a settlement. preliminary hearing has been scheduled for May 27, 2020. The partis have finished discovery and a court hearing is scheduled on June 21, 2021, after submitting an affidavit.

The filing of the legal claim was preceded by an exchange of letters between Swiss Pro and us during 2015 and 2016 in connection with Swiss Pro's claim for the exercise of the Option. We have responded to the allegations then raised by Swiss Pro and rejected them all (see the disclosure of such exchange of letters in our annual reports on Form 20-F for the years 2015 through 2018). We maintain our rejection of Swiss Pro's allegations and believe the legal claim to be without merit.

Receipt of a Claim from Tenant in the CTN Complex

On April 16, 2015, our subsidiary Eldista GmbH, filed a claim to the court in Switzerland in an amount of approximately CHF 1 million (app. \$1 million) due to damages and unpaid amounts from a specific tenant. Shortly thereafter, the tenant filed a counterclaim against Eldista GmbH in an amount of approximately CHF 157,000 (app. \$171,200) for damages allegedly caused to it. The court suggested the parties to transfer to mediation proceedings which failed. The court handed down a partial judgment on October 31, 2016, dismissing Eldista GmbH's claim (though it had not yet examined the issue of the damages). Eldista GmbH filed an appeal against the judgment, but it was dismissed on June 12, 2017. On May 2, 2018, the court ruled that the damages owned to the tenant amount to CHF 52,916 plus interest 5% as of June 4, 2014. An appeal has been filed by Eldista GmbH but it was dismissed by the supreme court on October 27, 2019. Eldista GmbH was therefore ordered to pay the tenant CHF 52,916 plus interest 5% as of June 4, 2014, as well as additional amount of CHF 17,000 as a participation for the tenant's legal fees. *Receipt of a Claim from Tenant in the CTN Complex*

On March 1 2017, our subsidiary Eldista GmbH, received a notice from its largest tenant in Switzerland, LEM Switzerland SA, or LEM, regarding the deposit of the monthly rent for March 2017 amounting to approximately CHF 279,400 (vat inclusive) with Banque cantonale de Genève under the control of the Pouvoir judiciaire of the Canton of Geneva, as a preliminary process for filing a claim with the Commission de Conciliation en Matière de Baux et Loyers of the Canton of Geneva, or the Commission. LEM claims that there are serious defects affecting the rented premises, which merit LEM with a reimbursement of approximately CHF 2.4 million (excluding VAT) as well as approximately CHF 69,200 as indemnification for consequential damages for the years 2014 and 2015. LEM also reserves its claims regarding damages suffered before year 2014.

On April 5, 2017 LEM withdrew the deposit of the monthly rent for March 2017 with Banque cantonale de Genève under the control of the Pouvoir judiciaire of the Canton of Geneva and released the amount to the Company. Thus, paying the full payment of the rent.

Based on LEM's submissions filed during the first hearing before the court, LEM is requesting a 20% rent reduction amounting to a capital amount of CHF 3,094,000 for the period starting from February 1, 2012, until June 30, 2017, with 5% moratory interest per year starting from October 23, 2017, corresponding to CHF 154,700 per year, based on the various defects allegedly affecting the rented premises. In addition, LEM is claiming for related damages an amount of CHF 167,721, subject to amplification, with 5% moratory interest per year starting from October 23, 2017, corresponding to CHF 8,386 per year. LEM's claim for rent reduction was reduced to 10% from July 1, 2017, until repair of the alleged defects or entry into force of the judgment, that is to say a capital amount of CHF 714,000 if considered from July 1, 2017, until December 31, 2019. LEM further demands to be reserved the right to claim the reimbursement of overpaid ancillary fees. A first hearing took place on June 26, 2018, regarding lease matters, and a second hearing took place on November 7, 2018. An out-of-court settlement was proposed by LEM's counsel on May 15, 2019 without prejudice, including the complete withdrawal of LEM's pending claim in full and final settlement provided that Eldista Gmbh authorizes LEM to stay in the building after the end of the lease for a determined period starting from April 1, 2020 until December 31, 2021 with a reduced rent of 20% justified by the market conditions that would correspond to a capital amount of CHF 1 million approximately. Eldista Gmbh made a counterproposal on August 29, 2019 of CHF 346,311.00 which was refused by LEM on September 9, 2019. LEM made a counterproposal at CHF 700,000.00 plus the right to vacate the premises without any obligation to reinstate.

On January 27, 2020 LEM filed a new claim against Eldista Gmbh. LEM is claiming a first extension of its current lease until December 31, 2021, or until September 30, 2022 at the latest. LEM is also claiming a rent reduction of 16.94% (approximately CHF 40,000 per month) from April 2020 until the end of the extension which corresponds to a total amount of CHF 1,188,750.

On October 16, 2020, our subsidiary Eldista Gmbh signed an out-of-court settlement with its tenant in the LEM, that have been validated by the first instance court for lease matters on October 27, 2020. The agreement provides in the main that the parties withdraw all pending claims against each other and LEM receives from Eldista Gmbh, as full and final settlement, a monthly contribution of CHF 43,750 (VAT not included) to its damage that is paid on the rents from December 2020 until March 2022, corresponding to total amount in capital of CHF 700,000 (approximately U.S. \$766,000). LEM is also authorized by this agreement to remain in the premises until December 31, 2023 with a termination notice of three months for the end of a month should it wish to leave the premises earlier.

Dividend Policy

We have not declared or paid any cash dividends on our ordinary shares in the past. We do not expect to pay cash dividends on our ordinary shares in the foreseeable future and intend to retain our future earnings, if any, to finance the development of our business.

A dividend policy, if adopted, will be determined by our board of directors and will depend, among other factors, upon our earnings, financial condition, capital requirements, the impact of the distribution of dividends on our financial condition and tax liabilities, and such other conditions as our board of directors may deem relevant. Under Israeli law, an Israeli company may pay dividends only out of its retained earnings as determined for statutory purposes. Under our articles of association the distribution of dividends will be made by a resolution of our board of directors. See "Description of Share Capital" and "Israeli Taxation".

Cash dividends paid by an Israeli company are normally subject to a withholding tax. If we decide to distribute cash dividends out of income that has been exempted from tax, the income out of which the dividend is distributed will be subject to corporate tax rate which would have been applied at the period. See "Israeli Taxation". In the event that cash dividends are declared in the future, such dividends will be paid in NIS or in foreign currency subject to any statutory limitations. Under current Israeli regulations, any dividends or other distributions paid in respect of ordinary shares will be freely repatriable in such non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on, or withheld from, such payments. Because exchange rates between the NIS and the dollar fluctuate continuously, a U.S. shareholder will bear the risks of currency fluctuations during the period between the date such dividend is declared and paid by us in NIS and the date conversion is made by such shareholder into U.S. dollars.

ITEM 8.B. SIGNIFICANT CHANGES

On April 9, 2021, Crown Two Penn Center Associates Limited Partnership, a Pennsylvania limited partnership which is 22.16% indirectly owned by the Company, refinanced a commercial office building in Philadelphia, known as Two Penn Center Plaza. Under the refinancing, the existing loan on the Property with an outstanding principal balance of approximately \$44 million, was replaced with a new loan with a principal amount of \$67.9 million. As a result of the refinancing, Crown Two Penn Center Associates, Limited Partnership, generated excess cash, of which our share is approximately \$5 million. We were informed that Crown Two Penn Center Associates, Limited Partnership, will make a distribution of \$2 million out of the said \$5 million in the upcoming weeks.

ITEM 9. THE OFFER AND LISTING

9.A. OFFER AND LISTING DETAILS

Our ordinary shares have been traded on The NASDAQ Global Market under the symbol OBAS since our initial public offering on April 7, 1999. In addition, on April 29, 2015, our ordinary shares were registered for trading on the Tel Aviv Stock Exchange under the symbol OBAS.

On April 16, 2021, the reported closing sale price of our ordinary shares on The NASDAQ Global Market was \$10.8 per share and on the Tel Aviv Stock Exchange was NIS 42.47 per share.

9.B. PLAN OF DISTRIBUTION

Not applicable.

9.C. MARKETS

Our ordinary shares have been listed on The NASDAQ Global Market since April 7, 1999, under the symbol "OBAS". On April 2015 we have listed our ordinary shares for trading on the Tel Aviv Stock Exchange under the symbol "OBAS".

9.D. SELLING SHAREHOLDERS

Not applicable.

9.E. DILUTION

Not applicable.

9.F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. SHARE CAPITAL

Not applicable.

10.B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Purposes and Objects of the Company

We are a public company registered under the Companies Law as Optibase Ltd., registration number 52-003707-8.

Pursuant to our articles of association, our objectives are to engage in any lawful business and our purpose is to act pursuant to business considerations to make profits. A consideration to the Company's purpose and objectives can be found in Chapter 1 to the Company's articles of association.

Our articles of association also state that we may contribute a reasonable amount for an appropriate cause, even if the contribution is not within the framework of our business considerations.

The Powers of the Directors

The power of our directors to vote on a proposal, arrangement or contract in which the director is interested is limited by the relevant provisions of the Companies Law. In addition, the power of our directors to vote on compensation to themselves or any members of their body is limited in that such decision requires the approval of the compensation committee, the board of directors and the shareholders at a general meeting, see "Approval of Certain Transactions" below.

Under Israeli law each director must act with an independent and sole discretion. Director who does not act this way is in breach of his fiduciary duties.

The powers of our directors to borrow are not limited, except in the same manner as any other transaction by the Company.

Rights Attached to Shares

Our registered share capital is NIS 3,900,000 divided into a single class of 6,000,000 ordinary shares, par value NIS 0.65 per share, of which 5,216,256 ordinary shares were issued and outstanding as of April 16, 2021. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to the Ordinary Shares are as follows:

Dividend rights

Holders of Ordinary Shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may propose a dividend only out of profits, in accordance with the provisions of the Companies Law. Declaration of a dividend requires the approval of our board of directors. Please see Item 10.E. "Taxation" below.

One year after a dividend has been declared and is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend.

Voting rights

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. Currently there are no shares of capital stock outstanding with special voting rights. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least thirty three and one third percent (33.3%) of our voting rights. In the event that a quorum is not present within half an hour of the scheduled time, the shareholders' meeting will be adjourned to the same day of the following week, at the same time and place, or such time and place as the board of directors may determine by a notice to the shareholders. If at such adjourned meeting a quorum is not present at the time of opening of such meeting, two shareholders, at least, present in person or by proxy, shall constitute a quorum.

An ordinary resolution, such as a resolution for the election of directors, or the appointment of auditors, requires the approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or through a voting instrument and voting thereon. Under our articles of association, if a resolution to amend the articles of association is recommended by our board of directors, such recommended resolution's adoption in a general meeting of the shareholders requires an ordinary majority. In any other case, such a resolution requires approval of a special majority of more than three quarters of the votes of the shareholders entitled to vote themselves, by proxy or through a voting instrument.

The directors (who are not external directors) are appointed by decision of an ordinary majority at a general meeting. The directors have the right at any time, in a resolution approved by at least a majority of our directors, to appoint any person as a director, subject to the maximum number of directors specified in our articles of association, to fill in a place which has randomly been vacated, or as an addition to the board of directors. Any such director so appointed shall hold office until the next annual general meeting and may be reelected.

Under our articles of association our directors (who are not external directors) are elected by an ordinary majority of the shareholders at each duly convened annual meeting, and they serve until the next annual meeting, provided that external directors shall be elected in accordance with the Companies Law. In each annual meeting the directors that were elected at the previous annual meeting are deemed to have resigned from their office. A resigning director may be reelected.

Under the NASDAQ corporate governance rules, foreign private issuers are exempt from many of the requirements if they instead elect to be exempted from such requirements, provided they are not prohibited by home country practices and disclose where they have elected to do so.

Rights in the Company's profits

All of our ordinary shares have the rights to share in our profits distributed as a dividend and any other permitted distribution.

Rights in the event of liquidation

All of our ordinary shares confer equal rights among them with respect to amounts distributed to shareholders in the event of liquidation.

Changing Rights Attached to Shares

According to our articles of association, our share capital may be divided into different classes of shares or the rights of such shares may be altered by an ordinary majority resolution passed by the general meetings of the holders of each class of shares separately, or after obtaining the written consent of the holders of all of the classes of shares. As of the date hereof, we only have one class of shares.

Annual and Extraordinary Meetings

Our board of directors must convene an annual meeting of shareholders every year by no later than the end of fifteen months from the last annual meeting. Notice of at least twenty-one days prior to the date of the meeting is required. An extraordinary meeting may be convened by the board of directors, as it decides or upon a demand of any two directors or 25% of the directors, whichever is lower, or by one or more shareholders holding in the aggregate at least 5% of the voting rights in the Company. Where the board of directors is requisitioned to call a special meeting, it shall do so within twenty-one days, for a date that shall not be later than thirty-five days from the date on which the notice of the special meeting is published. Notice of a general meeting shall be given to all shareholders entitled to attend and vote at such meeting. No separate notice is to be given to registered shareholders of the Company. Notices may be provided by the Company in person, in mail, transmission by fax or in electronic form. A notice to a shareholder may alternatively be served, as general notice to all shareholders, in accordance with the rules and regulations of any applicable securities authority with jurisdiction over the Company or in accordance with the rules of any stock market upon which the Company's shares are traded.

Limitations on the Rights to Own Securities in the U.S.

Our memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents of Israel, and neither the memorandum and articles of association nor Israeli law restricts the voting rights of non-residents of Israel, except that under Israeli law, any transfer or issue of shares of a company to a resident of an enemy state of Israel is prohibited and shall have no effect, unless authorized by the Israeli Minister of Finance.

Limitations on Change in Control and Disclosure Duties

Our memorandum and articles of association do not restrict the change of control nor do they impose any disclosure duties beyond the requirements set out in Israeli law. For restriction of change of control provision under Israeli law, see Item 3.D. "Risk Factors", under the heading "Risks Relating to Operations in Israel – Anti-takeover Provisions" above.

Changes in Our Capital

Changes in our capital are subject to the approval of the shareholders at a general meeting by an ordinary majority of shareholders participating and voting in the general meeting.

Fiduciary Duty and Duty of Care of Directors and Officers

The Companies Law codifies the duties directors and officers owe to a company. An "Officer" includes a company's general manager, general business manager, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other directors or managers directly subordinate to the general manager. The directors' and officers' principal duties to the company are a duty of care and a fiduciary duty to act in good faith for the company's benefit which include:

- ❖ the avoidance of any conflict of interest between the director's or officer's position with the company and any other position he or she fulfills or with his or her personal affairs;
- ❖ the avoidance of any act in competition with the company's business;
- ❖ the avoidance of exploiting any of the company's business opportunities in order to gain a personal advantage for himself or for others; and
- ❖ the disclosure to the company of any information and documentation relating to the company's affairs obtained by the director or officer due to his or her position with the company.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

Approval of Certain Transactions

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of directors' and officers' insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of such director with a company in other positions require the approval of the audit committee, the board of directors and the shareholders of the company. In addition, transactions between a public company and its director or officer, or a transaction between such company and other person in which such director or officer has a personal interest must be approved by such company's board of directors, and if such transaction is considered an extraordinary transaction (as defined below) it must receive the approval of such company's audit committee as well. The determination whether such transaction is considered extraordinary or not is required to be made by audit committee.

The Companies Law also requires that any extraordinary transaction between a public company and its controlling shareholder or an extraordinary transaction between such company and other person in which such company's controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company by an ordinary majority, provided that (i) such majority vote at the shareholders meeting shall include a majority of the total votes of shareholders having no personal interest in the transaction, participating at the voting (excluding abstaining votes); or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed two percent (2%) of the total voting rights in the company. An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability. Such an extraordinary transaction which shall last for a period exceeding three years shall be approved again by such company's audit committee, board of directors and general meeting of shareholders by the special majority described above once in every three years.

The Companies Law further provides that the engagement terms of a controlling shareholder or its relative (including by an entity controlled by such controlling shareholder or its relative) with the company, either as an officer or an employee, must also be approved by such company's compensation committee, board of directors and general meeting by the special majority described above. Such an engagement which shall last for a period exceeding three years shall be approved again by such company's audit committee, board of directors and general meeting by the special majority described above once in every three years. However, an engagement described in the beginning of this paragraph only which may be approved for a period exceeding three years, provided that the audit committee approved the engagement term to be reasonable under the circumstances.

The Companies Law prohibits any person who has a personal interest in a matter to participate in the discussion and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances when the majority of the board of directors' (or the audit committee – as the case may be) has a personal interest in the matter. In case the majority has a personal interest in such matter then such matter must also be approved by the company's shareholders. An officer who has a personal interest may be present for the presentation of the transaction if the chairman of the audit committee or the chairman of the board of directors as the case may be, determined that such officer's presence is required for the presentation of the said transaction.

Compensation of Officers and Directors

Pursuant to the Companies Law, Israeli Public Companies are required to establish a compensation committee and adopt a compensation policy regarding the compensation and terms of employment of their directors and officers. For information on the composition, roles and objectives of the compensation committee pursuant to the Companies Law and our compensation committee charter, see Item 6.C. "Board Practices – Committees of the Board of Directors – The Compensation Committee".

The compensation policy must be approved by the company's board of directors after reviewing the recommendations of the compensation committee. The compensation policy also requires the approval of the general meeting of the shareholders, which approval must satisfy one of the following (which we refer to hereinafter as the Majority Requirement): (i) the majority should include at least a majority of the shares of the voting shareholders who are non-controlling shareholders or do not have a personal interest in the approval of the compensation policy (in counting the total votes of such shareholders, abstentions shall not be taken into account) or (ii) the total number of votes against the proposal among the shareholders mentioned in paragraph (i) does not exceed two percent of the aggregate voting power in the company. Under certain circumstances and subject to certain exceptions, the board of directors may approve the compensation policy despite the objection of the shareholders, provided that the compensation committee and the board of directors determines that it is for the benefit of the company, following an additional discussion and based on detailed arguments. The Companies Law provides that the compensation policy must be re-approved every three years, in the manner described above. Moreover, the board of directors is responsible for reviewing from time to time the compensation policy and deciding whether or not there are any circumstances that require an adjustment to the company's compensation policy.

Pursuant to the Companies Law any transaction with an executive officer (except directors and the CEO of the company) with respect to such officer's compensation arrangements and terms of engagement, requires the approval of the compensation committee and the board of directors. Transactions between Israeli Public Companies and their chief executive officer, with respect to his or her compensation arrangement and terms of engagement, require the approval of the compensation committee, the board of directors and the shareholder's meeting, provided that the approval of the shareholders' meeting must satisfy the Majority Requirement. Notwithstanding the above, the compensation committee and the board of directors may, under special circumstances, approve such transaction with the CEO even if the shareholders' meeting objected to its approval. With respect to transactions relating to the compensation arrangement and terms of engagements of directors in public companies (including companies that have issued only debentures to the public), the Companies Law provides that such transaction shall be subject to the approval of the compensation committee, the board of directors and the shareholders' meeting.

Such transactions for the approval of compensation arrangements with officers and directors of Israeli Public Companies must be consistent with the provisions of the company's compensation policy, provided that the compensation committee and the board of directors may, under special circumstances, approve such transaction that is not in accordance with the company's compensation policy, if the conditions under the Companies Law are met and the company's shareholders approved the transaction in the Majority Requirement. Notwithstanding the above, with respect to the approval of compensation terms of an executive officer (except directors and the CEO of the company), the compensation committee and the board of directors may, under special circumstances, approve such transaction even if the shareholders' meeting objected to its approval, provided that (i) both the compensation committee and the board of directors re-discussed the transactions and decided to approve it despite the shareholder's objection, based on detailed arguments, and (ii) the company is not a Public Pyramid Held Company. Non material amendments of transactions relating to the compensation arrangement or terms of engagement of executive officer (including the CEO), require only the approval of the compensation committee.

On February 14, 2019, and following the approval by our compensation committee and our board of directors, our shareholders approved a new compensation policy and such policy is in affect for a 3-year term. On February 18, 2020, following the approval by our compensation committee and our board of directors, our shareholders approved an amendment to compensation policy with respect to the maximum aggregate annual premium payable for directors' and officers' liability insurance and on December 30, 2020 following the approval by our compensation committee and our board of directors, our shareholders approved an amendment to compensation policy with respect to the deletion of the caps set for the premium payment under any type of directors' and officers' liability insurance policy.

On January 11, 2013, the SEC approved the amended NASDAQ listing standards on compensation committees and advisers. Among others, the amended NASDAQ listing standards include provisions relating to the establishment of a compensation committee, the compensation committee charter, compensation committee members' independence requirements, and arrangements relating to advisers retained by the compensation committee. Under the amended rules, the compensation committee adviser and compensation committee authority requirements become effective on July 1, 2013. However, NASDAQ listed companies will have, until their first annual meeting after January 15, 2014, or, if earlier, October 31, 2014, to comply with other standards, including the compensation committee member independence standards and the requirement to have a compensation committee and charter (including any charter amendment to reflect the compensation committee authority requirements). NASDAQ listed companies must certify compliance with the listing standards within 30 days after the applicable implementation deadline. In addition, under the amended rules, foreign private issuers are exempt from compliance with the amended listing standards if home country practice is followed and the listed company discloses with the SEC the reasons why it does not have an independent compensation committee. Our compensation committee charter was updated in accordance with said amendments.

Anti-Takeover Provisions; Mergers and Acquisitions

Special Tender Offer. The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser would become a holder of at least 25% of the voting rights in the company. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of more than 45% of the voting rights in the company and no other shareholder of the company holds more than 45% of the voting rights in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a shareholder holding at least 25% of the voting rights in the company and resulted in the acquirer becoming a holder of at least 25% of the voting rights in the company, or (iii) was from a holder of more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company. The special tender offer may be consummated only if (a) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (b) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention. An executive officer in a target company who, in his or her capacity as an executive officer, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages, unless such executive officer acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, executive officer of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.

A special tender offer may not be consummated unless a majority of the shareholders who announced their stand on such offer have accepted it (in counting the total votes of such shareholders, shares held by the controlling shareholder, shareholders who have personal interest in the offer, or shareholder who own 25% or more of the voting rights in the company, shall not be taken into account). If a special tender offer was accepted by a majority of the shareholders who announced their stand on such offer, then shareholders who did not announce their stand or who had objected to the offer may accept the offer within four days of the last day set for the acceptance of the offer.

In the event that a special tender offer is accepted, the purchaser or any person or entity controlling it at the time of the offer or under common control with the purchaser or such controlling person or entity shall refrain from making a subsequent tender offer for the purchase of shares of the target company and cannot execute a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Full Tender Offer. A person wishing to acquire shares or a class of shares of an Israeli public company and who would, as a result, hold over 90% of the target company's issued and outstanding share capital or that certain class of shares is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company or class of shares. If either (i) the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholder who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class, then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a shareholder that had its shares so transferred, whether it accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition the court to determine that tender offer was for less than fair value and that the fair value should be paid as determined by the court. If the shareholders who did not accept the tender offer hold at least 5% of the issued and outstanding share capital of the company or of the applicable class of shares, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

Merger. The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, a majority of each party's shares voted on the proposed merger at a shareholders' meeting called with at least 35 days' prior notice.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares represented at the shareholders meeting that are held by parties other than the other party to the merger, or by any person who holds 25% or more of the outstanding shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. If the transaction would have been approved but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and 30 days have passed from the date the merger was approved by the shareholders of each of the merging companies.

Anti-Takeover Measures Under Israeli Law. The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights, distributions or other matters and shares having preemptive rights. As of the date of this annual report, we do not have any authorized or issued shares other than our ordinary shares. In the future, if we do create and issue a class of shares other than ordinary shares, such class of shares, depending on the specific rights that may be attached to them, may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares will require an amendment to our articles of association which requires the prior approval of the holders of a majority of our ordinary shares at a general meeting.

Tax Law. Israeli tax law treats some acquisitions, such as a stock-for-stock swap between an Israeli company and a foreign company, less favorably than U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation. Please see Item 10E. "Taxation". *The Centralization Law.* The Israeli parliament (the Knesset) approved the new Promotion of Competition and Reduction of Centralization Law, 5774-2013, or the Centralization Law, which, among others, imposes new constraints and stricter corporate governance rules on pyramid conglomerates, and forces separation between equity holdings in significant non-financial corporate businesses and equity holdings in significant financial businesses. The Centralization Law has entered into force on December 11, 2013.

10.C. MATERIAL CONTRACTS

Shareholders Agreement with The Phoenix

In connection with the purchase of the office complex in Geneva, Switzerland, we and The Phoenix entered on February 8, 2011 into a Shareholders Agreement regarding our joint shareholdings in OPCTN. The Shareholders Agreement provides that Optibase will manage the day-to-day operations of OPCTN and Eldista but that certain actions of OPCTN and Eldista are subject to the joint approval of and The Phoenix. These actions include amendments to organizational documents, changes to business activity, financing arrangements, related party agreements, lease agreements exceeding twenty five percent of the leasable area of the Property, and requesting investments from shareholders in excess of CHF one million in a given year and CHF 2.5 million in aggregate.

The Shareholders Agreement also provides that Optibase and The Phoenix will fund operating expenses and necessary capital expenditures for the Property that are not adequately funded by operating income, up to an amount of CHF two million per event or CHF five million per event if the capital expenditures are recommended by a third-party building engineering company. If we or The Phoenix do not provide our respective share of these expenses, the Shareholders Agreement provides that the OPCTN shareholdings (and shareholders loans) of the non-funding shareholder ownership will be diluted.

The Shareholders Agreement prohibited us and The Phoenix from transferring shares in OPCTN until March 2012 and provides that any transfer of shares thereafter (other than to a related party) is subject to the reasonable approval of Optibase and The Phoenix. In addition, the Shareholders Agreement includes right of first offer, tag along and drag along rights in favor of both Optibase and The Phoenix. The agreement provides that Optibase will make day-to-day decisions and provides The Phoenix with customary protective rights.

Sale of our German Commercial Properties Portfolio

On February 11, 2020, our wholly owned European subsidiary, Optibase Bavaria GmbH & Co. KG, or Optibase Bavaria, had entered into a definitive agreement with an unrelated third party buyer, or the Buyer, to sell the German Portfolio, which represents a homogenous retail portfolio in established retail locations, has approximately 37,000 square meters of total rental space and currently generates annual net rental income of more than EUR 2.9 million (approximately \$3.2 million). The properties have an average occupancy rate of more than 97% of the total rental area, and an average remaining lease term of approximately seven years.

On July 8, 2020, Optibase Bavaria completed the sale of the company's portfolio in Germany at a total purchase price (paid by Buyer at the closings of the transaction) of EUR 35 million (app. \$38.9 million).

South Riverside Plaza Office Tower, Chicago

On December 29, 2015 our wholly owned Delaware subsidiary, Optibase Chicago 300 LLC, or Optibase Chicago, completed an investment of 30% interest in 300 River Holdings, LLC, or the Joint Venture Company, which beneficially owns the rights to a 23-story Class A office building, located at 300 South Riverside Plaza in Chicago, or the Property. The Property is under a 99 year ground lease expiring in 2114.

The remaining 70% of the Joint Venture Company is owned by 300 River Plaza One LLC. As part of this transaction, WKEM Riverside Member LLC, or the Outgoing Member, redeemed its 30% interest in the Joint Venture Company.

Investment Amount

We have invested \$12.9 million, or the Invested Amount, in exchange for a thirty percent (30%) interest in the Joint Venture Company. In addition to the Investment Amount, we incurred acquisition costs of approximately \$242,000.

On June 17, 2016, and in accordance with our initial investment agreement in 300 South Riverside Plaza, Chicago, we have invested an additional amount of \$3 million which accrues interest of 12% per annum which was distributed back to the Company on November 21, 2017.

Property

In general, the Property is a 23-story, trophy Class A office building located in Chicago's premier West Loop submarket and encompasses approximately 1.1 million square feet of total rental space, of which 98% was occupied at the purchase date. As of the purchase date, the Property generated annual net rental income of \$17.4 million.

The largest tenant in the Property was JP Morgan, which at the date of the purchase leased 486,000 square feet or 46% of the Property. In addition, there are also smaller tenants and retail tenants. JP Morgan has exercised its option to terminate its entire office space at no penalty after September 2016.

Management

The Joint Venture Partner serves as the Managing and generally has the authority to make decisions on behalf of the Company, subject to certain approval rights of Optibase Chicago set forth in the Operating Agreement of the Joint Venture Company.

Debt

As a part of the transaction, the Joint Venture Company executed a promissory notes in favor of the Joint Venture Partner in the amount of \$42 million with no maturity date and in favor of the Outgoing Member in the amount of \$18 million with a maturity date of 7 years. The interest rate for both notes compounds annually and is equal to four percent (4%) for the first three (3) years, five percent (5%) for the fourth (4th) year, six percent (6%) for the fifth (5th) year, and twelve percent (12%) from and following the sixth (6th) year. All payments to be made under the note will be made from and subject to net cash flow of the Joint Venture Company.

The Joint Venture Company will also seek to fund anticipated tenant improvements through the issuance of up to \$40 million of promissory notes, or the Senior Notes, of which Optibase will have the right (but not the obligation) to fund up to 30%. Such promissory notes will rank ahead of the abovementioned promissory notes in favor of the Joint Venture Partner and the Outgoing Member. It is anticipate that the Senior Notes will have a term of six (6) years and an interest rate of twelve percent (12%) per annum, compounding annually.

On June 17, 2016, and in accordance with our initial investment agreement in 300 South Riverside Plaza, Chicago, we have invested an additional amount of \$3 million which accrues interest of 12% per annum which was distributed back to the Company on November 21, 2017.

Financing Agreements

For a summary of the principal terms of our material financing agreements, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources".

The CTN Complex in Geneva, Switzerland

On January 8, 2020 Eldista GmbH executed a new framework agreement for a mortgage loan at an amount of credit facility of CHF 83.5 million (the amount of the credit facility was reduced by the sum amortization and other loan repayment made).

For a summary of the principal terms of our new framework agreement, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources".

Condominium Units in Miami Beach, Florida

On December 29, 2016, our shareholders approved, following the approval by our audit committee and board of directors, a lease agreement to be entered into with an affiliate of Capri, or the Tenant. The lease was in effect for a one-year term commencing on January 2, 2017 and was automatically extended by a one-year term and up to a total of three years. On December 31, 2019, our shareholders approved, following the approval by our audit committee and board of directors, an extension of the lease agreement commencing on January 2, 2020, which will be automatically extended by a one-year term and up to a total of three years.

Loan agreement with the Controlling shareholder

In March 2017, our audit committee and board of directors approved, in accordance with the Israeli Companies Regulations (Relieves for Transactions with Interested Parties) of 2000, the receipt of a \$5.1 million loan, or the Loan, from our Controlling shareholder. The Loan was granted to the Company on March 28, 2017 for the purpose of strengthening the Company's liquidity. The Loan does not bear any interest or linkage differentials and is unsecured. In May 2018, the parties entered into an amendment to the Loan agreement, under which the Company repaid the Controlling Shareholder \$2.5 million on account of the Loan and the repayment by the Company of the remaining Loan amount of \$2.5 million has been postponed from April 1, 2019 to July 1, 2020. In September 2019, the parties entered into an additional amendment to the Loan agreement. Following these amendments, the repayment by the Company of the remaining Loan amount of \$2.5 million has been postponed from July 1, 2020 to October 1, 2020. On July 1, 2020 in accordance with our audit committee and board of directors' approval, we prepaid the remaining amount of a loan of approximately \$2.6 million.

10.D. EXCHANGE CONTROLS

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In addition, Israeli citizens are freely to invest outside of Israel and convert Israeli currency into non-Israeli currencies.

Dividends, if any, paid to holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

Under Israeli law (and our memorandum and articles of association), persons who are neither residents nor nationals of Israel may freely hold, vote and transfer ordinary shares in the same manner as Israeli residents or nationals. Subject to anti-terror legislations, there are no limitations on the rights of non-resident or foreign owners to hold or vote ordinary shares imposed under Israeli law or under our articles of association.

10.E. TAXATION

The following is a discussion of tax consequences material to us and our Israeli and U.S. shareholders. To the extent the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities or the courts will accept the views expressed in this section. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations. Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any non-U.S., state or local taxes.

Israeli taxation

General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax on their taxable income. For year 2020, the Israeli corporate tax rate stands on 23%. As of 2017, the corporate tax rate is 24% (in 2015 and 2016, the corporate tax rate was 26.5% and 25%, respectively). In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

Israeli Tax Consequences for Our Shareholders

The following description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

Certain Israeli Tax Consequences

This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Because parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

Capital Gains Taxes Applicable to Non Israeli Resident Shareholders.

A non Israeli resident who derives capital gains from the sale of shares in an Israeli resident company that were purchased after the company was listed for trading on a stock exchange outside of Israel should be exempt from Israeli tax so long as the shares were not held through a permanent establishment that the nonresident maintains in Israel. However, non Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have a controlling interest of 25% or more in such non Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be a business income.

Additionally, a sale of shares by a non Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the United States Israel Tax Treaty, the disposition of shares by a shareholder who (i) is a U.S. resident (for purposes of the treaty), (ii) holds the shares as a capital asset, and (iii) is entitled to claim the benefits afforded to such person by the treaty, is generally exempt from Israeli capital gains tax. Such exemption will not apply if: (i) the capital gain arising from the disposition can be attributed to a permanent establishment in Israel; (ii) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12 month period preceding the disposition, subject to certain conditions; or (iii) such U.S. resident is an individual and was present in Israel for a period or periods aggregating to 183 days or more during the relevant taxable year. In such case, the sale, exchange or disposition of our ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the United States Israel Tax Treaty, the taxpayer would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The United States Israel Tax Treaty does not relate to U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

Taxation of Non Israeli Shareholders on Receipt of Dividends.

Non-Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, unless relief is provided in a treaty between Israel and the shareholder's country of residence. With respect to a person who is a "substantial shareholder" at the time of receiving the dividend or on any time during the preceding twelve months, the applicable tax rate is 30%. A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. Dividends paid on publicly traded shares, which are registered with and held by a nominee company, to non-Israeli residents are generally subject to Israeli withholding tax at a rate of 25%, unless a different rate is provided under an applicable tax treaty, provided that a certificate from the Israel Tax Authority allowing for a reduced withholding tax rate is obtained in advance. Under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the United States-Israel Tax Treaty) is 25%.

U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.

Excess Tax.

Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 651,600 for 2020 (and as of 2019, the additional tax was on annual income exceeding NIS 649,560), which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

United States Federal Income Tax Consequences

The following is a summary of certain material U.S. federal income tax consequences that apply to U.S. Holders who hold ordinary shares as capital assets. This summary is based on the United States Internal Revenue Code of 1986 or the Code, as amended, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. This summary does not address all tax considerations that may be relevant with respect to an investment in ordinary shares. This summary does not account for the specific circumstances of any particular investor, such as:

- ❖ broker-dealers,
- ❖ financial institutions,
- ❖ certain insurance companies,
- ❖ investors liable for alternative minimum tax,
- ❖ tax-exempt organizations,
- ❖ non-resident aliens of the U.S. or taxpayers whose functional currency is not the U.S. dollar,
- ❖ persons who hold the ordinary shares through partnerships or other pass-through entities,
- ❖ investors that actually or constructively own 10 percent or more of our voting shares, and
- ❖ investors holding ordinary shares as part of a straddle or a hedging or conversion transaction.

This summary does not address the effect of any U.S. Federal taxation other than U.S. Federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation. You are urged to consult your tax advisors regarding the non-U. S. and United States federal, state and local tax considerations of an investment in ordinary shares.

For purposes of this summary, a U.S. Holder is:

- ❖ an individual who is a citizen or, a resident of the United States for U.S. federal income tax purposes;
- ❖ a partnership, corporation or other entity created or organized in or under the laws of the United States or any political subdivision thereof;
- ❖ an estate whose income is subject to U.S. federal income tax regardless of its source;
- ❖ a trust if: (a) a court within the United States is able to exercise primary supervision over administration of the trust, and (b) one or more United States persons have the authority to control all substantial decisions of the trust; or
- ❖ a trust, if the trust were in existence and qualified as a "United States person," within the meaning of the Code, on August 20, 1996 under the law as then in effect and elected to continue to be so treated.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains.

Taxation of Dividends

The gross amount of any distributions received with respect to ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. Federal income tax purposes, to the extent of our current and accumulated earnings and profits as determined for U.S. federal income tax principles. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ordinary shares and any amount in excess of your tax basis, will be treated as gain from the sale of ordinary shares. See Item 10.D. "Exchange Controls" under the heading "Disposition of Ordinary Shares" below for the discussion on the taxation of capital gains. Dividends will not qualify for the dividends-received deduction generally available to U.S. corporations under Section 243 of the Code.

Certain dividend income received by individual U.S. Holders, may be eligible for a reduced rate of taxation. Such dividend income will be taxed at the applicable long-term capital gains rate (currently, a maximum rate of 20%) if the dividend is received from a "qualified foreign corporation," and the shareholder of such foreign corporation holds such stock for at least 61 days during the 121-day period that begins on the date that is 60 days before the ex-dividend date for the stock. The holding period is tolled for any days on which the shareholder has reduced his risk of loss. A "qualified foreign corporation" is one that is eligible for the benefits of a comprehensive income tax treaty with the United States. A foreign corporation will be treated as qualified with respect to any dividend paid, if its stock is readily tradable on an established securities market in the United States. Dividend income will not qualify for the reduced rate of taxation if the corporation is a passive foreign investment company, or PFIC (*see* below), for the year in which the dividend is distributed or for the previous year.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Any Israeli withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability, subject to certain limitations set out in the Code (or, alternatively, for deduction against income in determining such tax liability). The limitations set out in the Code include computational rules under which non-U.S. tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive income for United States foreign tax credit purposes. Foreign income taxes exceeding the credit limitation for the year of payment or accrual may be carried back for the first preceding taxable years and forward for the first ten taxable years in order to reduce U.S. federal income taxes, subject to the credit limitation applicable in each of such years. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

Dispositions of Ordinary Shares

If you sell or otherwise dispose of ordinary shares, you will recognize gain or loss for U.S. Federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and the adjusted tax basis in ordinary shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as U.S. source ordinary income or loss.

Passive Foreign Investment Companies, or PFIC

There is a substantial risk that we are a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Our treatment as a PFIC could result in a reduction in the after-tax return to the U.S. Holders of our ordinary shares and may cause a reduction in the value of such shares.

For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) the average percentage of the value of all of our assets for the taxable year which produce or are held for the production of passive income is at least 50%. For this purpose, cash and real estate properties are considered to be an asset which produces passive income. Passive income includes, among others, dividends, interest, certain types of royalties and rents, annuities, net foreign exchange gains and losses and the excess of gains over losses from the disposition of assets which produce passive income. As a result of our substantial cash position and the decline in the value of our stock, we may be a PFIC under a literal application of the asset test that looks solely to market value. If we are a PFIC for U.S. federal income tax purposes, U.S. Holders of our ordinary shares would be required, in certain circumstances, to pay an interest charge together with tax calculated at maximum rates on certain "excess distributions," including any gain on the sale of ordinary shares.

The consequences described above can be mitigated if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF. A shareholder making the QEF election is required for each taxable year to include in income a pro rata share of the ordinary earnings and net capital gain of the QEF, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. We have agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the Internal Revenue Service, or IRS.

As an alternative to making the QEF election, the U.S. Holder of PFIC stock which is publicly traded could mitigate the consequences of the PFIC rules by electing to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the U.S. Holder's adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. All U.S. Holders are advised to consult their own tax advisers about the PFIC rules generally and about the advisability, procedures and timing of their making any of the available tax elections, including the QEF or mark-to-market elections.

Backup Withholding and Information Reporting

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to a 28 percent U.S. backup withholding tax. Backup withholding will not apply, however, if you (i) are a corporation or come within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS. Any U.S. holder who holds 10% or more in vote or value of our ordinary shares may be subject to certain additional United States information reporting requirements.

U.S. Gift and Estate Tax

An individual U.S. Holder of ordinary shares will be subject to U.S. gift and estate taxes with respect to ordinary shares in the same manner and to the same extent as with respect to other types of personal property.

Other Income Tax

Taxable income of the Company's subsidiary in Luxemburg, Germany and United States is subject to federal tax at the rate of approximately 29%, 16% and 21%, respectively, In 2020 and 2019. In Switzerland, the tax rate ranges are between 14%-24% (including cantonal tax rate), for 2020 and 2019.

10.F. DIVIDEND AND PAYING AGENTS

Not applicable.

10.G. STATEMENT BY EXPERTS

Not applicable.

10.H. DOCUMENTS ON DISPLAY

We are subject to the information reporting requirements of the Exchange Act, applicable to foreign private issuers, and under those requirements, we file reports with the SEC. Our filings with the SEC are available to the public through the SEC's website at <http://www.sec.gov>.

10.I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Most of our revenues are generated in CHF but a portion of our expenses is incurred in NIS, EUR and in U.S. dollars. Therefore, our results of operations may be seriously harmed by inflation in Israel and currency fluctuations.

The inflation rate in Israel was approximately -0.2%, 0.6% and -0.7% in, 2018, 2019 and 2020, respectively. The changes of the NIS against the dollar was a devaluation of approximately 8.1%, 7.8% and 7% in 2018, 2019 and 2020, respectively. The change of the CHF against the dollar was a devaluation of approximately 0.8% in 2018, and an appreciation of approximately 1.4% and 10% in 2019 and 2020, respectively. The change of the Euro against the dollar was a devaluation of approximately 4.5% and 2.1% in 2018, and in 2019, and an appreciation of approximately 9.5% in 2020.

Our operations could be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of NIS against the U.S. dollar and against the CHF and against the EUR. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

The presentation currency of the financial statements is the U.S. dollar.

Our functional currency is the U.S Dollar.

The functional currencies of Optibase's subsidiaries are CHF, EUR and U.S dollar. Assets and liabilities of these subsidiaries are translated at the year-end exchange rates and their statement of operations items are translated using the average exchange rates for all periods presented. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

In February 2016, we entered into a hedging of cross currency interest rate swap transaction for the total amount of approximately NIS 34.2 million at fixed interest rate of 6.7% in exchange for approximately \$8.7 million at fixed interest rate of 7.95% with semi-annually payments commencing on June 2016 through December 2021, the termination date.

Interest Rate and Rating Risks

Our exposure to market risk for changes in interest rates in Switzerland relates primarily to our long term loan taken for the purchase of our real-estate property in Switzerland and denominated in Swiss Francs (CHF). Changes in Swiss interest rates, could affect our financial results.

Investments Risks

As of December 31, 2020, our available net cash was \$28.8 million. As of December 31, 2020, our available cash was invested in various bank deposits and money market funds with various banks. Our available cash is subject to the credit risk of the banks with which the funds are deposited and as such we may suffer losses if those banks fail to repay those deposits.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable. For a description of our Series A Bonds see "Item 5.B: Operating and Financial Review and Prospects - Liquidity and Capital Resources".

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Our management, including our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2020. Based on such review, our chief executive officer and chief financial officer have concluded that we have in place effective controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

(b) Our management, under the supervision of our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework for Internal Control-Integrated Framework (1992) set forth by The Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2020.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting, because we are neither a "large accelerated filer" nor an "accelerated filer" as those terms are defined in the Securities Exchange Act.

(c) There were no changes in our internal controls over financial reporting identified with the evaluation thereof that occurred during the period covered by this annual report that have materially affected, or are reasonable likely to materially affect our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors has determined that each of Ms. Tali Yaron-Eldar and Mr. Haim Ben-Simon is an “audit committee financial expert” and that each of them is independent under the applicable Securities and Exchange Commission and NASDAQ listing rules.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics for our employees, including our chief executive officer and senior financial officers. The Code of Business Conduct and Ethics is attached as Exhibit 11.1 to this annual report, and published on our website in the address: <http://www.optibase-holdings.com>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kost, Forer Gabbay & Kasierer, a member of Ernst & Young Global, or Ernst & Young has served as our independent public accountants for each of the fiscal years in the three-year period ended December 31, 2020, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by Kost, Forer Gabbay & Kasierer in Israel and by Ernst & Young in Switzerland and in the United States, to Optibase in 2019 and 2020 (in thousands of dollars):

| | 2019 | 2020 |
|-----------------------------------|------------|------------|
| Audit fees ⁽¹⁾ | 112 | 109 |
| Audit-related fees ⁽²⁾ | 5 | 5 |
| Tax fees ⁽³⁾ | 38 | 34 |
| Total | 155 | 148 |

(1) Audit fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.

(2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; internal control reviews of new systems, programs and projects; review of security controls and operational effectiveness of systems; review of plans and control for shared service centers, due diligence related to acquisitions; accounting assistance and audits in connection with proposed or completed acquisitions; and employee benefit plan audits.

(3) Tax fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authority; tax planning services; and expatriate tax planning and services.

Audit Committee Pre-approval Policies and Procedures

Our audit committee's main role is to assist the board of directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company. Our audit committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on the financial statements of the Company. Our audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by the external auditor and quarterly review the firm's non-audit services and related fees. These services may include audit services, audit-related services, tax services and other services, as described above. It is the policy of our audit committee to approve in advance the particular services or categories of services to be provided to the Company periodically. Additional services may be pre-approved by our audit committee on an individual basis during the year.

During 2019 and 2020, our audit committee approved all the audit-related fees, tax fees or other fees provided to us by Kost, Forer Gabbay & Kasierer in Israel or by Ernst & Young in Switzerland and in the United States.

ITEM 16D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

We have not and do not expect to apply for any exemptions from the NASDAQ listing standards for audit committees.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

There are no significant ways in which the Company's corporate governance practices differ from those followed by domestic companies listed on the Nasdaq Global Market.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not Applicable.

ITEM 18. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this annual report, beginning on page F-1. The financial statements of 300 RIVER HOLDINGS, LLC are also provided pursuant to Rule 3-09 of Regulation S-X.:

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ITEM 19. EXHIBITS

See Exhibit Index.

OPTIBASE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020
U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

OPTIBASE LTD.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Optibase Ltd. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, change in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, based on our audits and the report of the other auditor, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We did not audit the financial statements of 300 RIVER HOLDINGS LLC, a corporation in which the Company has a 30% interest. In the consolidated financial statements, the Company's investment in 300 RIVER HOLDINGS LLC is stated at \$ 1,928 thousand and \$ 4,407 thousand as of December 31, 2020 and 2019, respectively, and the Company's equity in the net loss of 300 RIVER HOLDINGS LLC is stated at \$ 4,476 thousand in 2020, \$ 4,859 thousand in 2019 and \$ 5,790 thousand in 2018. These statements were audited by the other auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for 300 RIVER HOLDINGS LLC, is based solely on the report of the other auditor.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of real estate assets

Description of the matter

As discussed in note 2g to the consolidated financial statement, held real estate assets, net of accumulated depreciation as of December 31, 2020 were \$192.1 million. The Company assesses held real estate assets for impairment when certain events or changes in circumstances indicate the carrying amount of the asset may not be recoverable through operations. When assessing for impairment, the Company performs a recoverability test by comparing the undiscounted future cash flows of the real estate asset to the net carrying value. If the undiscounted cash flows are less than the net carrying value, the Company will estimate the real estate assets' fair value. The estimated fair value is compared to the net carrying value to determine whether the asset is impaired.

Auditing management's evaluation of held real estate assets for impairment was complex due to the high degree of subjectivity in determining their future undiscounted cash flows and estimated fair values.

In particular, the undiscounted cash flows and fair value estimates were sensitive to the assumptions made by management regarding future rental revenues and operating expenses, capitalization rates, and anticipated hold period, which are affected by expectations about future market and economic conditions.

How we addressed the matter in our audit

To test the Company's impairment assessment over held real estate assets, our audit procedures included, among others assessing the methodologies used by management, evaluating the significant assumptions discussed above, testing the completeness and accuracy of the underlying data used by the Company in its analysis and evaluated the related disclosures.

In addition, we evaluated the historical accuracy of the Company's estimates and performed sensitivity analyses of the significant assumptions to evaluate the changes in the undiscounted future cash flows and estimated fair values of the property that would result from changes in the significant assumptions. We involved our real estate valuation specialists to assist in evaluating certain market rent assumptions used by management.

/s/ KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

We have served as the Company's auditor since at least 1997, but we are unable to determine the specific year.
Tel-Aviv, Israel
April 27, 2021

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | December 31, | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 28,820 | \$ 12,564 |
| Restricted cash | 835 | 32 |
| Trade receivables (net of allowance for credit losses of \$ 178 and \$ 285 at December 31, 2020 and 2019, respectively) | 216 | 536 |
| Other accounts receivable and prepaid expenses | 569 | 628 |
| Bonds related deposits | 2,564 | - |
| Property held for sale | - | 29,727 |
| Total current assets | 33,004 | 43,487 |
| LONG-TERM INVESTMENTS: | | |
| Long-term deposits | 98 | 2,678 |
| Right-of-use assets | 272 | 376 |
| Investments in companies and associates | 9,269 | 11,657 |
| Total long-term investments | 9,639 | 14,711 |
| Real estate property, net | 192,054 | 181,109 |
| Total assets | \$ 234,697 | \$ 239,307 |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

| | December 31, | |
|---|--------------|------------|
| | 2020 | 2019 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term loans and bonds | \$ 6,447 | \$ 28,803 |
| Other accounts payable and accrued expenses | 4,144 | 5,028 |
| Operating lease liabilities | 166 | 142 |
| Total liabilities attributed to discontinued operations | 2,061 | 2,061 |
| Total current liabilities | 12,818 | 36,034 |
| COMMITMENTS AND CONTINGENT LIABILITIES | | |
| LONG-TERM LIABILITIES: | | |
| Deferred tax liabilities | 15,095 | 13,801 |
| Land lease liability, net | 7,054 | 6,110 |
| Operating lease liabilities | 146 | 257 |
| Long-term loans, net of current maturities | 112,923 | 108,406 |
| Long-term bonds, net of current maturities | - | 2,845 |
| Total long-term liabilities | 135,218 | 131,419 |
| SHAREHOLDERS' EQUITY: | | |
| Share capital - | | |
| Ordinary shares of NIS 0.65 par value - | | |
| Authorized: 6,000,000 shares at December 31, 2020 and 2019; Issued: 5,216,256 shares at December 31, 2020 and 2019; Outstanding: 5,198,361 shares at December 31, 2020 and 2019 | 994 | 994 |
| Additional paid-in capital | 138,187 | 138,187 |
| Treasury shares: 17,895 shares at December 31, 2020 and 2019 | (87) | (87) |
| Other reserves | 2,759 | (428) |
| Accumulated deficit | (80,389) | (86,822) |
| Total shareholders' equity of Optibase Ltd. | 61,464 | 51,844 |
| Non-controlling interests | 25,197 | 20,010 |
| Total shareholders' equity | 86,661 | 71,854 |
| Total liabilities and shareholders' equity | \$ 234,697 | \$ 239,307 |

The accompanying notes are an integral part of the consolidated financial statements.

April 27, 2021

Date of approval of the
financial statementsAmir Philips
Chief Executive OfficerAlex Hilman
Executive Chairman
of the Board

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

| | Year ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2020 | 2019 | 2018 |
| Fixed income from real estate rent | \$ 14,874 | \$ 16,144 | \$ 16,608 |
| Costs and expenses: | | | |
| Cost of real estate operations | 2,548 | 2,948 | 2,991 |
| Real estate depreciation, amortization and impairment | 3,946 | 4,321 | 4,317 |
| General and administrative | 2,523 | 3,047 | 3,500 |
| Total costs and expenses | 9,017 | 10,316 | 10,808 |
| Gain on sale of operating properties | 9,127 | - | - |
| Operating income | 14,984 | 5,828 | 5,800 |
| Other income | 454 | 722 | 607 |
| Financial expenses, net | (1,781) | (2,630) | (2,882) |
| Income before taxes on income | 13,657 | 3,920 | 3,525 |
| Taxes on income | (2,162) | (1,472) | (1,464) |
| Equity share in losses of associates, net | (2,079) | (2,321) | (2,765) |
| Net income (loss) | 9,416 | 127 | (704) |
| Net income attributable to non-controlling interest | 2,983 | 2,120 | 2,077 |
| Net income (loss) attributable to Optibase Ltd. | \$ 6,433 | \$ (1,993) | \$ (2,781) |
| Net earnings per share: | | | |
| Basic and diluted net earnings (loss) per share | \$ 1.24 | \$ (0.38) | \$ (0.54) |
| Weighted average number of shares used in computing basic net earnings per share: | 5,186,273 | 5,186,273 | 5,185,352 |
| Weighted average number of shares used in computing diluted net earnings per share | 5,186,273 | 5,186,273 | 5,185,352 |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

| | Year ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2020 | 2019 | 2018 |
| Net income (loss) | \$ 9,416 | \$ 127 | \$ (704) |
| Foreign currency translation adjustments | 5,323 | 393 | (1,052) |
| Financial liability related to hedging | 68 | 137 | 88 |
| Total comprehensive income (loss) | 14,807 | 657 | (1,668) |
| Net income attributable to non-controlling interests | (2,983) | (2,120) | (2,077) |
| Other comprehensive loss (income) attributable to non-controlling interests | (2,204) | (283) | 207 |
| Comprehensive income (loss) attributable to Optibase Ltd. | \$ 9,620 | \$ (1,746) | \$ (3,538) |

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

| | Ordinary shares | Additional paid-in capital | Treasury shares | Other reserves | Accumulated deficit | Total shareholders' equity of Optibase Ltd. | Non- controlling interests | Total shareholders' equity |
|---|--------------------|----------------------------------|--------------------|-------------------|------------------------|--|----------------------------------|----------------------------------|
| Balance as of January 1, 2018 | \$ 993 | \$ 138,170 | \$ (87) | \$ 9 | \$ (82,048) | \$ 57,037 | \$ 20,031 | \$ 77,068 |
| Stock-based compensation | - | 17 | - | - | - | 17 | - | 17 |
| Issuance of shares upon exercise of stock options | 1 | - | - | - | - | 1 | - | 1 |
| Dividend to non-controlling interests | - | - | - | - | - | - | (2,067) | (2,067) |
| Other comprehensive loss | - | - | - | (757) | - | (757) | (207) | (964) |
| Equity component of transaction with controlling shareholder | - | - | - | 42 | - | 42 | - | 42 |
| Net income (loss) | - | - | - | - | (2,781) | (2,781) | 2,077 | (704) |
| Balance as of December 31, 2018 | 994 | 138,187 | (87) | (706) | (84,829) | 53,559 | 19,834 | 73,393 |
| Dividend to non-controlling interests | - | - | - | - | - | - | (2,227) | (2,227) |
| Other comprehensive income | - | - | - | 247 | - | 247 | 283 | 530 |
| Equity component of transaction with controlling shareholder | - | - | - | 31 | - | 31 | - | 31 |
| Net income (loss) | - | - | - | - | (1,993) | (1,993) | 2,120 | 127 |
| Balance as of December 31, 2019 | 994 | 138,187 | (87) | (428) | (86,822) | 51,844 | 20,010 | 71,854 |
| Other comprehensive income | - | - | - | 3,187 | - | 3,187 | 2,204 | 5,391 |
| Net income | - | - | - | - | 6,433 | 6,433 | 2,983 | 9,416 |
| Balance as of December 31, 2020 | <u>994</u> | <u>138,187</u> | <u>(87)</u> | <u>2,759</u> | <u>(80,389)</u> | <u>61,464</u> | <u>25,197</u> | <u>86,661</u> |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended December 31, | | |
|---|-------------------------|---------|----------|
| | 2020 | 2019 | 2018 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 9,416 | \$ 127 | \$ (704) |
| Adjustments required to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation, amortization and impairment | 3,946 | 4,321 | 4,317 |
| Gain on sale of operating properties | (9,127) | - | - |
| Stock-based compensation related to options and unvested shares | - | - | 17 |
| Decrease (increase) in trade receivables | 353 | (105) | (109) |
| Equity share in losses of associates, net | 2,079 | 2,321 | 2,765 |
| Decrease in deferred tax liabilities | (22) | (140) | (173) |
| Increase (decrease) in land lease liabilities | 319 | (106) | (108) |
| Increase (decrease) in lease liabilities | (43) | 257 | - |
| Decrease (increase) in right-of-use assets | 104 | (376) | - |
| Decrease (increase) in other accounts receivable and prepaid expenses | 79 | (665) | 965 |
| Increase (decrease) in accrued expenses, other accounts payable and other liabilities | (1,986) | 1,763 | (103) |
| Net cash provided by operating activities | 5,118 | 7,397 | 6,867 |
| Cash flows from investing activities: | | | |
| Investment in real estate property | (989) | (1,109) | (2,764) |
| Proceeds from associates, net | 309 | 398 | 414 |
| Decrease (increase) in other long-term deposits | (9) | 116 | 105 |
| Proceeds from sale of real estate property | 41,483 | - | - |
| Net cash provided by (used in) investing activities | 40,794 | (595) | (2,245) |

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

| | Year ended December 31, | | |
|--|-------------------------|-------------------------|-------------------------|
| | 2020 | 2019 | 2018 |
| Cash flows from financing activities: | | | |
| Repayment of long-term bank loans and bonds | (28,221) | (5,958) | (6,558) |
| Dividend paid to non-controlling interests | - | (2,227) | (2,067) |
| Repayment of controlling shareholders' loan | (2,618) | - | (2,500) |
| Net cash used in financing activities | (30,839) | (8,185) | (11,125) |
| Exchange differences on balances of cash and cash equivalents | 1,986 | 112 | (190) |
| Increase (decrease) in cash and cash equivalents and restricted cash | 17,059 | (1,271) | (6,693) |
| Cash and cash equivalents and restricted cash at the beginning of the year | 12,596 | 13,867 | 20,560 |
| Cash and cash equivalents and restricted cash at the end of the year | <u>\$ 29,655</u> | <u>\$ 12,596</u> | <u>\$ 13,867</u> |
| (a) Supplemental disclosures of cash flows information: | | | |
| Cash and cash equivalents | \$ 28,820 | \$ 12,564 | \$ 13,836 |
| Restricted cash | 835 | 32 | 31 |
| Total cash and cash equivalents and restricted cash | <u>\$ 29,655</u> | <u>\$ 12,596</u> | <u>\$ 13,867</u> |
| (b) Supplemental cash flows activities: | | | |
| Cash paid during the year for: | | | |
| Taxes | <u>\$ 3,040</u> | <u>\$ 1,433</u> | <u>\$ 2,521</u> |
| Interest | <u>\$ 1,492</u> | <u>\$ 2,320</u> | <u>\$ 2,484</u> |
| (c) Significant non-cash transactions: | | | |
| Net lease liabilities arising from obtaining right of use assets | <u>\$ 39</u> | <u>\$ 22</u> | <u>\$ -</u> |

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL

- a. Optibase Ltd. (the "Company") was incorporated and commenced operations in 1990.

The Company, through its subsidiaries, operate in fixed-income real-estate. The Company is engaged with purchasing and operating of real estate properties intended for leasing and resale primarily for the purpose of commercial, industrial, office space use as well as for residential purposes.

Until the sale of its video solutions business to VITEC Multimedia ("Vitec") in July 2010 (see Note 1d below), the Company and its U.S. subsidiary, Optibase Inc., provided equipment for a wide range of professional video applications in the Broadband IPTV, Broadcast, Government, Enterprise and Post-production markets. (Collectively, the "Video Activity"). Following the sale of the Video Activity, the Company's only operation is the fixed-income real-estate.

As of December 31, 2020, the Company manages its activity through four active subsidiaries: Optibase Inc. in the United States which was incorporated in 1991 ("Optibase Inc."), Optibase Real Estate Europe SARL ("Optibase SARL") in Luxembourg which was incorporated in October 2009, Optibase RES SARL in Luxembourg which was incorporated in June, 2018 and OPCIN SA, a Luxembourg company owned 51% by the Company which was incorporated in February 2011 ("Subsidiaries"), (collectively, the "Group").

- b. Investments in associates:

1. Retail portfolio in Bavaria, Germany:

On December 18, 2014 the Company through Optibase Bavaria GmbH & Co. KG ("Optibase Bavaria"), entered into a Purchase Agreement with an unrelated third party to acquire a retail portfolio of twenty-seven commercial properties in, Germany (the "Retail Portfolio in Germany").

The Retail Portfolio in Germany represents a homogenous retail portfolio in established retail locations, it has approximately 37,000 square meters of total rental space.

The largest tenant in the Retail Portfolio in Germany is EDEKA, which currently leases 19 of the rental properties in the portfolio. In addition to the hypermarkets and supermarkets, smaller shops (such as bakeries and post offices) operate on several locations as subtenants of EDEKA.

On June 2, 2015 the first stage of the transaction closing occurred and the Company acquired twenty-five (25) supermarkets in consideration of a purchase price of EUR 24,000,000 (approximately \$ 26,249 as of the purchase date). On July 8, 2015 the Company acquired the two (2) remaining supermarkets for an additional purchase price of EUR 4,750,000 (approximately \$ 5,224 as of the purchase date).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

In addition to the purchase price, the Company incurred acquisition costs, including real estate transfer taxes of EUR 2,075,000 (approximately \$ 2,352 during 2015) and presented in the consolidated statements of operations as other operating costs.

The portfolio purchase price has been allocated to real estate properties and other assets, net, in accordance with the Company's accounting policies for business combinations.

The total purchase price was allocated as follows:

| | |
|----------------------|------------------|
| Real estate property | \$ 31,399 |
| Other assets, net | <u>74</u> |
| Total purchase price | <u>\$ 31,473</u> |

On February 11, 2020 the Company by its wholly owned European subsidiary, Optibase Bavaria GmbH & Co. KG, had entered into a definitive agreement with an unrelated third party buyer, to sell its retail portfolio in Germany, for an aggregate cash consideration of EUR 35,000,000 (approximately \$ 38,900). The closing of the transaction was subject, among other things, to customary conditions, including (i) the waiver of a right of first refusal by the main tenant; and (ii) the waiver by the local municipalities of their right of first refusal on each of the properties.

The closing was during the second and third quarters of 2020.

As of December 31, 2019 the property net balance was approximately \$ 29,700 (including fair value in excess of book value related to property net and contracts with customers in amount of \$ 157) and was presented in the Company's balance sheet as property held for sale.

2. 300 South Riverside Plaza, Chicago:

On December 29, 2015, the Company through its subsidiary, Optibase Inc., completed an investment in 300 River Holdings, LLC, (the "Joint Venture Company") which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago under a 99 year ground lease expiring in 2114. The Company invested \$ 12,900 in exchange for a thirty percent (30%) interest in the Joint Venture Company. In addition to the Purchase Price, the Company incurred acquisition costs of approximately \$ 242. On June 17, 2016, and in accordance with the Company's initial investment agreement, the Company had invested an additional amount of \$ 3,000 which accrued interest of 12% per annum, and was distributed back to the Company on November 21, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

- c. The Company has one major tenant, 20% of the Company revenues for the year ended 2020, and two major tenants: 18% and 16% of the Company revenues in each of the years ended December 31, 2019, 2018. No other tenants accounted for more than 10% of the Company revenues.

For details regarding a dispute and an out-of-court settlement with major tenant of which OPCTN's subsidiary, Eldista GmbH ("Eldista"), see Note 12d(4).

- d. Sale of the Video Activity (discontinued operations):

Until the sale of its video solutions business to VITEC Multimedia ("Vitec") in July 2010, the Company and its U.S. subsidiary, Optibase Inc., provided equipment for a wide range of professional video applications in the Broadband IPTV, Broadcast, Government, Enterprise and Post-production markets (collectively, the "Video Activity").

On March 16, 2010, the Company and its subsidiary, Optibase Inc., entered into an asset purchase agreement (the "Agreement") with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec, Optibase Technologies Ltd. and Stradis Inc., collectively, "Vitec"). According to the Agreement, the Company sold to Vitec all of the assets and liabilities related to the Company's Video Solutions Business (the "Video Activity"). The closing of the transaction occurred on July 1, 2010.

The liabilities of the Video activity for the years ended December 31, 2020 and 2019, which relates to the discontinued operations and presented in the consolidated balance sheets, are summarized as follows:

| | Year ended December 31, | |
|---|----------------------------|----------|
| | 2020 | 2019 |
| Liabilities: | | |
| Total liabilities attributed to discontinued operations | \$ 2,061 | \$ 2,061 |

- e. The duration, scope and effects of the ongoing COVID-19 pandemic, government and other third-party responses to it, and the related macroeconomic effects, including to the Company's business and the business of the Company's suppliers and customers are uncertain, rapidly changing and difficult to predict. The Company considered the impact of COVID-19 on the estimates and assumptions and determined that there were no material adverse impacts on the consolidated financial statements for the period ended December 31, 2020. As events continue to evolve and additional information becomes available, the Company's estimates and assumptions may change in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b. Functional currency, presentation currency and foreign currency:

The presentation currency of the financial statements is the U.S. dollar.

The functional currency of the Company is the U.S. dollar.

The functional currencies of Optibase's subsidiaries are U.S. dollar, CHF and EUR. Assets and liabilities of these subsidiaries are translated at the year-end exchange rates and their statement of operations items are translated using the average exchange rates for all periods presented. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

d. Non-controlling interests:

Non-controlling interests generally represent the portion of equity that the Company does not own in the consolidated entities. The Company accounts for and reports its non-controlling interests in accordance with the provisions required under the Consolidation Topic of the FASB ASC 810. Non-controlling interests are separately presented within the equity section of the consolidated balance sheets. The amounts of consolidated net earnings attributable to the Company and to the non-controlling interests are presented on the consolidated statement of operations.

e. Cash equivalents:

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash, with original maturities of three months or less at the date acquired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Property:

Real estate properties are stated at cost net of accumulated depreciation. Costs include those related to acquisition, including building improvements.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

| | <u>Years</u> |
|-------------------------|--------------|
| Building | 25 - 63 |
| Buildings' improvements | 5 - 20 |
| Condominium units | 30 |

g. Impairment of long-lived assets, right-of-use assets and intangible assets:

The Group's long-lived assets (assets group) to be held or used, including property and equipment, right of use assets and intangible assets subject to amortization are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" and ASC 350, "Intangibles - Goodwill and other", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of long-lived assets, the Company makes judgments regarding whether impairment indicators exist based on legal factors, market conditions and operating performances of assets or asset groups. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the carrying amount of the assets exceeds the fair value of the assets.

The Company reviews assets on a component-level basis, which is the lowest level of assets for which there are identifiable cash flows that can be distinguished operationally and for financial reporting purposes. The carrying amount of the asset was compared with the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. In cases where the expected undiscounted future cash flows were less than the carrying amounts of the assets, those assets were considered impaired and written down to their fair values. Fair value was established based on discounted cash flows. As of December 31, 2020 an amount of \$247 was recorded as impairment and as of December 31, 2019, no impairment losses have been identified.

h. Investments in companies:

Investments in non-marketable equity securities of companies in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies are recorded at cost.

Other non-marketable equity securities without readily determinable fair value in which the Company does not have a controlling interest or significant influence are recorded at their original cost and adjusted for observable price changes for identical or similar instruments less any impairment. These equity securities are presented as other non-current assets in the Company's consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company reviews its unconsolidated non-marketable equity investments for potential impairment or other adjustments, which generally involves an analysis of the facts and changes in circumstances influencing the investments.

i. Investments in associates:

Associates are companies in which the Company has significant influence over the financial and operating policies without having control. The investment in associates is accounted for using the equity method of accounting. Under the equity method, the investment in associates is accounted for in the financial statements at cost plus changes in the Group's share of net assets, including other comprehensive income (loss) of the associates. The equity method is applied until the loss of significant influence or classification of the investment as non-current asset held-for-sale.

The accounting policy in the financial statements of the associates has been applied consistently and uniformly with the policy applied in the financial statements of the Group.

j. Intangibles assets:

Intangible assets consist of above-market value of in-place leases that were recorded in connection with the acquisition of the properties. Intangible assets are amortized and accreted using the straight-line method over the term of the related leases. When a lease is terminated early, any remaining unamortized balances under lease intangible assets or liabilities are charged to earnings.

k. Leases

The Company determines if an arrangement is a lease at inception. Contracts containing a lease are further evaluated for classification as an operating or finance lease. In determining the leases classification the Company assesses among other criteria: (i) 75% or more of the remaining economic life of the underlying asset is a major part of the remaining economic life of that underlying asset; and (ii) 90% or more of the fair value of the underlying asset comprises substantially all of the fair value of the underlying asset. For leases with terms greater than 12 months, the Company records the right-of-use asset and liability at commencement date based on the present value of lease payments according to their term.

As lessor, the Company elected to combine the lease components (base and variable rent) and non-lease components (reimbursement of common area maintenance expenses) from its operating lease agreements and account for the components as a component in accordance with ASC 842.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Derivative instruments:

The Company accounts for derivatives and hedging based on ASC No. 815, "Derivatives and Hedging". ASC No. 815 requires the Company to recognize all derivatives at fair value. The accounting for changes in the fair value of a derivative instrument (i.e., gains or losses) depends on whether it has been designated and qualified as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualified as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. If the derivatives meet the definition of a hedge and are so designated, depending on the nature of the hedge, changes in the fair value of such derivatives will either be offset against the change in fair value of the hedged assets, liabilities, firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings.

The ineffective portion of a derivative's change in fair value is recognized in earnings. As of December 31, 2020 and 2019, the Company had outstanding hedging instruments in the amount of \$ 332 and \$ 458, respectively, which were included in short-term assets and in long-term assets, respectively and outstanding hedging instruments in the amount of \$ 68, which were included as of December 31, 2019 in short-term liabilities.

At times, the Company may use derivative instruments to manage exposure to variable interest and currency rate risk. Occasionally, the Company enters into interest and currency rate swaps to manage its exposure to variable interest and currency rate risk and treasury locks to manage the risk of interest and currency rates rising prior to the issuance of debt.

The Company generally enters into derivative instruments that qualify as cash flow hedges and it does not enter into derivative instruments for speculative purposes.

m. Revenue recognition:

The Company is a lessor under non-cancellable operating leases and generates revenues from fixed income real-estate according to ASC 842 which derived from its buildings held through its subsidiaries in Switzerland (Rümlang and Geneva), Germany and Miami FL.

Rental income includes minimum rents which are recognized on an accrual basis over the terms of the related leases on a straight-line basis. Lease revenue recognition commences when the contract conveys the rights to control the use of the asset to the lessee for a period in exchange to considerations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Contingencies:

The Company periodically estimates the impact of various conditions, situations and/or circumstances involving uncertain outcomes to its financial condition and operating results.

The Company accounts for contingent events as required by ASC 450 "Contingencies". ASC 450 defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur". Legal proceedings are a form of such contingencies.

In accordance with ASC 450, accruals for exposures or contingencies are being provided when the expected outcome is probable. However, it is possible that future results of operations for any particular quarter or annual period could be materially affected by changes in the Company's assumptions, the actual outcome of such proceedings or as a result of the effectiveness of the Company strategies related to these proceedings.

o. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC Topic 740, "Income Taxes" "ASC 740", prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

ASC 740 clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets

the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue. The Company policy is to accrue interest and penalties related to unrecognized tax benefits in its tax expenses.

The Company believes that its tax positions are all highly certain of being upheld upon examination. As such, as of December 31, 2020 and 2019 the Company has not recorded a liability for uncertain tax positions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivables and long-term lease deposits.

Cash and cash equivalents are invested in U.S. dollar deposits with major banks in Israel, the United States, Switzerland and Germany. Cash and cash equivalents in the United States may be in excess of insured limits and are not insured in other jurisdictions. The Company maintains cash and cash equivalents with diverse financial institutions and monitors the amount of credit exposure to each financial institution.

Accounts receivable includes amounts billed to tenants and accrued expense recoveries due from tenants. The Company makes estimates of un-collectability from its accounts receivable using the specific identification method related to base rents, straight-line rent balances, expense reimbursements and other revenues.

The Company also analyzes accounts receivable and historical bad debt levels, tenant credit-worthiness, payment history and current economic trends and future economic conditions when evaluating the adequacy of the allowance for credit losses. Accounts receivable are written-off when they are deemed to be uncollectible and the Company is no longer actively pursuing collection. The Company's reported net income is directly affected by the management's estimate of the collectability of accounts receivable.

q. Earnings (loss) per share:

Basic net earnings (losses) per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings (losses) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earning Per Share".

r. Accounting for stock-based compensation:

ASC Topic 718 "Compensation - Stock Compensation" "ASC 718", requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model.

The Company recognizes these compensation costs net of forfeiture rate and recognizes the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates the fair value of stock options granted using the Black-Scholes- Merton option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility is calculated based upon actual historical stock price movements. The expected term of options granted is based upon historical experience and represents the period of time that options granted are expected to be outstanding. The risk free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

During 2020 and 2019 there were no new grants.

s. Treasury shares:

During the past years, the Company repurchased certain Ordinary shares on the open market and holds such shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction from the shareholders' equity. From time to time the Company reissues treasury shares under the stock purchase plan, upon exercise of option and upon vesting of restricted stock units.

When treasury stock is reissued, the Company accounts for the re-issuance in accordance with ASC No. 505-30, "Treasury Stock" and charges the excess of the purchase cost, including related stock-based compensation expenses, over the re-issuance price to retained earnings. The purchase cost is calculated based on the specific identification method. In case the purchase cost is lower than the re-issuance price, the Company credits the difference to additional paid-in capital.

t. Fair value of financial instruments:

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, other accounts receivable, trade payables, other accounts payable, and accrued liabilities, approximate fair value because of their generally short-term maturities.

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As a basis for considering such assumptions, ASC 820 establishes a three-level value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Swap instruments are measured at fair value under ASC 820 on a recurring basis as of December 31, 2020 and 2019.

u. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC No. 220, "Comprehensive Income". Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

v. Recently adopted accounting pronouncements:

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses on Financial Instruments", which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available for sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available for sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The Company adopted Topic 326 effective January 1, 2020, based on the composition of the Company's trade receivables, investment portfolio and other financial assets, current economic conditions, historical credit loss activity and future economic conditions. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

w. Recent accounting pronouncements issued:

In December 2020, the FASB issued ASU No. 2020-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which simplifies the accounting for income taxes. ASU 2020-12 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2020. The Company is currently evaluating the impact of the new guidance on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 3- REAL ESTATE PROPERTY, NET

| | Land | Building | Condominium units | Currency translation adjustment | Total |
|---|-----------|------------|----------------------|---------------------------------------|------------|
| Cost: | | | | | |
| At January 1, 2019 | \$ 33,874 | \$ 190,830 | \$ 21,413 | \$ (6,618) | \$ 239,499 |
| Additions | - | 934 | 173 | 1,981 | 3,088 |
| Reclassification – property held for sale | (7,559) | (26,178) | - | - | (33,737) |
| At December 31, 2019 | 26,315 | 165,586 | 21,586 | (4,637) | 208,850 |
| Additions | - | 615 | 374 | 19,692 | 20,681 |
| Disposals | - | - | (2,238) | - | (2,238) |
| At December 31, 2020 | 26,315 | 166,201 | 19,722 | 15,055 | 227,293 |
| Accumulated depreciation and impairment: | | | | | |
| At January 1, 2019 | - | 25,136 | 2,506 | (492) | 27,150 |
| Depreciation charge for the year | - | 3,948 | 392 | 417 | 4,757 |
| Reclassification - property held for sale | - | (4,166) | - | - | (4,166) |
| At December 31, 2019 | - | 24,918 | 2,898 | (75) | 27,741 |
| Depreciation and impairment charge for the year | - | 3,221 | 725 | 3,552 | 7,498 |
| At December 31, 2020 | - | 28,139 | 3,623 | 3,477 | 35,239 |
| Real estate property, net: | | | | | |
| At December 31, 2020 | \$ 26,315 | \$ 138,062 | \$ 16,099 | \$ 11,578 | \$ 192,054 |
| At December 31, 2019 | \$ 26,315 | \$ 140,668 | \$ 18,688 | \$ (4,562) | \$ 181,109 |

Balance of property held for sale is comprised of Retail portfolio in Bavaria, Germany.

For details regarding the portfolio sale agreement, see Note 1b(1).

Following the review of the expected undiscounted future cash flows an impairment ralets to the Condominium units, in the amount of \$247 was recorded in 2020.

Estimated depreciation expenses by years are as follows:

| <u>Year</u> | <u>Estimated depreciation expenses</u> |
|---------------------|--|
| 2021 | 3,901 |
| 2022 | 3,901 |
| 2023 | 3,901 |
| 2024 | 3,901 |
| 2025 and thereafter | 150,135 |
| | <u>165,739</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 4- OTHER ASSETS, NET

| | Above, below market value of in-place leases | Currency translation adjustment | Total |
|---|--|---------------------------------------|-------|
| Cost: | | | |
| At January 1, 2019 | \$ 147 | \$ (70) | \$ 77 |
| Additions | - | (3) | (3) |
| Reclassification – property held for sale | (74) | - | (74) |
| At December 31, 2019 | 73 | (73) | - |
| Additions | - | - | - |
| At December 31, 2020 | - | - | - |
| Accumulated amortization: | | | |
| At January 1, 2019 | 13 | (77) | (64) |
| Amortization charge for the year | (19) | 4 | (15) |
| Reclassification – property held for sale | 79 | - | 79 |
| At December 31, 2019 | 73 | (73) | - |
| Amortization charge for the year | - | - | - |
| At December 31, 2020 | - | - | - |
| Other assets, net: | | | |
| At December 31, 2020 | \$ - | \$ - | \$ - |
| At December 31, 2019 | \$ - | \$ - | \$ - |

Intangible assets consist of lease contracts with tenants deriving from the purchase of a building complex in Geneva in 2011 and purchase of retail portfolio in Germany. See Note 1b(1).

Balance of property held for sale is comprised of Retail portfolio in Bavaria, Germany.

For details regarding the portfolio sale agreement, see Note 1b(1).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 5- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

| | December 31, | |
|-------------------|---------------|---------------|
| | 2020 | 2019 |
| Prepaid expenses | \$ 38 | \$ 113 |
| Income receivable | 442 | 257 |
| Others | 89 | 258 |
| | <u>\$ 569</u> | <u>\$ 628</u> |

NOTE 6- DEPOSITS

Short-term deposits :

| | December 31, | |
|------------------------|-----------------|-------------|
| | 2020 | 2019 |
| Bonds deposit (1) | \$ 2,045 | \$ - |
| Restricted account (2) | 187 | - |
| SWAP (3) | 332 | - |
| | <u>\$ 2,564</u> | <u>\$ -</u> |

Long-term deposits :

| | December 31, | |
|------------------------|--------------|-----------------|
| | 2020 | 2019 |
| Bonds deposit (1) | \$ - | \$ 1,903 |
| Restricted account (2) | - | 232 |
| SWAP (3) | - | 458 |
| Other | 98 | 85 |
| | <u>\$ 98</u> | <u>\$ 2,678</u> |

(1) Bonds deposit of one payment of principal and interest reserves. See Note 11.

(2) Restricted amount related to the hedging transaction, see details (3) below.

(3) Hedging of cross currency interest rate swap transaction for the total amount of approximately NIS 34,200,000 at fixed interest rate of 6.7% in exchange for approximately \$ 8,700 at fixed interest rate of 7.95% with semi-annually payments commencing on June 2016 through December 2021, the termination date. As of December 31, 2020, the hedging amount is \$ 1,455.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 7:- LEASES

The Company has operating leases for office space and vehicles that expire through 2023.

Below is a summary of our operating right-of-use assets and operating lease liabilities under ASC 842 as of December 31, 2020 and December 31, 2019:

| | December 31, | |
|---------------------------------------|---------------------|---------------|
| | 2020 | 2019 |
| Operating right-of-use assets | \$ 272 | \$ 376 |
| Operating lease liabilities, current | 166 | 142 |
| Operating lease liabilities long-term | 146 | 257 |
| Total operating lease liabilities | <u>\$ 312</u> | <u>\$ 399</u> |

Cash paid for amounts included in the measurement of operating lease liabilities was \$162 and \$130 during the years ended December 31, 2020 and 2019, respectively.

Minimum lease payments for our right of use assets over the remaining lease periods as of December 31, 2020, are as follows:

| Year ended December 31, | |
|------------------------------------|---------------|
| 2021 | \$ 170 |
| 2022 | 129 |
| 2023 | 28 |
| Total undiscounted lease payments | 327 |
| Less - interest | (15) |
| Present value of lease liabilities | <u>\$ 312</u> |

The weighted average remaining lease terms and discount rates for all of operating leases were as follows as of December 31, 2020:

Remaining lease term and discount rate:

| | |
|---|-------|
| Weighted average remaining lease term (years) | 1.75 |
| Weighted average discount rate | 3.39% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 7:- LEASES (Cont.)

The Company as lessor:

Future minimum rental payments to be received under operating leases:

Year ended December 31,

| | | |
|-------------------------------------|-----------|----------------------|
| 2021 | \$ | 5,279 |
| 2022 | | 1,917 |
| 2023 | | 3,360 |
| 2024 | | 187 |
| 2025 and thereafter | | <u>2,630</u> |
| Total future minimum rentals | \$ | <u>13,373</u> |

NOTE 8:- INVESTMENTS IN COMPANIES AND ASSOCIATES

- a. On October 12, 2012, the Company acquired through its subsidiary beneficial interests in Two Penn Center Plaza in Philadelphia, Pennsylvania. This investment is accounted for using the equity method of accounting as the Company's indirect beneficial interest in Two Penn Center Plaza is 22.16% and therefore is considered to be more than minor.

| | December 31, | |
|-------------------------|------------------------|------------------------|
| | 2020 | 2019 |
| Invested in equity | \$ 4,025 | \$ 4,025 |
| Distributions | (1,794) | (1,485) |
| Accumulated net income | <u>1,110</u> | <u>710</u> |
| Total investment | \$ <u>3,341</u> | \$ <u>3,250</u> |

- b. On December 31, 2012 the Company acquired through its subsidiary Optibase Inc. approximately 4% indirect beneficial interest in a portfolio of shopping centers located in Texas, USA in consideration for \$ 4,000 which accounted for the cost method of accounting. The Company believes that its beneficial interests in Texas portfolio are considered to be so minor that they create virtually no influence over the operating and financial policies of the Real Estate Asset and therefore this investment accounted for cost method of accounting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 8:- INVESTMENTS IN COMPANIES AND ASSOCIATES (Cont.)

- c. On December 29, 2015, the Company through its subsidiary, Optibase Inc., completed an investment in 300 River Holdings, LLC, (the "Joint Venture Company") which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago under a 99 year ground lease expiring in 2114. The Company invested \$ 12,900 in exchange for a thirty percent (30%) interest in the Joint Venture Company. In addition to the Purchase Price, the Company capitalized acquisition costs of approximately \$ 242. See Note 1b(2). On June 17, 2016, and in accordance with the Company's initial investment agreement, the Company had invested an additional amount of \$ 3,000 which accrued interest of 12% per annum, and was distributed back to the Company on November 21, 2017.

| | December 31, | |
|----------------------|-----------------|-----------------|
| | 2020 | 2019 |
| Invested in equity | \$ 13,142 | \$ 13,142 |
| Accumulated net loss | (11,214) | (8,735) |
| Total investment | <u>\$ 1,928</u> | <u>\$ 4,407</u> |

- d. Investments in associates accounted for using the equity method of accounting:

Summarized data of the financial statements of associates, unadjusted to the Company's percentage of holdings: *)

| | December 31, | |
|-------------|--------------|-------------|
| | 2020 | 2019 |
| Assets | \$ 321,153 | \$ 336,310 |
| Liabilities | \$ 459,620 | \$ 461,448 |
| Income | \$ 49,708 | \$ 56,941 |
| Net loss | \$ (11,947) | \$ (11,106) |

*) The information presented does not include excess cost and goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

| | December 31, | |
|-----------------------------------|-----------------|-----------------|
| | 2020 | 2019 |
| Employees and payroll accruals | \$ 308 | \$ 245 |
| Accrued expenses | 2,640 | 2,597 |
| Government (mainly tax provision) | 264 | 878 |
| Advance tenants payments | 397 | 504 |
| Tenant security deposits | 116 | 124 |
| Trade payables | 397 | 591 |
| Others | 22 | 89 |
| Total | \$ 4,144 | \$ 5,028 |

NOTE 10:- LONG-TERM LOANS

- a. On October 29, 2009, Optibase SARL received a mortgage loan (the "Loan") from a financial institution in Switzerland, in the amount of CHF 18,800,000 for the purpose of purchasing the real estate property located in Rümlang, Switzerland (the "Property"). The loan bears a variable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins 0.8%. The financial institution may increase the margin at any time if creditworthiness of the borrower or quality of the property is impaired. Principal and interest of the loan are payable quarterly. The loans are repaid at a rate of CHF 376,000 per year. The mortgage loan may be repaid at any time with a three months prior written notice by the Company. The mortgage loan is governed by the laws of Switzerland and bears other terms and conditions customary for that type of mortgage loans. The Company pledged to the bank the property and all accounts and assets of the Company's subsidiary which are deposited with the bank against the loan received. The Company is required to meet certain covenants under this mortgage loan. As of December 31, 2020, the Company met the required covenants.

Maturities of the loan by years are as follows:

| Year ended December 31, | |
|-------------------------|---------------|
| 2021 (current maturity) | 427 |
| Long-term portion: | |
| 2022 | 427 |
| 2023 | 427 |
| 2024 | 427 |
| 2025 | 427 |
| Thereafter | 14,483 |
| Total | 16,191 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 10:- LONG-TERM LOANS (Cont.)

- b. On October 2011, OPCTN and Eldista entered into a CHF 100,000,000 bank loan refinancing with Credit Suisse for the above mentioned loan. Under the new financing agreement, Credit Suisse provided a new loan to OPCTN and Eldista which replaced the mortgage loan that Credit Suisse provided to Eldista. The loan bears a variable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins, the combined interest margins rate was 0.83%. The loans are repaid at a rate of CHF 2,000,000 per year and are secured by a first mortgage over the property and by a pledge of Eldista's shares. On January 8, 2020 Eldista has signed a new framework agreement for a mortgage loan at an amount of credit facility of CHF 83,500,000, the amount of the credit facility was reduced by the sum amortization and other loan repayment made. According to the new framework agreement, the credit facility may be utilized as follows: (i) mortgage loans in CHF with terms of 1 to max 10 years; (ii) mortgage-backed fixed advanced in CHF with terms of 3, 6 or 12 months; (iii) mortgage-backed fixed advanced in USD with terms of max 3 months. When use in USD may only occur if the resulting foreign exchange risk is hedged through a separate OTC transaction in the same currency and with the same term and amount. The loan bears a variable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins. The annual interest margin rate is 0.75% for drawings in CHF or 1.05% for drawings in USD. The loan is repaid at a rate of CHF 2,000,000 per year on a quarterly basis and secured by a pledge of Eldista's shares. The Company is required to meet certain covenants under this mortgage loan. As of December 31, 2020, the Company met these covenants.

Maturities of the loan by years are as follows:

Year ended December 31,

| | |
|-------------------------|---------------|
| 2021 (current maturity) | 2,266 |
| Long-term portion: | |
| 2022 | 2,266 |
| 2023 | 2,266 |
| 2024 | 2,266 |
| 2025 | 2,266 |
| Thereafter | 81,886 |
| Total | 90,950 |

- c. Optibase Bavaria negotiated a loan agreement with a Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft ("DG HYP"), for the provision of a senior mortgage loan in the amount of up to EUR 21,000,000 of which the Company utilized EUR 20,474,000. The effective interest rate was closed at 2.15%. The loan is repaid in quarterly installments of EUR 105,000 each, up until April 30, 2020. The terms of the loan includes certain covenants, a debt service cover ratio requirement of between 130% and 110%, and a loan to value requirement of 70% in the first three years and 65% in the fourth and fifth years. As of December 31, 2019, the Company met these covenants. During May and June 2020, as part of the Company portfolio sale transaction, the Company repaid the loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 10:- LONG-TERM LOANS (Cont.)

- d. On July 8, 2015, the Company subsidiary, Optibase Inc., entered into a loan agreement with City National Bank of Florida (“CNB”) for a gross amount of \$ 15,000 for the financing of 25 condominium units the Company owns in Miami and Miami Beach, Florida. The loan is secured by a senior mortgage over the condominium units. The loan was taken for a term of three (3) years, with an interest rate of Libor 30-day-rate plus 2.65%. Interest is paid monthly commencing August 1, 2015, and the principal is reduced in six-month intervals beginning July 2016. On November 24, 2017 Optibase Inc., refinanced the loan. Under the refinancing, the existing principle loan balance of \$ 9,390 bears an interest rate of Libor 30- day rate plus 2.65% which may be increased to 30-day Libor plus 3.25% if Optibase Inc. or its subsidiary, fail to maintain depository accounts with totaling \$ 1,500. On November 21, 2019 Optibase Inc., prolonged the amortization of the outstanding principal balance of the loan in amount of \$ 8,903, all terms remain unchanged. The principal of the Loan is amortized on a monthly basis with principal payments of approximately \$ 19 per month plus accrued interest until the loan matures on January 4, 2021 when all remaining principal and interest become due and payable.

On March 31, 2020 Optibase Inc., refinanced the loan. Under the refinancing, the existing principle loan balance of \$ 8,828 bears an interest rate of Libor 30- day rate plus 2.65%, however, in no event shall the interest rate be less than 4.65%. The loan maturity date is September 30, 2021. Optibase Inc. shall have the right to extend the maturity date to March 31, 2023 if no event of default has occurred and subject to certain other conditions. Optibase Inc., will pay fee in amount equal to 2% of the amount of the deficiency if Optibase Inc. or its subsidiary, fail to maintain depository accounts with totaling \$ 1,500, this covenant shall be measured for compliance annually, commencing December 2020, and continuing on December 31 of each calender year thereafter. The securities for the loan include a restricted cash deposit of approximately \$ 550 Interest reserve. On May 2020 Optibase Inc., repaid an amount of \$ 2,271. As of December 31, 2020 Loan issuance costs of \$ 117 reported in the balance sheet as a direct deduction from the gross amount of the loan and are amortized in accordance with the loan payments. The covenants under the new financing agreement are substantially the same as under the previous loan agreement. As of December 31, 2020, the Company met these covenants.

Maturities of the loan by years are as follows:

| Year ended December 31, | |
|--------------------------------|-------|
| 2021 (current maturity) | 655 |
| Long-term portion: | |
| 2022 | - |
| 2023 | 5,782 |
| Total | 5,782 |

- e. For information regarding a loan received from the controlling shareholder, see Note 18b(5).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 11:- BONDS

In August 2015, the Company issued gross amount of NIS 60,000,000 (approximately \$ 15,700 as of the issue date) in aggregate principal amount of Series A Bonds bearing annual fixed interest of 6.7% payable in semi-annual installments on June 30 and on December 31 of each of the years 2015 through 2021, commencing on December 31, 2015 and ending on December 31, 2021. The principal will be repaid in semi-annual installments on June 30 and on December 31 of each of the years of 2016 through 2021, commencing on June 30, 2016 and ending on December 31, 2021. The bonds (principal and interest) are not linked to any currency or index.

Debt issuance costs of \$ 384 reported in the balance sheet as a direct deduction from the gross amount of the bonds. The debt issuance costs are amortized in accordance with the bonds payments. As of December 31, 2020 the unamortized amount of the debt issuance costs is \$ 17. The Company is required to meet certain covenants under this bonds. As of December 31, 2020, the Company met these covenants.

The maturities date of the bonds in the amount of \$ 3,099 is December 31, 2021.

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Assets pledged as collateral:

As collateral for the Company's loan mortgages, a fixed pledge has been placed on the Company's subsidiaries in Luxemburg shareholders' equity. See Note 10a.

b. Israel Innovation Authority commitments:

Until the sale of the Video Activity the Company participated in programs sponsored by the Israeli Government and by the European Commission for the support of research and development activities.

The Company was obligated to pay royalties to the Israel Innovation Authority ("IIA"), in the amount of 3%-3.5% of the sales recorded from products and other related revenues generated from such projects, up to 100% of the grants received, linked to the U.S. dollar and for grants received after January 1, 1999 also bearing interest at the rate of LIBOR. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required. The Company was undergoing an audit by the IIA for royalties paid before the sale of the Company's Video business.

As of December 31, 2020, the Company has sufficient provisions to cover the expected outcome of such review process. The provision for the above commitments was recorded under liabilities attributed to discontinued operations as the Company has no further obligation to pay royalties on revenues generated by the Video Activity subsequent to its sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

- c. In June 2017, Aberdeen Associates LLC, a Delaware limited liability company, extended a \$ 7,000, 5-year fixed-rate loan facility (the "Loan Facility") to the Company's subsidiary, Optibase Inc. secured by a pledge of 100% of its membership interest in Optibase Chicago 300, LLC. The Loan Facility will bear interest at an annual rate of 5% of the amount drawn, and is compounded and paid quarterly until the maturity on June 1, 2022. As of December 31, 2020, the Company has not drawn down any funds under the Loan Facility.
- d. Legal claims and contingent liabilities:
1. On October 26, 2014, the Company received a letter on behalf of two purported shareholders (the "Shareholders") demanding the Company to file a derivative claim against its controlling shareholder and directors and officers, according to procedures of the Companies Law and requesting discovery of internal documents. The demand alleges, among other things, breach of fiduciary duties by directors and officers with respect to the approval of the transaction to acquire condominium units in Miami Beach, Florida, (the "Transaction"), in accordance with the Companies Law. The Company presented the Shareholders, at their request, with certain materials in connection with the Transaction for their review.

On May 12, 2015 the Company has been served with a motion to approve the filing of a derivative claim against its controlling shareholder, directors and CEO and against certain former controlling shareholder and directors, (the "Motion").

The Claim alleges, among other things, a breach of fiduciary duties by the Company directors, officers and controlling shareholder, and an exploitation of a business opportunity by the Company current and former controlling shareholder with respect to certain private placements of the Company's shares to its controlling shareholder.

The Claim further alleges, that such private placements constitute a prohibited distribution as the shares were issued for an unfair consideration. As a result of the above, the Applicants request the Court to allow them to continue with this derivative claim and ultimately to require all the defendants to pay the Company an aggregate amount of approximately \$ 41,900, as well as required the Companies shareholder (current and former) to pay to the Company approximately \$ 2,800 plus interest (for the exploitation of a business opportunity). The Applicants further require reimbursement of expenses, legal fees and award to the Applicants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On June 16, 2019, the District Court denied the motion to approve the filing of the derivative claim.

On September 22, 2019, the Applicants filed an appeal to the District Court's decision to the Supreme Court. On February 20, 2020, the applicants submitted their written summations and the Company and the other respondents also filed their summations. The hearing of the Appeal is scheduled to May 3, 2021.

At this stage the Company cannot provide an assessment as to the chances of the claim and the exposure to the Company.

2. On March 6, 2019, the Company has notified that Swiss Pro Capital Limited, a company organized under the laws of Switzerland, has filed a legal claim against the Company's subsidiaries, Optibase RE 1 s.a.r.l and Optibase Real Estate Europe SARL.

The matter of the claim is an option agreement signed between the parties on March 1, 2010, whereby the plaintiff was given the option for 8 years to purchase 20% of the shares of Optibase RE1, which holds a building in Switzerland, at a price to be calculated on the option exercise date according to a formula set forth in the agreement.

In the statement of claim, it is claimed that starting at the end of 2014, the plaintiff approached the Company to check the possibility of exercising the option. Accordingly, the plaintiff requested to get data about the property in order for it to be able to check the updated option price. According to the plaintiff, after it was ignored by the Company, the option price as finally presented by the Company does not reflect the correct option price in accordance with the intent of the parties to the agreement and in accordance with the formula specified therein, and the Company artificially raised the option price.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Thus, according to the plaintiff, for the price of the options to be without financial merit, Optibase REE did not draw dividends available for distribution from Optibase RE1. In addition, the Company did not refinance the property, and even imposed excess management expenses and other unnecessary expenses on Optibase RE1.

The plaintiff claims that the correct option exercise price, and as it was actually exercised on May 25, 2016, is zero Swiss Francs, and it seeks for the court to issue a declaratory order under which it is entitled to receive 20% of the shares of Optibase RE1 at a price of zero Swiss Francs, and to issue orders to remove the discrimination, including that the Company must pay the plaintiff a sum of CHF 400,000 .

On July 29, 2019 the Companies filed a statement of defense.

The Company categorically deny the allegations raised in the statement of claim, and claim that the option price as given over by them reflects what is stated in the option agreement and that, in complete contradiction to the plaintiff's claims, they did not artificially raise the price of the option as alleged.

The parties were referred to mediation that ended without reaching a settlement. Preliminary hearing has been scheduled for May 27, 2020.

The parties have finished documents disclosure.

A court hearing is scheduled on June 21, 2021 after submitting the affidavits.

At this stage the Company cannot provide an assessment as to the chances of the claim.

3. On April 16, 2015, the Company's subsidiary Eldista GmbH, filed a claim to the court in Switzerland in an amount of CHF 961,000 due to damages and unpaid amounts from a specific tenant. Shortly thereafter, the tenant filed a counterclaim against Eldista GmbH in an amount of CHF 157,000 for damages allegedly caused to it. The court suggested the parties to transfer to mediation proceedings which failed. The court handed down a partial judgment on 31, October 2016, dismissing Eldista GmbH's claim (though it had not yet examined the issue of the damages). Eldista GmbH filed an appeal against the judgment, but it was dismissed on June 12, 2017. On May 2, 2018, the court ruled that the damages owned to the tenant shall amount to approximately CHF 53,000 plus interest 5% as of June 4, 2014. An appeal has been filed and is currently pending before the supreme court. Should the supreme court confirm the first judgment, Eldista GmbH will most likely have a counterclaim against the former real estate agency that was managing the CTN Complex, although there is also a possibility that a judge would consider that the latter committed no breach or that only a portion of the damage can be recovered by the agency.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On October 27, 2019, the judgment which dismissed the appeal filed by Eldista. Eldista was therefore ordered to pay the tenant CHF 53,000 plus interest 5% as of June 4, 2014, as well as an amount of CHF 17,000 as a participation for the tenant legal fees. These amounts were paid in January and February 2020.

4. On March 1 2017, the Company's subsidiary Eldista GmbH, received a notice from its largest tenant in Switzerland, LEM Switzerland SA, or LEM, regarding the deposit of the monthly rent for March 2017 amounting to approximately CHF 279,000 with Banque cantonale de Genève, as a preliminary process for filing a claim. LEM claims that there are serious defects affecting the rented premises, which merit LEM with a reimbursement of approximately CHF 2,400,000 (excluding VAT) as well as approximately CHF 69,000 as indemnification for consequential damages.

Based on LEM's submissions filed during the first hearing before the court, LEM requested a 20% rent reduction amounting to a capital amount of CHF 3,094,000, with 5% moratory interest per year, corresponding to approximately CHF 154,000 per year, based on the various defects allegedly affecting the rented premises. In addition, LEM is claiming for related damages an amount of approximately CHF 168,000, subject to amplification, with 5% moratory interest per year. LEM's claim for rent reduction amounted of approximately CHF 714. LEM further demands to be reserved the right to claim the reimbursement of all ancillary costs paid in access to Eldista, without however indicating any amount to support its claim. A first hearing took place on June 26, 2018, and a second hearing took place on November 7, 2018.

On January 27, 2020, a formal filing of a claim was submitted by LEM against Eldista.

LEM claimed a first extension of its current lease until December 31, 2021, or until September 30, 2022 at the latest. LEM also claimed a rent reduction of 16.94% from April 2020 until the end of the extension which corresponds to a total amount of CHF 1,189,000. A first conciliation hearing was appointed on April 29, 2020 but was cancelled due to the COVID-19 pandemic and took place on 23 September 2020.

Finally, discussions for an out-of-court settlement started between the parties after the hearing of October 1, 2020 and ended by an agreement concluded on October 16, 2020. This agreement, validated by the first instance court for lease matters on 27 October 2020, provides in the main that the parties withdraw all pending claims against each other and LEM receives from Eldista, as full and final settlement, a monthly contribution of CHF 43,750 (VAT not included) to its damage that is paid from December 2020 until March 2022, corresponding to a total amount in capital of CHF 700,000 (VAT not included). LEM is also authorized by this agreement to remain in the premises until December 31, 2023 with a termination notice of three months form the end of a month should it wish to leave the premises earlier.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 13:- FAIR VALUE MEASUREMENTS

a. Recurring fair value measurements:

The fair value of the interest rate swaps is based on the estimated amount the Company would receive or pay to terminate the contract at the reporting date and is determined using interest rate pricing models and observable inputs.

As of December 31, 2019, the Company has an interest rate swap agreements for Optibase Bavaria loan. The fair value of the interest rate swap consisted of a liability of \$ 68, as of December 31, 2019 is included in short-term liabilities, and the net unrealized income on the Company interest rate swap is included in accumulated other comprehensive loss.

The fair value of the currency swaps is based on the estimated amount the Company would receive or pay to terminate the contract at the reporting date and is determined using currency rate pricing models and observable inputs.

As of December 31, 2020 and 2019, the Company has a currency rate swap agreements for Optibase Series A bonds. The fair value of the currency rate swap consisted of an assets of \$ 332 and \$ 458, respectively.

b. Valuation methods:

In accordance with ASC 820, the Company measures its interest rate swap derivative instruments at fair value using the market approach valuation technique. The fair value of interest rate swap derivative instruments is classified within Level 2 value hierarchy, as the valuation inputs are based on quoted prices.

NOTE 14:- TAXES ON INCOME

a. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the Code. The changes include, but are not limited to:

1. A corporate income federal tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 ("Rate Reduction");
2. The transition of U.S. international taxation from a worldwide tax system to a territorial system by providing a 100 percent deduction to an eligible U.S. shareholder on foreign sourced dividends received from a foreign subsidiary;
3. A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017; and
4. Taxation of GILTI earned by foreign subsidiaries beginning after December 31, 2017. The Global Intangible Low-Taxed Income GILTI tax imposes a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 14:- TAXES ON INCOME (Cont.)

b. Corporate tax rates:

Israeli companies are generally subject to corporate tax on their taxable income. In 2020, 2019 and 2018 the corporate tax rate in Israel is 23% (in 2017 and 2016, the corporate tax rate was 24% and 25%, respectively).

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

Taxable income of the Company's subsidiary in Luxemburg, Switzerland and the United States may be subject to the following statutory federal (approximate) tax rates:

| | Year ended December 31, | | |
|---------------------|-------------------------|------|------|
| | 2020 | 2019 | 2018 |
| Luxemburg | 29% | 29% | 29% |
| Zurich, Switzerland | 21% | 21% | 21% |
| Geneva, Switzerland | 14% | 24% | 24% |
| United States | 21% | 21% | 21% |
| Germany | 16% | 16% | 16% |

c. Tax assessments:

The Company has final tax assessments in Israel through the tax year 2015.

The Company is currently under tax assessment valuation for tax years 2016 through 2019.

d. Deferred tax assets and liabilities:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred tax assets and liabilities mainly derive from the acquisitions of commercial buildings in Switzerland. The deferred taxes are computed at the average tax rate of 23%, based on the corporate income tax in Switzerland, which is the tax rate that will be in effect when the differences are expected to reverse.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 14:- TAXES ON INCOME (Cont.)

Significant components of the Company and its subsidiary deferred tax assets are as follows:

| | December 31, | |
|--|--------------------|--------------------|
| | 2020 | 2019 |
| Deferred tax assets: | | |
| Net operating losses and other temporary differences | \$ 31,271 | \$ 28,941 |
| Lease provision | 1,622 | 1,466 |
| Other | 199 | 190 |
| Deferred tax assets | <u>33,092</u> | <u>30,597</u> |
| Deferred tax liabilities: | | |
| Land | (5,734) | (5,437) |
| Building | (10,373) | (10,020) |
| Other | (3,553) | (3,331) |
| Distributable proceeds | (809) | - |
| Deferred tax liabilities | <u>(20,469)</u> | <u>(18,788)</u> |
| Valuation allowance | <u>(27,718)</u> | <u>(25,610)</u> |
| Deferred tax liabilities, net | <u>\$ (15,095)</u> | <u>\$ (13,801)</u> |

e. Net operating losses carry-forward:

Through December 31, 2020, Optibase Ltd. had net operating losses carry-forward for tax purposes in Israel of approximately \$ 72,000 which may be carried forward and offset against taxable income in the future, for an indefinite period.

As of December 31, 2020, Optibase Inc. had U.S. federal net operating loss carry-forward of approximately \$ 57,000 that can be carried forward and offset against taxable income for 20 years, no later than 2040. Utilization of U.S. net operating losses may be subject to the substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization. Based upon the weight of available evidence, which includes the Company's historical operating performance and the recorded cumulative net losses in all prior fiscal periods, the Company has provided a full valuation allowance against its Israeli and U.S. deferred tax assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 14:- TAXES ON INCOME (Cont.)

- f. Reconciliation of the theoretical tax expenses to the actual tax expenses:

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to the income of the Company and the actual tax expense as reported in the statements of operations is as follows:

| | Year ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2020 | 2019 | 2018 |
| Income before taxes as reported | \$ 13,657 | \$ 3,920 | \$ 3,525 |
| Theoretical tax benefit computed at the statutory rate 23% | 3,141 | 902 | 811 |
| Income tax at rate other than the Ltd. statutory tax rate | (1,150) | 101 | 52 |
| Tax adjustments in respect of currency translation | - | 7 | 2 |
| Adjustment of deferred tax balances following a decrease in statutory tax rates | (572) | - | - |
| Deferred taxes on losses and other temporary differences for which valuation allowance was provided | 842 | 465 | 446 |
| Taxes for previous years | (23) | (40) | 47 |
| Other non-deductible expenses | (76) | 37 | 106 |
| Income tax expense | \$ 2,162 | \$ 1,472 | \$ 1,464 |

- g. Income before taxes on income consists of the following:

| | Year ended December 31, | | |
|----------|-------------------------|----------|------------|
| | 2020 | 2019 | 2018 |
| Domestic | \$ 594 | \$ (179) | \$ (2,515) |
| Foreign | 13,063 | 4,099 | 6,040 |
| | \$ 13,657 | \$ 3,920 | \$ 3,525 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 14:- TAXES ON INCOME (Cont.)

h. Income tax expenses are comprised as follows:

| | Year ended December 31, | | |
|----------|-------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| Current | \$ 2,184 | \$ 1,612 | \$ 1,637 |
| Deferred | (22) | (140) | (173) |
| | <u>\$ 2,162</u> | <u>\$ 1,472</u> | <u>\$ 1,464</u> |
| Domestic | \$ 809 | \$ - | \$ - |
| Foreign | <u>1,353</u> | <u>1,472</u> | <u>1,464</u> |
| | <u>\$ 2,162</u> | <u>\$ 1,472</u> | <u>\$ 1,464</u> |

NOTE 15:- SHAREHOLDERS' EQUITY

a. General:

- The Ordinary shares of the Company are traded on the NASDAQ Global Market since April 1999 and on the Tel Aviv Stock Exchange Ltd. since April 2015.

Ordinary shares confer on their holders the right to receive notice to participate and vote in general meetings of the Company, the right to a share in excess assets upon liquidation of the Company and the right to receive dividends, if declared.

- On December 31, 2013 following the approval of the Company board of directors and the approval of the Company shareholders, the Company issued a net sum of 1,300,580 ordinary shares in consideration for the purchase of twelve luxury condominium units in Miami Beach, Florida from private companies indirectly controlled by Capri, the Company's controlling shareholder.

b. Stock options:

In 1999, the Company adopted an Israeli Option Plan ("1999 Israeli option plan"), and a U.S. Option Plan ("1999 U.S. option plan") (collectively, the "1999 plans"). Under the terms of the above option plans, options may be granted to employees, officers, directors and consultants. The options generally become exercisable monthly over a four-year period, commencing one year after date of the grant, subject to the continued employment of the employee. The options generally expire no later than seven years from the date of the grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 15:- SHAREHOLDERS' EQUITY (Cont.)

In May 2003 the Company amended its 1999 Plan to provide for the grant of options to Israeli optionees under Section 102 of the Israeli Tax Ordinance.

The exercise price of the options granted under the above mentioned plans may not be less than the nominal value of the shares into which such options are exercised. Any options, which are forfeited or cancelled before expiration, become available for future grants.

The total number of options available for future grants as of December 31, 2020 was 571,260.

c. Non-vested shares:

In May 2006, the Board of Directors approved the adoption of the 2006 Israeli Incentive Compensation Plan (the "2006 Plan"). The 2006 Plan provides for the grant of options, restricted shares and restricted share units in accordance with various Israeli tax tracks. The Company currently uses the 2006 Plan for the grant of restricted shares only.

The restricted shares are granted at no consideration and with a vesting schedule of two years (50% each year). The restricted shares are granted in accordance with the Israeli capital gains tax track. In November 2013 and in August 2014, the Company's board of directors approved the increase of 50,000 shares and 150,000 shares under the 2006 Plan.

As of December 31, 2020 an aggregate sum of 235,790 ordinary shares has been reserved for issuance under the 2006 Plan, respectively.

d. The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2020, 2019 and 2018. During 2020 2019 and 2018 there were no new grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 16:- FINANCIAL EXPENSES, NET

Financial income (expenses):

| | Year ended December 31, | | |
|--|-------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Interest | \$ (2,472) | \$ (2,546) | \$ (2,827) |
| Re-measurement of derivatives | (73) | 188 | (562) |
| Foreign currency translation adjustments | 764 | (272) | 507 |
| | <u>\$ (1,781)</u> | <u>\$ (2,630)</u> | <u>\$ (2,882)</u> |

NOTE 17:- GEOGRAPHIC INFORMATION

Summary information about geographic areas:

The Company manages its business on a basis of one reportable segment (see Note 1 for a brief description of the Company activity). The data is presented in accordance with ASC 280, "Segment Reporting". Revenues in the table below are attributed to geographical areas based on the location of the end customers.

The following present total revenues for the years ended December 31, 2020, 2019 and 2018 and real estate property as of December, 31, 2020, 2019 and 2018:

| | 2020 | | 2019 | | 2018 | |
|---------------|------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|
| | Total revenues | Real estate property, net | Total revenues | Real estate property, net | Total revenues | Real estate property, net |
| Switzerland | \$ 12,499 | \$ 175,956 | \$ 11,975 | \$ 162,422 | \$ 12,322 | \$ 162,706 |
| Germany (*) | 1,380 | - | 3,180 | - | 3,261 | 30,736 |
| United States | 995 | 16,098 | 989 | 18,687 | 1,025 | 18,907 |
| | <u>\$ 14,874</u> | <u>\$ 192,054</u> | <u>\$ 16,144</u> | <u>\$ 181,109</u> | <u>\$ 16,608</u> | <u>\$ 212,349</u> |

*) For details regarding the portfolio sale agreement, see Note 1b(1).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18:- MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

a. Controlling shareholders:

To the Company's knowledge there are no arrangements, the operation of which may at a subsequent date result in a change in control of the Company. To the best of the Company's knowledge, the Company's controlling shareholder, the Capri Family Foundation, holds approximately 79% of the Company's Ordinary shares.

b. Related party transactions:

1. On December 19, 2013, and following the approval of the Company's audit committee, compensation committee and board of directors, and the Company's shareholders approved the compensation terms of Mr. Shlomo (Tom) Wyler, for his service as Chief Executive Officer of the Company's subsidiary Optibase Inc. The yearly gross base salary will be \$ 170 as well as reimbursement of health insurance expenses of up to \$ 24 per year, and including reimbursement of reasonable work-related expenses incurred up to \$ 50 per year. On May 16, 2016, following the approval by the Company's compensation committee, audit committee and board of directors, the Company's shareholders approved an amendment to Mr. Wyler's compensation terms in a manner that Mr. Wyler's annual gross base salary shall be \$ 200 for a full time position, as of January 1, 2016, as well as reimbursement of health insurance expenses of up to \$ 24 per year, and including reimbursement of reasonable work-related expenses incurred as part of his activities as Chief Executive Officer of Optibase Inc., of up to \$ 50 per year. On February 14, 2019, following the approval by the Company's compensation committee, audit committee and board of directors, the Company's shareholders approved an extension for a 3 year term, of the engagement with Mr. Wyler's, including an adjustment to his compensation terms, in a manner that Mr. Wyler's annual gross base salary was set at \$ 220 for a full time position, as of January 1, 2019.
2. On December 19, 2013, and following the approval of the Company's audit committee and board of directors, and the Company's shareholders approved the a service agreement between the Company and Mr. Reuwen Schwarz, currently serves also as a member of the Company's board of directors, who is a relative of the beneficiaries of Capri, the Company's controlling shareholder, for the provision of real estate related consulting services in consideration for a monthly fee of EUR 4,000 plus applicable value added tax (if applicable) and reimbursement for expenses incurred up to EUR 12,000 per year. On December 29, 2016, and following the approval by the Company's audit committee and board of directors, the Company's shareholders approved the extension of Mr. Schwarz' service agreement, which will be in effect retroactively from November 1, 2016 for a period of three years. On December 31, 2019, following the approval by the Company's audit committee and board of directors, the Company's shareholders approved the extension of Mr. Schwarz' service agreement, which will be in effect retroactively from November 1, 2019 for a period of three years. Each of Mr. Schwarz and the Company may terminate the service agreement by giving a prior written notice of 30 days.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18:- MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS (Cont.)

During such advance notice period, Mr. Schwarz will be required to continue the provision of the services provided by him under the agreement (unless the Company have instructed him otherwise) and in any event Mr. Schwarz will be entitled to receive the consideration for such period, except for cause.

3. On October 22, 2014, following the approval by the Company's audit committee and board of directors the Company's shareholders approved entering into a registration rights agreement with Mr. Shlomo (Tom) Wyler and Capri, for the filing of a registration statement in order to register for resale all of the Company's Ordinary shares held by them. As of December 31, 2020 registration has not been implemented yet.
4. On December 29, 2016, the Company's shareholders approved, following the approval by the Company's audit committee and board of directors, a new lease agreement to be entered into with an affiliate of Capri, or the Tenant. The new lease will be in effect for a one-year term commencing on January 2, 2017, which will be automatically extended by a one-year term and up to a total of three years. On December 31, 2019, the Company's shareholders approved, following the approval by the Company's audit committee and board of directors, the extantion of the lease agreement. The new lease will be in effect for a one-year term commencing on January 2, 2020, which will be automatically extended by a one-year term and up to a total of three years. The Tenant may decide not to extend the New Lease provided that it has given notice to that effect to the Company at least 45 days before the end of each year. The monthly rent to be paid by the Tenant to the Company is \$ 27.3, including sales tax. The Rent will be increased by 3% every year.
5. In March 2017, the Company's audit committee and board of directors approved, in accordance with the Israeli Companies Regulations (Relieves for Transactions with Interested Parties) of 2000, the receipt of a \$ 5,118 loan, (the "Loan"), from the Company's controlling shareholder. The Loan was granted to the Company on March 28, 2017 for the purpose of strengthening the Company's liquidity. The Loan does not bear any interest or linkage differentials and is unsecured. In May 2018, the parties entered into an amendment to the Loan's agreement, under which the Company repaid the Company's controlling shareholder \$ 2,500 on account of the Loan's account. The repayment by the Company of the remaining Loan's amount of approximately \$ 2,618 has been postponed from April 1, 2019 to April 1, 2020, however, the Company may prepay the Loan prior to such date at its sole discretion without any penalty. On September 30, 2019 the parties entered into an amendment no.2 to the Loan's agreement, under which the remaining loan amount of approximately \$ 2,618 shall be postponed to October 1, 2020. The remaining terms of the original agreement shall remain unchanged. The loan was recognized at fair value to reflect its interest beneficiary terms at the date of the transaction. The difference between the fair value and the loan principal, in the amount of \$ 372 is reported as a reserve from transaction with controlling shareholder in the balance sheet. On July 1, 2020, the Company repaid the loan. As of December 31, 2020 and 2019 an amount of \$ 76 and \$ 205, respectively, was recorded as finance expense.
6. In December 2017, following the approval of the Company's board of directors and compensation committee, the Company's shareholders approved an amendment to the Company's undertaking to indemnify Mr. Shlomo (Tom) Wyler, the Chief Executive Officer of the Company's subsidiary Optibase Inc. who is affiliated with the controlling shareholder of the Company; and Mr. Reuwen Schwarz, a member of the Company's Board of Directors, who is affiliated with the controlling shareholder of the Company, to the fullest extent permitted by the Companies Law and our articles of association. The aggregate indemnification amount shall not exceed the higher of: (i) 25% of the Company shareholders' equity, as set forth in the Company's financial statements prior to such payment; or (ii) \$ 20,000.

300 RIVER HOLDINGS, LLC
(a Delaware limited liability company)

CONSOLIDATED FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of
300 River Holdings LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of 300 River Holdings LLC (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations, members' deficit, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EisnerAmper LLP

We have served as the Company's auditor since 2011

EISNERAMPER LLP
New York, New York
April 27, 2021

300 River Holdings, LLC

(a Delaware limited liability company)

Consolidated Balance Sheets

| | December 31, 2020 | December 31, 2019 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Real estate, net of accumulated depreciation | \$ 216,166,292 | \$ 224,159,928 |
| Cash | 1,917,162 | 3,006,645 |
| Segregated cash and other escrows | 10,644,343 | 13,036,134 |
| In-place and other lease values, net of accumulated amortization of \$39,462,415 and \$39,238,904, respectively | - | 223,511 |
| Tenant account receivable | | |
| Current | 447,818 | 507,467 |
| Unbilled straight-line rent | 19,618,007 | 16,625,604 |
| Prepaid expenses and other assets | 996,760 | 456,149 |
| Deferred leasing costs, net of accumulated amortization of \$11,279,299 and \$8,747,598, respectively | 17,035,105 | 19,566,806 |
| | <u>\$ 266,825,487</u> | <u>\$ 277,582,244</u> |
| LIABILITIES AND MEMBERS' DEFICIT | | |
| Lease financing obligation, including accrued interest of \$4,519,883 and \$3,676,289, less unamortized value of deferred lease financing costs of \$8,688,137 and \$8,781,489, respectively | \$ 215,831,746 | \$ 214,894,800 |
| Notes payable | 17,000,000 | 10,698,891 |
| Mortgage payable, net of unamortized deferred financing costs of \$1,171,575 and \$1,782,839, respectively | 173,828,425 | 173,217,161 |
| Accounts payable, accrued expenses and other liabilities | 7,356,089 | 10,204,136 |
| Below market lease values, net of accumulated amortization of \$48,377,197 and \$47,539,090, respectively | - | 838,107 |
| | 414,016,260 | 409,853,095 |
| Members' deficit | (147,190,773) | (132,270,851) |
| | <u>\$ 266,825,487</u> | <u>\$ 277,582,244</u> |

See notes to consolidated financial statements

300 River Holdings, LLC
(a Delaware limited liability company)

Consolidated Statements of Operations
For The Years Ended December 31,

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|------------------------|------------------------|------------------------|
| Revenue: | | | |
| Base rent | \$ 25,362,370 | \$ 25,091,596 | \$ 19,912,661 |
| Escalation and other income | 20,534,157 | 17,333,020 | 12,429,451 |
| Amortization of acquired below market leases | 838,107 | 495,931 | 516,929 |
| | <u>46,734,634</u> | <u>42,920,547</u> | <u>32,859,041</u> |
| Expenses: | | | |
| Depreciation and amortization | 14,989,215 | 14,174,470 | 12,375,251 |
| Operating expenses | 14,354,171 | 13,158,869 | 12,844,531 |
| Real estate taxes | 6,769,280 | 7,901,058 | 4,188,424 |
| Management fees | 1,481,895 | 1,221,311 | 1,068,504 |
| | <u>37,594,561</u> | <u>36,455,708</u> | <u>30,476,710</u> |
| Operating income | 9,140,073 | 6,464,839 | 2,382,331 |
| Interest including amortization of deferred financing costs of \$704,616, \$704,616, and \$755,554, respectively and related party interest of \$1,870,373, \$776,151, and \$14,729 respectively | <u>(24,059,995)</u> | <u>(22,660,043)</u> | <u>(21,682,362)</u> |
| Net loss | <u>\$ (14,919,922)</u> | <u>\$ (16,195,204)</u> | <u>\$ (19,300,031)</u> |

See notes to consolidated financial statements

300 River Holdings, LLC
(a Delaware limited liability company)

Consolidated Statements of Members' Deficit

| | |
|------------------------------------|-------------------------|
| Balance - December 31, 2017 | \$ (96,764,308) |
| Net loss | (19,300,031) |
| Distributions | (11,308) |
| Balance - December 31, 2018 | \$ (116,075,647) |
| Net loss | (16,195,204) |
| Balance - December 31, 2019 | \$ (132,270,851) |
| Net loss | (14,919,922) |
| Balance - December 31, 2020 | \$ (147,190,773) |

See notes to consolidated financial statements

300 River Holdings, LLC
(a Delaware limited liability company)

Consolidated Statements of Cash Flows
Year Ended December 31,

| | 2020 | 2019 | 2018 |
|---|-----------------------------|-----------------------------|-----------------------------|
| Cash flows from operating activities: | | | |
| Net loss | \$ (14,919,922) | \$ (16,195,204) | \$ (19,300,031) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 15,693,831 | 14,879,085 | 13,130,805 |
| Amortization of below market leases | (838,107) | (495,931) | (516,929) |
| Accrued interest on notes payable | - | (14,729) | 14,729 |
| Unbilled straight-line rental income | (2,992,403) | (5,967,786) | (1,637,458) |
| Lease financing obligation | 843,594 | 809,910 | 777,495 |
| Changes in assets and liabilities: | | | |
| Tenant accounts receivable | 59,649 | (197,772) | 425,829 |
| Prepaid expenses and other assets | (540,611) | (339,527) | 143,693 |
| Accounts payable, accrued expenses and other liabilities | (1,501,038) | 3,980,206 | (369,200) |
| Net cash used in operating activities | <u>(4,195,007)</u> | <u>(3,541,748)</u> | <u>(7,331,067)</u> |
| Cash flows from investing activities: | | | |
| Additions to leasing costs | (245,930) | (1,753,551) | (4,466,356) |
| Additions to real estate | (5,341,446) | (21,947,030) | (17,226,847) |
| Net cash used in investing activities | <u>(5,587,376)</u> | <u>(23,700,581)</u> | <u>(21,693,203)</u> |
| Cash flows from financing activities: | | | |
| Proceeds from notes payable | 11,530,000 | 7,498,891 | 3,200,000 |
| Repayment of notes payable | (5,228,891) | - | - |
| Distributions to members | - | - | (11,308) |
| Net cash provided by financing activities | <u>6,301,109</u> | <u>7,498,891</u> | <u>3,188,692</u> |
| Decrease in cash, cash equivalents, and escrows | (3,481,274) | (19,743,438) | (25,835,578) |
| Cash, cash equivalents and escrows at beginning of year | <u>16,042,779</u> | <u>35,786,217</u> | <u>61,621,795</u> |
| Cash, cash equivalents and escrows at end of year | \$ <u>12,561,505</u> | \$ <u>16,042,779</u> | \$ <u>35,786,217</u> |
| Supplemental disclosures of cash flow information: | | | |
| Interest paid | <u>\$ 22,538,552</u> | <u>\$ 21,158,942</u> | <u>\$ 20,133,281</u> |
| Supplemental disclosures of noncash investing activities: | | | |
| Accrued additions to real estate | <u>\$ 84,340</u> | <u>\$ 1,185,419</u> | <u>\$ 2,649,609</u> |
| Accrued additions to leasing costs | <u>\$ -</u> | <u>\$ 245,930</u> | <u>\$ 557,636</u> |

The following table provides a reconciliation of cash, cash equivalents and escrows reported within the balance sheet:

| | December 31, 2020 | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 1,917,162 | \$ 3,006,645 | \$ 6,078,386 |
| Segregated cash and other escrows | 10,644,343 | 13,036,134 | 29,707,831 |
| Total cash, cash equivalents and escrows shown in the statement of cash flows | <u>\$ 12,561,505</u> | <u>\$ 16,042,779</u> | <u>\$ 35,786,217</u> |

Amounts included in segregated cash and other escrows as of December 31, 2020, 2019, and 2018 represent tenant security deposits, cash received through the Company's lockbox account and monies required to be set aside by the Mortgage in connection with the Mortgage note payable.

See notes to consolidated financial statements

300 RIVER HOLDINGS, LLC
(a Delaware limited liability company)

Notes to Consolidated Financial Statements
December 31, 2020, 2019 and 2018

NOTE A - ORGANIZATION

300 River Holdings, LLC, a Delaware limited liability company ("Holdings"), was formed on September 21, 2010. Holdings owns a 100% interest in the following Subsidiaries (all Delaware single member limited liability companies):

- South Riverside Building LLC (the "Building LLC")
- South Riverside Mezz LLC (the "Mezz LLC")
- 300 Riverside Master Lease LLC (the "Master Lease LLC")

Holdings and Subsidiaries are collectively referred to as the Company. The purpose of the Company is to acquire, own, and operate a commercial office building and all related tangible and intangible assets at 300 South Riverside Plaza, Chicago, IL (the "Property").

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of presentation

The accompanying consolidated financial statements include the accounts of Holdings and its Subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

[2] Use of estimates:

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[3] Concentration of credit risk:

The Company places its cash investments with high-credit-quality financial institutions which account balances, at times, exceed the federally insured limits. The Company's policy is to maintain funds only with financial institutions which it considers reputable and where management believes that the risk of loss is minimal.

[4] Deferred costs:

Deferred lease financing costs consist of fees and costs incurred to obtain the finance lease, which are netted against the lease financing obligation on the consolidated balance sheet, and are being amortized on a straight-line basis over the term of the lease (99 years). Deferred financing costs consist of fees and costs to obtain the mortgage payable, which are netted against the mortgage payable on the consolidated balance sheet, and are being amortized on a straight-line basis over the term of the mortgage (5 years). The amortization of these costs is included in interest expense on the accompanying consolidated statement of operations.

Deferred leasing commissions consists of deferred leasing commissions and deferred leasing costs incurred prior to January 1, 2018 are being amortized using the straight-line method over the terms of the related leases. The amortization of these costs is included in depreciation and amortization in the accompanying consolidated statement of operations.

Notes to Consolidated Financial Statements
December 31, 2020, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization of deferred leasing costs for the next five years is as follows:

| Year Ending December 31, | Deferred Leasing Costs |
|-----------------------------|---------------------------|
| 2021 | \$ 2,114,000 |
| 2022 | 2,113,000 |
| 2023 | 2,107,000 |
| 2024 | 2,079,000 |
| 2025 | 2,022,000 |

[5] Real estate:

Real estate is carried at cost. The building, building improvements and site improvements are being depreciated on the straight-line basis over an estimated useful life of 40 years. Tenant Improvements are being depreciated on the straight-line basis over the life of the associated tenant lease. Machinery and Equipment are being depreciated on the straight-line basis over an estimated useful life of 5 years. The leasehold interest in the platform on which the building sits is being amortized over the life of the lease (99 years).

In accordance with Accounting Standards Codification ("ASC") Topic 360, the Real Estate is evaluated for impairment whenever indicators of impairment exist. If an indicator of impairment exists, the estimated future cash flows of the Real Estate are compared, on an undiscounted basis, to its carrying value. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment write-down is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow analysis or an income capitalization model. There were no indications of impairment for the years ended December 31, 2020, 2019 and 2018.

[6] Purchase accounting for acquisition of real estate:

In accordance with the guidelines outlined in ASC Topic 805, and based on an evaluation by the Company utilizing an independent appraisal, the estimated fair value of the Property as of the date of acquisition was allocated to (i) the acquired tangible assets consisting of a leasehold interest and (ii) the identified intangible assets and liabilities consisting then of above-market, below-market, and in-place lease values, including various lease origination costs and assumed debt at purchase was adjusted to fair value.

The fair value of the Property's acquired tangible assets is determined by valuing the Property as if it were vacant. The "as-if-vacant" value is then ascribed to land and building and all acquired intangibles based on fair value.

The identified intangible assets included (i) above market lease values, representing the favorable element of contractual rents in excess of prevailing market rents for certain existing leases; (ii) in-place lease values, representing the lost revenues during the lease-up period to achieve the Property's occupancy level at the time of acquisition; and (iii) lease origination costs (legal, marketing, commissions, tenant improvements, etc.) that would have been incurred to procure the existing leases. Above market lease values were amortized over the remaining non-cancelable lease term of such leases. In-place lease values and lease origination costs are amortized over the remaining non-cancelable lease term of each lease.

Below market lease values, an intangible credit, represents the unfavorable element of contractual rents below prevailing market rents for existing leases. Such credit is amortized over the estimated remaining term of the leases, including anticipated and estimated renewal periods (approximately 10 years).

In the event a tenant vacates prior to the end of their lease term, any unamortized intangible lease values associated with such lease are written off to operations as of the date of vacancy.

Notes to Consolidated Financial Statements
December 31, 2020, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Revenue recognition:

Base rental revenue generated from leases is recognized on a straight-line basis over such term. Such amounts in excess of amounts currently receivable per the terms of the leases are reflected as unbilled straight-line rent in the accompanying balance sheet. Reimbursements of the tenant's share of certain operating expenses and real estate taxes are generally recognized when earned from tenants.

The Company makes estimates of the uncollectibility of its accounts receivable based on all the facts and circumstances surrounding each tenant account. An allowance for doubtful accounts has been provided for tenant accounts receivable that are estimated to be uncollectible. Once an amount is deemed uncollectible it is written off.

[8] Income taxes:

No provision has been made in the accompanying financial statements for any liability for federal, state or local taxes since each item of income, gain or loss, deduction or credit is reportable for income tax purposes by the Company's Members.

In accordance with the provisions of ASC 740-10-05, management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company has evaluated whether it has any uncertain tax positions and has determined that there are none that would materially impact the financial position of the Company as of December 31, 2020 and 2019. The Company's policy is to recognize income tax related interest and penalties in interest expenses, of which there were none for the years ended December 31, 2020, 2019 and 2018.

[9] Debt issuance costs:

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-03, Interest-Imputation of Interest (*Subtopic 835-30*): which requires that debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Debt issuance costs are amortized to interest expense over the term of the related debt.

[10] Subsequent events:

Management has evaluated events occurring through April 27, 2021, the date the financial statements were available for issuance.

NOTE C – RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2016, FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses" (ASU 2016-13). ASU 2016-13 requires measurement and recognition of expected credit losses for financial assets held. The update is effective for the Company beginning January 1, 2023. The Company is continuing to evaluate this guidance however, it does not expect the adoption of ASU 2016-13 to have a significant impact on its financial statements.

Notes to Consolidated Financial Statements
December 31, 2020, 2019 and 2018

NOTE C – RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

In April 2020, the Financial Accounting Standards Board (“FASB”) staff issued a question and answer document (the “Lease Modification Q&A”) focused on the application of lease accounting guidance to lease concessions provided as a result of the COVID-19 pandemic. Under existing GAAP, the Company would have to determine, on a lease by lease basis, if a lease concession was the result of a new arrangement reached with the tenant (treated within the lease modification accounting framework) or if a lease concession was under the enforceable rights and obligations within the existing lease agreement (precluded from applying the lease modification accounting framework). The Lease Modification Q&A allows the Company, if certain criteria have been met, to bypass the lease by lease analysis, and instead elect to either apply the lease modification accounting framework or not, with such election applied consistently to leases with similar characteristics and similar circumstances. The Company has elected to apply such relief and will avail itself of the election to avoid performing a lease by lease analysis. The Lease Modification Q&A had no material impact on the Company's consolidated financial statements for the year ended December 31, 2020, however, its future impact to the Company is dependent upon the extent of lease concessions, if any, granted to tenants as a result of the COVID-19 pandemic in future periods and the elections made by the Company at the time of entering into such concessions.

NOTE D - REAL ESTATE

As of December 31, 2020, and 2019 the Company's real estate consisted of the following:

| | December 31, | |
|--------------------------------|-----------------------|-----------------------|
| | 2020 | 2019 |
| Leasehold interest | \$ 25,310,232 | \$ 25,310,232 |
| Building and improvements | 177,320,972 | 177,320,972 |
| Tenant improvements | 102,171,510 | 97,931,143 |
| Equipment | 1,729,420 | 1,729,420 |
| | <u>306,532,134</u> | <u>302,291,767</u> |
| Less: accumulated depreciation | <u>(90,365,842)</u> | <u>(78,131,839)</u> |
| | <u>\$ 216,166,292</u> | <u>\$ 224,159,928</u> |

Depreciation expense was \$12,234,003 and \$11,436,698 for the years ending December 31, 2020 and 2019, respectively.

NOTE E - IN-PLACE AND OTHER LEASE VALUES AND BELOW MARKET LEASE VALUES

As of December 31, 2020, and 2019, the Company's in-place and other lease values and below market lease values consisted of the following:

| | December 31, | |
|---------------------------------|---------------------|---------------------|
| | 2020 | 2019 |
| In-place and other lease values | \$ 39,462,415 | \$ 39,462,415 |
| Less: accumulated amortization | <u>(39,462,415)</u> | <u>(39,238,904)</u> |
| | <u>\$ -</u> | <u>\$ 223,511</u> |
| | | |
| | December 31, | |
| | 2020 | 2019 |
| Below market lease values | \$ (48,377,197) | \$ (48,377,197) |
| Less: accumulated amortization | <u>48,377,197</u> | <u>47,539,090</u> |
| | <u>\$ -</u> | <u>\$ (838,107)</u> |

300 RIVER HOLDINGS, LLC
(a Delaware limited liability company)

Notes to Consolidated Financial Statements
December 31, 2020, 2019 and 2018

NOTE F - LEASE FINANCING OBLIGATION

On February 10, 2015 (the "Sale Date"), the Company sold the land where the Property is situated (the "Land") for \$220,000,000 (the "Obligation Principal") and simultaneously entered into a related lease (the "Lease") through February 2114 (the "Maturity Date"). The Lease requires minimum monthly payments aggregating \$9,900,000 annually (the "Lease Payment") until the Maturity Date. Commencing February 2015, the Lease Payment shall be increased by an amount calculated by a formula, as provided in the lease agreement, which is based on the increase in CPI subject to a cap in certain years plus an additional \$500,000 annual increase every tenth year. The proceeds of the sale were used to pay the then existing mortgage debt and accrued interest thereon with the balance distributed to the Members.

In accordance with ASC Topic 842, the sale of the Land was not recognized, accordingly, the Lease has been treated as a financing transaction for financial reporting purposes. Upon closing of the transaction, the Company recorded a lease financing obligation in the amount of the Obligation Principal, net of the related costs of the transaction (approximately \$9,242,000). The minimum payments provided under the financing obligation results in an effective interest rate of 4.92% thru January 31, 2018, 5.02% thru January 31, 2019, 5.11% thru January 31, 2020, 5.21% thru January 31, 2021 and 5.28% thereafter, as a result of the change in CPI creating an increased minimum rent payment. Given the current effective rate of 5.21% on the obligation, annual interest expense is expected to exceed the payment requirements through approximately the 40th anniversary of the Lease. For the years ended December 31, 2020, 2019 and 2018 the required minimum rent payments made by the Company were approximately \$10,814,000, \$10,575,000, and \$10,376,000 respectively. Total interest expense for the lease financing obligation for the years ended December 31, 2020, 2019 and 2018 was approximately \$11,658,000, \$11,386,000, and \$11,153,000 respectively.

NOTE G – MORTGAGE PAYABLE

| | Rate | December 31, | |
|---------------------------------------|--------|-----------------------|-----------------------|
| | | 2020 | 2019 |
| A-Note | 4.61%* | \$ 100,000,000 | \$ 100,000,000 |
| B-Note | 5.80%* | 50,000,000 | 50,000,000 |
| Mezz Note | 8.46%* | 25,000,000 | 25,000,000 |
| | | 175,000,000 | 175,000,000 |
| Less: unamortized debt issuance costs | | (1,171,575) | (1,782,839) |
| | | <u>\$ 173,828,425</u> | <u>\$ 173,217,161</u> |

*The weighted average interest rate for the notes is 5.50% per annum

[1] Senior notes:

On November 20, 2017 (the "Mortgage Closing Date"), the Building LLC (the "Senior Borrower") entered into a loan agreement (the "Senior Note Agreement") with unrelated lenders (the "Senior Lenders") to borrow a principal amount of \$150,000,000 (the "Senior Notes").

The Senior Notes, which are collateralized by the building and an assignment of its rent and leases, mature on November 6, 2022 (the "Mortgage Maturity Date"), at which time the entire principal is due and payable. The Senior Notes require monthly payments of interest only equal to the rates reflected above per annum (based on a 360-day year) until the Maturity Date. The Senior Notes are also jointly and severally guaranteed by individuals affiliated with the Members.

On the Mortgage Closing Date, pursuant to the Senior Note Agreement, the Senior Borrower deposited into escrow reserve accounts approximately (i) \$16,700,000 for a tenant improvement and leasing commission reserve, (ii) \$10,623,000 for a master lease reserve, (iii) \$10,358,000 for a free rent reserve, (iv) \$19,372,000 for unfunded obligations related to lease in place at the Mortgage Closing Date, (v) \$2,142,000 in real estate tax funds, (vi) \$266,000 in insurance funds, (vii) \$848,000 in ground rent funds and (viii) \$150,000 in maintenance funds. Release of escrow funds for approved expenditures require the approval of the lender. The Borrower is also required to deposit funds on a monthly basis into escrow accounts for real estate taxes and insurance. At December 31, 2020 and 2019 the total balance of these accounts was approximately \$8,312,000 and \$9,654,000, respectively.

Notes to Consolidated Financial Statements
December 31, 2020, 2019 and 2018

NOTE G – MORTGAGE PAYABLE (CONTINUED)

The Company can prepay the Senior Notes without penalty following the fourth anniversary of the Mortgage Closing Date.

Under the Senior Note Agreement, the Company is required to deposit all rental revenue received into a restricted account, which is under the Lender's control. At December 31, 2020 and 2019 the balance of this account was approximately \$2,332,000 and \$3,382,000, respectively.

[2] Mezz-Note:

On the Mortgage Closing Date, the Mezz LLC (the "Mezz Borrower") entered into a loan agreement (the "Mezz Note Agreement") with an unrelated lender (the "Mezz Lender") to borrow a principal amount of \$25,000,000 (the "Mezz Note").

The Mezz Note, which is collateralized by the building and an assignment of its rent and leases, matures on the Mortgage Maturity Date, at which time its entire principal is due and payable. The Mezz Note requires monthly payments of interest only equal to 8.46% per annum (based on a 360-day year) until the Mortgage Maturity Date, at which time the entire outstanding principal amount of the note is due. The Mezz Note is also jointly and severally guaranteed by individuals affiliated with the Members.

The Company can prepay the Mezz Note without penalty following the fourth anniversary of the Mortgage Closing Date.

NOTE H – NOTES PAYABLE

During 2018, the Company issued notes in the amount of \$3,200,000 to members and affiliates of the Company. The notes provided for interest at 12% per annum with an original maturity in November 2020. During 2019, The Company issued notes in the amount of approximately \$7,499,000 under similar terms. Principal and interest were payable from available cash flow, as provided in the Company's operating agreement. During 2020, the Company issued notes in the amount of \$11,530,000 and repaid notes in the amount of approximately \$5,229,000. In October 2020, the Company extended the maturity date of the entire outstanding balance of the notes payable to November 2022 and any new notes payable issued thereafter had the same extended maturity date. Total interest expense for the notes payable was approximately \$1,919,000, \$811,000, and \$15,000 in 2020, 2019 and 2018, of which approximately \$1,870,000, \$776,000, and \$15,000, was with members and affiliates of the Company, respectively.

NOTE I - TENANT LEASES

- [1] Space in the Property is leased to various tenants under operating leases which generally provide for renewal options and additional rentals based on increases in real estate taxes and certain operating expenses.
- [2] Base rent from the two largest tenants in the Property (who collectively occupy approximately 25% of the building's rentable square footage during 2020) accounted for approximately 30% of the building's base rental income for the year ended December 31, 2020. The leases with such tenants expire from April of 2026 through June of 2031. For the year ended December 31, 2019, base rent from the two largest tenants in the Property (who collectively occupy approximately 30% of the building's rentable square footage during 2019) accounted for approximately 36% of the building's base rental income. For the year ended December 31, 2018, base rent from the largest tenants in the Property (who collectively occupied approximately 25% of the building's rentable square footage during 2018) accounted for approximately 36% of the building's base rental income.

300 RIVER HOLDINGS, LLC
(a Delaware limited liability company)

Notes to Consolidated Financial Statements
December 31, 2020, 2019 and 2018

NOTE I - TENANT LEASES (CONTINUED)

[3] As of December 31, 2020, future minimum rentals under the Company's operating leases with its tenants, for the next five years and thereafter are approximately as follows:

| | Total |
|------------|-----------------------|
| 2021 | \$ 24,381,000 |
| 2022 | 24,730,000 |
| 2023 | 23,795,000 |
| 2024 | 22,580,000 |
| 2025 | 22,486,000 |
| Thereafter | 91,684,000 |
| | <u>\$ 209,656,000</u> |

NOTE J - RELATED PARTY TRANSACTIONS

During the years ended December, 31, 2020, 2019 and 2018 the Property was managed by an affiliate of the Member (the "Manager"), pursuant to the annual management agreement, which renews automatically unless terminated by either party, for 3.5% of gross revenue as defined in the annual management agreement. The Company incurred approximately \$1,482,000, \$1,221,000, and \$1,068,000 for the year ended December 31, 2020, 2019 and 2018 respectively, of the property management fees with the Manager.

An affiliated party (the "Affiliate") acting in a professional capacity provided legal services to the Property, for which the Affiliate was paid \$96,000, \$96,000, and \$133,000 for the years ended December 31, 2020, 2019 and 2018 respectively. In addition, affiliates of the Managing member were paid approximately \$223,000, \$195,000, and \$240,000, for the years ended December 31, 2020, 2019 and 2018, respectively. These amounts are included in legal and professional fees.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 27, 2021

OPTIBASE LTD.

By: /s/ Amir Philips/

Name: Amir Philips

Title: Chief Executive Officer

EXHIBIT INDEX

| Exhibit Number | Description of Document |
|------------------------------|--|
| <u>1.1</u> | <u>Amended and Restated Memorandum of Association of Optibase Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 6-K dated February 19, 2002).</u> |
| <u>1.2</u> | <u>Amended and Restated Articles of Association of Optibase Ltd. (incorporated by reference to Exhibit 1.2 to the Registrant's Annual Report on Form 20-F dated April 30, 2014).</u> |
| <u>2.1*</u> | <u>Description of Share Capital.</u> |
| <u>4.1</u> | <u>Form of Letter of Indemnification between Optibase, Inc. and its directors and officers (incorporated by reference to Exhibit 4.9 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2002).</u> |
| 4.2 | 1999 Israel Share Option Plan, as amended (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999). |
| 4.3 | 102 Plan (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999). |
| <u>4.4</u> | <u>2003 Amendment to the 1999 Israel Share Option Plan (incorporated by reference to Exhibit 4.(c).9 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003).</u> |
| <u>4.5</u> | <u>2006 Israeli Incentive Compensation Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File no. 333-137644)).</u> |
| <u>4.6</u> | <u>Agreement between Optibase RE 1 SARL and Basler Kantonalbank dated October 28, 2009 (incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2009).</u> |
| <u>4.7*</u> | <u>Framework Agreement between Eldista GmbH and CREDIT SUISSE (Switzerland) Ltd. dated January 8, 2020.</u> |
| <u>4.8*</u> | <u>Security Agreement between Eldista GmbH and CREDIT SUISSE (Switzerland) Ltd. dated January 8, 2020.</u> |
| <u>4.11</u> | <u>Shareholders Agreement between The Phoenix Pension and Provident Fund Ltd., The Phoenix Insurance Company Ltd., and Optibase Ltd. Dated February 28, 2011 (incorporated by reference to Exhibit 4.13 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).</u> |
| <u>4.14</u> | <u>Loan Agreement between Optibase Bavaria GmbH & Co KG, and Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft, dated May 4, 2015 (unofficial English translation) (incorporated by reference to Exhibit 4.14 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).</u> |
| <u>4.15</u> | <u>First Amendment to the Loan Agreement between Optibase Bavaria GmbH & Co KG, and Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft (dated May 4, 2015), dated November 10, 2015 (unofficial English translation) (incorporated by reference to Exhibit 4.15 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).</u> |
| <u>4.16</u> | <u>Contribution Agreement between Optibase Chicago 300 LLC, 300 River Holdings LLC, 300 River Plaza One LLC and WKEM Riverside Member LLC, dated December 28, 2015 (incorporated by reference to Exhibit 4.16 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).</u> |
| <u>4.17</u> | <u>Amended and Restated Limited Liability Company Agreement of 300 River Holdings LLC between Optibase Chicago, LLC and 300 River Plaza One LLC, dated December 28, 2015 (incorporated by reference to Exhibit 4.17 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).</u> |
| <u>4.18*</u> | <u>Loan Agreement between Optibase Real Estate Miami, LLC and City National Bank of Florida, dated July 1, 2015 as amended on November 17, 2017 (incorporated by reference to Exhibit 4.18 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2017), and as amended on March 31, 2020.</u> |

| Exhibit Number | Description of Document |
|-----------------------|---|
| 4.19 | Deed of Trust for Series A Bonds between Optibase Ltd. and Hermetic Trust (1975) Ltd., dated August 2, 2015 (unofficial English translation) (incorporated by reference to Exhibit 4.19 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015). |
| 4.22 | Registration Rights Agreement between Optibase Ltd., The Capri Family Foundation and Mr. Shlomo (Tom) Wyler, dated September 4, 2014 (incorporated by reference to Exhibit 4.13 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2014). |
| 4.23* | Compensation Policy of Optibase Ltd. as amended on December 30, 2020. |
| 4.24 | Assets Sale Agreement between Optibase Bavaria GmbH & Co., Optibase Bavaria Holding GmbH & Co and Deutsche Konsum REIT-AG, dated February 10, 2020 (unofficial English translation). (incorporated by reference to Exhibit 4.24 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2019). |
| 6.1 | Form of Letter of Indemnification between Optibase, Ltd. and its directors and officers, as Amended on December 21, 2017 (incorporated by reference to Exhibit 6.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2017). |
| 8.1* | List of the subsidiaries of Optibase Ltd. |
| 11.1 | Code of Business Conduct and Ethics, as last adopted by Optibase Ltd. Board of directors on September 5, 2016 (incorporated by reference to Exhibit 11.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2016). |
| 12.1* | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 12.2* | Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 13.1* | Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 13.2* | Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 15.1* | Consent of Kost, Forer Gabbay & Kasierer, a member of Ernst & Young Global. |
| 15.2* | Consent of EisnerAmper LLP Accountants and Advisors. |
| 101* | The following financial information from Optibase Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2020 and 2019; (ii) Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2020, 2019 and 2018; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020, 2019 and 2018; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018; and (vi) Notes to Consolidated Financial Statements. |

* Filed herewith

DESCRIPTION OF SHARE CAPITAL

The following descriptions of our share capital and provisions of our amended and restated articles of association are summaries and do not purport to be complete. Our amended and restated articles of incorporation are filed with the SEC as an exhibit to this Annual Report on Form 20-F.

Purposes and Objects of the Company

We are a public company registered under the Companies Law as Optibase Ltd., registration number 52-003707-8.

Pursuant to our articles of association, our objectives are to engage in any lawful business and our purpose is to act pursuant to business considerations to make profits. A consideration to the Company's purpose and objectives can be found in Chapter 1 to the Company's articles of association.

Our articles of association also state that we may contribute a reasonable amount for an appropriate cause, even if the contribution is not within the framework of our business considerations.

The Powers of the Directors

The power of our directors to vote on a proposal, arrangement or contract in which the director is interested is limited by the relevant provisions of the Companies Law. In addition, the power of our directors to vote on compensation to themselves or any members of their body is limited in that such decision requires the approval of the compensation committee, the board of directors and the shareholders at a general meeting, see "Approval of Certain Transactions" below.

Under Israeli law each director must act with an independent and sole discretion. Director who does not act this way is in breach of his fiduciary duties.

The powers of our directors to borrow are not limited, except in the same manner as any other transaction by the Company.

Rights Attached to Shares

Our registered share capital is NIS 3,900,000 divided into a single class of 6,000,000 ordinary shares, par value NIS 0.65 per share, of which 5,216,256 ordinary shares were issued and outstanding as of April 16, 2021. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to the Ordinary Shares are as follows:

Dividend rights

Holders of Ordinary Shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may propose a dividend only out of profits, in accordance with the provisions of the Companies Law. Declaration of a dividend requires the approval of our board of directors. Please see Item 10.E. "Taxation" below.

One year after a dividend has been declared and is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend.

Voting rights

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. Currently there are no shares of capital stock outstanding with special voting rights. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least thirty three and one third percent (33.3%) of our voting rights. In the event that a quorum is not present within half an hour of the scheduled time, the shareholders' meeting will be adjourned to the same day of the following week, at the same time and place, or such time and place as the board of directors may determine by a notice to the shareholders. If at such adjourned meeting a quorum is not present at the time of opening of such meeting, two shareholders, at least, present in person or by proxy, shall constitute a quorum.

An ordinary resolution, such as a resolution for the election of directors, or the appointment of auditors, requires the approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or through a voting instrument and voting thereon. Under our articles of association, if a resolution to amend the articles of association is recommended by our board of directors, such recommended resolution's adoption in a general meeting of the shareholders requires an ordinary majority. In any other case, such a resolution requires approval of a special majority of more than three quarters of the votes of the shareholders entitled to vote themselves, by proxy or through a voting instrument.

The directors (who are not external directors) are appointed by decision of an ordinary majority at a general meeting. The directors have the right at any time, in a resolution approved by at least a majority of our directors, to appoint any person as a director, subject to the maximum number of directors specified in our articles of association, to fill in a place which has randomly been vacated, or as an addition to the board of directors. Any such director so appointed shall hold office until the next annual general meeting and may be reelected.

Under our articles of association our directors (who are not external directors) are elected by an ordinary majority of the shareholders at each duly convened annual meeting, and they serve until the next annual meeting, provided that external directors shall be elected in accordance with the Companies Law. In each annual meeting the directors that were elected at the previous annual meeting are deemed to have resigned from their office. A resigning director may be reelected.

Under the NASDAQ corporate governance rules, foreign private issuers are exempt from many of the requirements if they instead elect to be exempted from such requirements, provided they are not prohibited by home country practices and disclose where they have elected to do so.

Rights in the Company's profits

All of our ordinary shares have the rights to share in our profits distributed as a dividend and any other permitted distribution.

Rights in the event of liquidation

All of our ordinary shares confer equal rights among them with respect to amounts distributed to shareholders in the event of liquidation.

Changing Rights Attached to Shares

According to our articles of association, our share capital may be divided into different classes of shares or the rights of such shares may be altered by an ordinary majority resolution passed by the general meetings of the holders of each class of shares separately, or after obtaining the written consent of the holders of all of the classes of shares. As of the date hereof, we only have one class of shares.

Annual and Extraordinary Meetings

Our board of directors must convene an annual meeting of shareholders every year by no later than the end of fifteen months from the last annual meeting. Notice of at least twenty-one days prior to the date of the meeting is required. An extraordinary meeting may be convened by the board of directors, as it decides or upon a demand of any two directors or 25% of the directors, whichever is lower, or by one or more shareholders holding in the aggregate at least 5% of the voting rights in the Company. Where the board of directors is requisitioned to call a special meeting, it shall do so within twenty-one days, for a date that shall not be later than thirty-five days from the date on which the notice of the special meeting is published. Notice of a general meeting shall be given to all shareholders entitled to attend and vote at such meeting. No separate notice is to be given to registered shareholders of the Company. Notices may be provided by the Company in person, in mail, transmission by fax or in electronic form. A notice to a shareholder may alternatively be served, as general notice to all shareholders, in accordance with the rules and regulations of any applicable securities authority with jurisdiction over the Company or in accordance with the rules of any stock market upon which the Company's shares are traded.

Limitations on the Rights to Own Securities in the U.S.

Our memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents of Israel, and neither the memorandum and articles of association nor Israeli law restricts the voting rights of non-residents of Israel, except that under Israeli law, any transfer or issue of shares of a company to a resident of an enemy state of Israel is prohibited and shall have no effect, unless authorized by the Israeli Minister of Finance.

Limitations on Change in Control and Disclosure Duties

Our memorandum and articles of association do not restrict the change of control nor do they impose any disclosure duties beyond the requirements set out in Israeli law. For restriction of change of control provision under Israeli law, see Item 3.D. "Risk Factors", under the heading "Risks Relating to Operations in Israel – Anti-takeover Provisions" above.

Changes in Our Capital

Changes in our capital are subject to the approval of the shareholders at a general meeting by an ordinary majority of shareholders participating and voting in the general meeting.

Fiduciary Duty and Duty of Care of Directors and Officers

The Companies Law codifies the duties directors and officers owe to a company. An "Officer" includes a company's general manager, general business manager, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other directors or managers directly subordinate to the general manager. The directors' and officers' principal duties to the company are a duty of care and a fiduciary duty to act in good faith for the company's benefit which include:

- ❖ the avoidance of any conflict of interest between the director's or officer's position with the company and any other position he or she fulfills or with his or her personal affairs;
- ❖ the avoidance of any act in competition with the company's business;
- ❖ the avoidance of exploiting any of the company's business opportunities in order to gain a personal advantage for himself or for others; and
- ❖ the disclosure to the company of any information and documentation relating to the company's affairs obtained by the director or officer due to his or her position with the company.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

Approval of Certain Transactions

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of directors' and officers' insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of such director with a company in other positions require the approval of the audit committee, the board of directors and the shareholders of the company. In addition, transactions between a public company and its director or officer, or a transaction between such company and other person in which such director or officer has a personal interest must be approved by such company's board of directors, and if such transaction is considered an extraordinary transaction (as defined below) it must receive the approval of such company's audit committee as well. The determination whether such transaction is considered extraordinary or not is required to be made by audit committee.

The Companies Law also requires that any extraordinary transaction between a public company and its controlling shareholder or an extraordinary transaction between such company and other person in which such company's controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company by an ordinary majority, provided that (i) such majority vote at the shareholders meeting shall include a majority of the total votes of shareholders having no personal interest in the transaction, participating at the voting (excluding abstaining votes); or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed two percent (2%) of the total voting rights in the company. An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability. Such an extraordinary transaction which shall last for a period exceeding three years shall be approved again by such company's audit committee, board of directors and general meeting of shareholders by the special majority described above once in every three years.

The Companies Law further provides that the engagement terms of a controlling shareholder or its relative (including by an entity controlled by such controlling shareholder or its relative) with the company, either as an officer or an employee, must also be approved by such company's compensation committee, board of directors and general meeting by the special majority described above. Such an engagement which shall last for a period exceeding three years shall be approved again by such company's audit committee, board of directors and general meeting by the special majority described above once in every three years. However, an engagement described in the beginning of this paragraph only which may be approved for a period exceeding three years, provided that the audit committee approved the engagement term to be reasonable under the circumstances.

The Companies Law prohibits any person who has a personal interest in a matter to participate in the discussion and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances when the majority of the board of directors' (or the audit committee – as the case may be) has a personal interest in the matter. In case the majority has a personal interest in such matter then such matter must also be approved by the company's shareholders. An officer who has a personal interest may be present for the presentation of the transaction if the chairman of the audit committee or the chairman of the board of directors as the case may be, determined that such officer's presence is required for the presentation of the said transaction.

Compensation of Officers and Directors

Pursuant to the Companies Law, Israeli Public Companies are required to establish a compensation committee and adopt a compensation policy regarding the compensation and terms of employment of their directors and officers. For information on the composition, roles and objectives of the compensation committee pursuant to the Companies Law and our compensation committee charter, see Item 6.C. "Board Practices – Committees of the Board of Directors – The Compensation Committee".

The compensation policy must be approved by the company's board of directors after reviewing the recommendations of the compensation committee. The compensation policy also requires the approval of the general meeting of the shareholders, which approval must satisfy one of the following (which we refer to hereinafter as the Majority Requirement): (i) the majority should include at least a majority of the shares of the voting shareholders who are non-controlling shareholders or do not have a personal interest in the approval of the compensation policy (in counting the total votes of such shareholders, abstentions shall not be taken into account) or (ii) the total number of votes against the proposal among the shareholders mentioned in paragraph (i) does not exceed two percent of the aggregate voting power in the company. Under certain circumstances and subject to certain exceptions, the board of directors may approve the compensation policy despite the objection of the shareholders, provided that the compensation committee and the board of directors determines that it is for the benefit of the company, following an additional discussion and based on detailed arguments. The Companies Law provides that the compensation policy must be re-approved every three years, in the manner described above. Moreover, the board of directors is responsible for reviewing from time to time the compensation policy and deciding whether or not there are any circumstances that require an adjustment to the company's compensation policy.

Pursuant to the Companies Law any transaction with an executive officer (except directors and the CEO of the company) with respect to such officer's compensation arrangements and terms of engagement, requires the approval of the compensation committee and the board of directors. Transactions between Israeli Public Companies and their chief executive officer, with respect to his or her compensation arrangement and terms of engagement, require the approval of the compensation committee, the board of directors and the shareholder's meeting, provided that the approval of the shareholders' meeting must satisfy the Majority Requirement. Notwithstanding the above, the compensation committee and the board of directors may, under special circumstances, approve such transaction with the CEO even if the shareholders' meeting objected to its approval. With respect to transactions relating to the compensation arrangement and terms of engagements of directors in public companies (including companies that have issued only debentures to the public), the Companies Law provides that such transaction shall be subject to the approval of the compensation committee, the board of directors and the shareholders' meeting.

Such transactions for the approval of compensation arrangements with officers and directors of Israeli Public Companies must be consistent with the provisions of the company's compensation policy, provided that the compensation committee and the board of directors may, under special circumstances, approve such transaction that is not in accordance with the company's compensation policy, if the conditions under the Companies Law are met and the company's shareholders approved the transaction in the Majority Requirement. Notwithstanding the above, with respect to the approval of compensation terms of an executive officer (except directors and the CEO of the company), the compensation committee and the board of directors may, under special circumstances, approve such transaction even if the shareholders' meeting objected to its approval, provided that (i) both the compensation committee and the board of directors discussed the transactions and decided to approve it despite the shareholder's objection, based on detailed arguments, and (ii) the company is not a Public Pyramid Held Company. Non material amendments of transactions relating to the compensation arrangement or terms of engagement of executive officer (including the CEO), require only the approval of the compensation committee.

On February 14, 2019, and following the approval by our compensation committee and our board of directors, our shareholders approved a new compensation policy and such policy is in affect for a 3-year term. On February 18, 2020, following the approval by our compensation committee and our board of directors, our shareholders approved an amendment to compensation policy with respect to the maximum aggregate annual premium payable for directors' and officers' liability insurance and on December 30, 2020 following the approval by our compensation committee and our board of directors, our shareholders approved an amendment to compensation policy with respect to the deletion of the caps set for the premium payment under any type of directors' and officers' liability insurance policy.

On January 11, 2013, the SEC approved the amended NASDAQ listing standards on compensation committees and advisers. Among others, the amended NASDAQ listing standards include provisions relating to the establishment of a compensation committee, the compensation committee charter, compensation committee members' independence requirements, and arrangements relating to advisers retained by the compensation committee. Under the amended rules, the compensation committee adviser and compensation committee authority requirements become effective on July 1, 2013. However, NASDAQ listed companies will have, until their first annual meeting after January 15, 2014, or, if earlier, October 31, 2014, to comply with other standards, including the compensation committee member independence standards and the requirement to have a compensation committee and charter (including any charter amendment to reflect the compensation committee authority requirements). NASDAQ listed companies must certify compliance with the listing standards within 30 days after the applicable implementation deadline. In addition, under the amended rules, foreign private issuers are exempt from compliance with the amended listing standards if home country practice is followed and the listed company discloses with the SEC the reasons why it does not have an independent compensation committee. Our compensation committee charter was updated in accordance with said amendments.

Anti-Takeover Provisions; Mergers and Acquisitions

Special Tender Offer. The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser would become a holder of at least 25% of the voting rights in the company. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of more than 45% of the voting rights in the company and no other shareholder of the company holds more than 45% of the voting rights in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a shareholder holding at least 25% of the voting rights in the company and resulted in the acquirer becoming a holder of at least 25% of the voting rights in the company, or (iii) was from a holder of more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company. The special tender offer may be consummated only if (a) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (b) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention. An executive officer in a target company who, in his or her capacity as an executive officer, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages, unless such executive officer acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, executive officer of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.

A special tender offer may not be consummated unless a majority of the shareholders who announced their stand on such offer have accepted it (in counting the total votes of such shareholders, shares held by the controlling shareholder, shareholders who have personal interest in the offer, or shareholder who own 25% or more of the voting rights in the company, shall not be taken into account). If a special tender offer was accepted by a majority of the shareholders who announced their stand on such offer, then shareholders who did not announce their stand or who had objected to the offer may accept the offer within four days of the last day set for the acceptance of the offer.

In the event that a special tender offer is accepted, the purchaser or any person or entity controlling it at the time of the offer or under common control with the purchaser or such controlling person or entity shall refrain from making a subsequent tender offer for the purchase of shares of the target company and cannot execute a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Full Tender Offer. A person wishing to acquire shares or a class of shares of an Israeli public company and who would, as a result, hold over 90% of the target company's issued and outstanding share capital or that certain class of shares is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company or class of shares. If either (i) the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholder who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class, then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a shareholder that had its shares so transferred, whether it accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition the court to determine that tender offer was for less than fair value and that the fair value should be paid as determined by the court. If the shareholders who did not accept the tender offer hold at least 5% of the issued and outstanding share capital of the company or of the applicable class of shares, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

Merger. The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, a majority of each party's shares voted on the proposed merger at a shareholders' meeting called with at least 35 days' prior notice.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares represented at the shareholders meeting that are held by parties other than the other party to the merger, or by any person who holds 25% or more of the outstanding shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. If the transaction would have been approved but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and 30 days have passed from the date the merger was approved by the shareholders of each of the merging companies.

Anti-Takeover Measures Under Israeli Law. The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights, distributions or other matters and shares having preemptive rights. As of the date of this annual report, we do not have any authorized or issued shares other than our ordinary shares. In the future, if we do create and issue a class of shares other than ordinary shares, such class of shares, depending on the specific rights that may be attached to them, may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares will require an amendment to our articles of association which requires the prior approval of the holders of a majority of our ordinary shares at a general meeting.

Tax Law. Israeli tax law treats some acquisitions, such as a stock-for-stock swap between an Israeli company and a foreign company, less favorably than U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation. Please see Item 10E. "Taxation".

The Centralization Law. The Israeli parliament (the Knesset) approved the new Promotion of Competition and Reduction of Centralization Law, 5774-2013, or the Centralization Law, which, among others, imposes new constraints and stricter corporate governance rules on pyramid conglomerates, and forces separation between equity holdings in significant non-financial corporate businesses and equity holdings in significant financial businesses. The Centralization Law has entered into force on December 11, 2013.

FRAMEWORK AGREEMENT FOR MORTGAGE LOAN

between

Eldista GmbH, rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA, 1207 Genève
(hereinafter referred to as the "Borrower")

and

CREDIT SUISSE (Switzerland) Ltd.

Mailing address: SGLB 8, 8070 Zurich

Contact address: Uetlibergstrasse 231, 8045 Zurich

(the lender, hereinafter referred to as the "Bank")

Amount of Credit Facility **CHF 83'500'000.00**

The amount of the credit facility is reduced by the sum of the amortizations and other loan repayments made.

Utilization

This credit facility may be utilized as follows:

- in the form of mortgage loans in CHF with terms of 1 to maximum 10 years
- in the form of mortgage-backed fixed advances in CHF with terms of 3, 6, or 12 months
- in the form of mortgage-backed fixed advances in USD with terms of maximum 3 months

Use in foreign currency may only occur if the resulting foreign exchange risk is hedged through a separate OTC transaction in the same currency and with the same term and nominal (see also "Conditions for utilization of mortgage-backed fixed advances in foreign currency"). The form of these mandatory OTC hedging transactions will be agreed together with the Bank.

The type and term of the loan are mutually agreed by the Borrower and the Bank within the scope of the available credit facility.

Such agreement is made without complying with any requirements as to form; an oral agreement, in particular, is sufficient to be binding. The agreement will be confirmed by the Bank in writing, but without a signature.

The use of the individual credit products is in each case limited by the credit amount available at that time. The Bank reserves the right to reject individual transactions in connection with the above credit products. In particular, the Bank does not commit to the conclusion of fixed advances in foreign currency and/or the conclusion of OTC transactions.

Conditions for utilization of mortgage-backed fixed advances in foreign currency

The use of mortgage-backed fixed advances in foreign currency can only take place if:

- at the same time as the use in foreign currency, a corresponding OTC transaction for currency hedging is concluded with the Bank in the same currency and with the same nominal and term as the corresponding fixed advance in foreign currency;

If a fixed advance in foreign currency agreed with the Bank has a shorter term than the corresponding OTC transaction, the Borrower undertakes, when such a fixed advance falls due for payment, to extend this until the term of the corresponding OTC transaction has ended.

OTC transactions

Prior to concluding an OTC transaction, the Bank may request that the Swiss Master Agreement for OTC derivative transactions (“OTC CH Master Agreement”) or another OTC Master Agreement confirmed by the Bank (each an “OTC Master Agreement”) is formally agreed between the Borrower and the Bank. However, there is no obligation on the Bank to conclude “OTC transactions” (see “OTC CH Master Agreement”). The “OTC CH Master Agreement” also applies to any other “OTC transactions” concluded between the Bank and the Borrower outside and independently of this Master Agreement.

Repayment / Prolongation

Fixed-term loans must be repaid at the end of the term or the aggregate term unless the Borrower has entered into a new agreement with the Bank at least two bank working days before this date. If no such agreement has been made and the framework agreement has not been terminated, the Bank is entitled, but not obliged, to convert the loan into an adjustable-rate mortgage; this is made known to the Borrower in writing, however without a signature.

For a credit product with an aggregate term, if the Borrower did not agree with the Bank a new partial term for the continued use of the product or the use of another mortgage product by three bank working days before the expiry of a partial term at the latest, the product is automatically prolonged with an adjusted interest rate (see “Interest Rate” below) and the same partial term, which may not, however, exceed the final date of the aggregate term.

Amortization

The mortgage amortization shall be CHF 2'000'000.00 per year, payable quarterly, for the first time on 31.03.2020.

Installments and method of payment as well as modifications to the amortization amount are mutually agreed. Such agreement is made without complying with any requirements as to form; an oral agreement, in particular, is sufficient to be binding. The agreement will be confirmed by the Bank in writing, but without a signature.

Interest rate

The interest rate of loans that do not have a fixed term is determined by the Bank. The interest rate is based on the prevailing conditions in the money and capital markets, the risk assessment of the Bank and the margin determined by the Bank. The Bank may at any time and with immediate effect adjust the interest rate to reflect changes in these elements.

The interest rate of fixed-term loans is mutually agreed by the Borrower and the Bank. This agreement is made without complying with any requirements as to form; an oral agreement, in particular, is sufficient to be binding.

For credit products with an aggregate term, the calculation of the interest rate is based on the base rate to be agreed for the currency in question and the applicable partial term. The base rate is increased by an agreed surcharge of 0.75% p.a. for drawings in CHF and 1.05% p.a. for drawings in USD, which takes account of the Bank's margin as well as the risk assessment. In the event of automatic prolongation, the base rate valid for the currency and new partial term in question and the surcharge for this base rate apply. Upon any extension, the Bank is entitled to adjust this surcharge on the basis of a new risk assessment.

If the agreed base rate for an entire term is unavailable or no longer available for the requested currency and partial term prior to expiration of this overall term, is no longer published, or no longer the market standard, or if the bank declares in good faith and on commercially reasonable grounds that the base rate will be replaced, in particular if the bank no longer uses the base rate as its standard base rate for similar credit products, or if it is no longer offered by the bank at all, or if a corresponding public announcement is made (i.e. the publication of information stating that the base rate will be discontinued by the authority that manages the base rate, or by a successor authority, or that the base rate is no longer representative or can no longer be used), a replacement for the agreed base rate will be specified by the bank and any risk premium and other adjustments made. If the borrower does not agree with this proposal, the borrower has the option of switching the current utilized credit product, on expiration of the partial term, to a different credit product in accordance with the provisions of the applicable product agreement.

If the borrower does not accept the bank's proposal, or convert the current utilized credit product, the bank is entitled to convert the current utilized credit product into a loan with a fixed term up to the end of the overall term. The deadline for the acceptance of the proposal made by the bank for a successor product or the notice regarding conversion of the current utilized credit product is 30 days following submission of the proposal for a replacement product.

In the event of a negative base rate, a base rate of 0.00% will be used to calculate the interest rate.

If the currently valid equity capital requirements are increased through measures by authorities or provisions of law, the Bank is entitled to increase the applicable interest rate by the amount of the resulting additional borrowing costs.

Interest due dates

March 31, June 30, September 30, and December 31, or in accordance with the separate agreements (see "Utilization" above)

Interest on arrears

If the Borrower does not pay the interest by the interest due date, an interest penalty of 2% above the agreed interest rate shall be paid on the amount in arrears as from the due date.

Interest payments and amortization payments

On the due date, interest payments and amortization payments shall be debited to an account with the Bank.

The Borrower undertakes to make the applicable amount available in this account on the due date.

The Bank's rights under the collateral agreement extend to cover any debit balance on such an account arising from the amounts debited for the interest payments or amortization payments.

Fees

A one-time arrangement fee of CHF 10'000.00 will be payable upon signing of this framework agreement. The Bank is entitled to debit the Borrower's account.

The Bank may charge fees for reviewing, changing, monitoring and managing the credit facility and the individual loans as well as for extraordinary expenses. In such cases the combined amount shall not exceed CHF 10'000.00 per calendar year.

Mortgage collateral

- CHF 81'666'000.00 first ranking bearer mortgage note, no prior ranking,
- CHF 41'959'000.00 third ranking bearer mortgage note, prior ranking CHF 82'523'922.00,

on business premises "CTN", Ch. des Aulx 8 - 18, 1228 Plans-les-Ouates, land register Plans-les-Ouates, land register folio 11095 (hereinafter referred to as "CTN").

Transfer of ownership by way of collateral in accordance with the "Collateral Agreement" (to be signed)

If collateral is provided for more than one claim, the Bank may decide at its discretion, which claim(s) will be set off against sales proceeds or any other income derived from the collateral.

Scope of security

The claims for capital payment from the mortgage notes provide the Bank with security for all claims against the Borrower arising from any agreements or contracts already concluded or to be entered into in the future within the context of business relationships, as well as for all costs connected with such claims and their interest, as well as the commissions, charges, fees, costs, other debits and early repayment penalties, etc. These claims for capital payment under the mortgage note also provide collateral for any right of the Bank to be indemnified and held harmless, especially when claims are asserted against it by third parties (including issuers, liquidators, legal administrators, bankruptcy administrators, institutions, and government authorities) in connection with transactions conducted or assets held on behalf of the Client (hereinafter referred to as secured claims). In contrast, the interest on the mortgage note claims provides the Bank with security for all interest on the secured claims.

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| Multiple claims | In the event of multiple secured claims against the Borrower, the Bank shall determine to which of these claims the mortgage notes or their realization proceeds are to be allocated. |
| Acknowledgement of debt | The Provider of Collateral hereby explicitly acknowledge his financial liability arising from the mortgage notes assigned to the Bank amounting to the sum of the claims for capital payment, in addition to the current and three-year accrued interest. This acknowledgement of debt is valid irrespective of any stipulations in the mortgage deeds (if any). If the Provider of Collateral is not the mortgage note debtor, he hereby declare joint and several liability for the debt to the extent detailed above. The interest rate of the mortgage note claims is stipulated to be 5%; should a higher interest or maximum interest rate have been determined for a mortgage note, this shall be regarded as the interest rate of the mortgage note claim. |
| Deed claims and credit claims | The Bank may enforce the mortgage note claims instead of the secured claims. The Bank is also entitled to enforce the secured claims prior to and independently of the mortgage note claims. |
| Calling in mortgage note claims | Should the Borrower default on at least one of the secured claims, the Bank is entitled to call in the mortgage notes with a period of notice of three months to the end of a month. Insofar as the Borrower(s) default(s) on the payment of interest or amortization, the Bank is entitled to call in the payment with immediate effect. This shall apply irrespective of any stipulations in the mortgage deeds (if any). |
| Increase and conversion of mortgage notes | In the event that a mortgage note is increased or converted into another type of mortgage note, this Agreement shall also apply. |
| Reassignment of mortgage notes | As soon as the Bank is no longer in possession of any secured claim(s) against the Borrower, the Bank is obliged to transfer the mortgage notes back to the assignor(s) or to have them transferred by the trustee. Should a third party who has provided personal or tangible security (e.g. surety bond, third-party pledge) satisfy the Bank's claims, the Bank shall be entitled to transfer the mortgage notes to this third party. |

Further collateral

Deed of Assignment in favour of the Bank of any rent payments from the real estate property CTN, Ch. des Aulx 8 – 18, 1228 Plans-les-Ouates, covering the amount of interest and capital repayment dated 05.10.2011.

If collateral is provided for more than one claim, the Bank may decide at its discretion, which claim(s) will be set off against sales proceeds or any other income derived from the collateral.

Risks

The Bank expressly informs the Borrower that taking up loans by using securities and/or cash account balances as collateral and/or the utilization of the loan proceeds (leveraging) for investments in financial instruments of any kind (securities, derivatives, OTC / TOFF, FX etc.) also involves an interest rate, price and currency risk.

The Borrower is made aware of the following risks in particular: In case of adverse market developments, the assets pledged as collateral may be insufficient to cover the outstanding credit in full, so that at a time that is unfavorable for the Borrower the collateral may have to be realized and the open positions may have to be closed out respectively liquidated. To the extent, the realization of the available collateral is insufficient to cover the Bank's claim from the loan; the Borrower remains based on the credit relationship personally liable vis-à-vis the Bank for the full discharge of the remaining debt.

Release from banking customer secrecy

If the Bank provides fiduciary declarations upon the instructions of the Borrower, the Bank shall be released from banking customer secrecy vis-à-vis the recipients of these declarations with respect to the construction loan relationship. This release shall continue to apply after the end of the loan relationship between the Borrower and the Bank.

Termination of the framework agreement

This framework agreement may be terminated by either party at any time with immediate effect. Upon termination of the framework agreement, maturing loans are not renewed and no new loans will be granted. However, loans that were previously agreed will remain unaffected by the termination of this framework agreement.

The termination of a loan granted under this framework agreement does not automatically result in the termination of the framework agreement.

Termination of individual loans

Fixed-term loans granted under this framework agreement can not be terminated before the end of the term or the aggregate term, unless otherwise agreed in writing. Loans with unspecified terms can be terminated by either party at any time with 3 months' notice.

*Ordinary termination**Extraordinary termination*

The Bank reserves the right to terminate all loans granted under this agreement with immediate effect at any time if:

- the Borrower goes bankrupt or is granted a bankruptcy moratorium;
- the Borrower has breached any other obligation under this framework agreement and/or under any agreements based hereon and has failed or was unable to restore the proper contractual situation within 60 calendar days after written notice from the Bank;

- the Borrower is in arrears on interest payments or mortgage amortizations for more than 60 calendar days after they are due;
- the mortgaged property is insufficiently insured against fire and damage caused by natural hazards;
- the value of the mortgaged property is significantly impaired, especially due to a casualty or insufficient maintenance;
- the use of the mortgaged property is materially altered without the Bank's consent;
- there has been a change in direct or indirect ownership/control in respect of the Borrower / holding company resulting in Optibase Ltd. owning less than 51% of the Borrower's / holding company's shares and/or resulting in an ownership structure which at the Bank's sole discretion is not acceptable for the Bank;
- owing to default and/or maturity clauses, another loan or similar obligation, exceeding the total amount of CHF 1'000'000.00, entered into by the Borrower has been terminated early;
- in the Bank's view, asset and/or revenue situation of the Borrower has deteriorated significantly;
- obligations of the borrower vis-à-vis the bank in connection with OTC transactions entered into by the borrower with the bank have not been fulfilled at the point of maturity;
- another loan or similar obligation (e.g. OTC transaction) entered into by the Borrower with the Bank has been prematurely terminated on the basis of default and/or maturity clauses;
- OTC transactions for currency hedging that were simultaneously concluded with a corresponding use in the same foreign currency as the fixed advance (see "Conditions for utilization of mortgage-backed fixed advances in foreign currency") have been prematurely cancelled/closed out and the resulting obligations of the Borrower vis-à-vis the Bank have not been fulfilled at maturity and the associated fixed advance in foreign currency is not repaid at the same time.

Transfer of ownership or forced sale

In the event of transfer of ownership or forced sale of the mortgaged property, all claims in connection with this framework agreement shall fall due for repayment on the date of transfer of ownership or on the date of the public auction, as applicable.

Statement of costs in the event of early termination of fixed-term loans

If any fixed-term loans granted under this framework agreement are terminated early, the Bank will credit or debit the Borrower with the interest gain or interest shortfall accrued thereon. This is calculated based on the difference between the contractual interest rate which applies at the time of termination and the interest rate that, in the Bank's view, can be earned on an investment with the same residual term (i.e. date of termination to expiry of interest period of such loan/advance) on the money or capital markets at the time of termination, multiplied by the outstanding loan amount and the residual term. Any surplus in favor of the Borrower is set off against the fee for the Bank's expenses described below.

In addition a flat fee of 0.1% of the loan amount, but not less than CHF 1'000.00, is owed for the Bank's expenses.

By way of example:

Example 1

Early repayment of a mortgage loan of CHF 10mn (original term 2 years) with a reference rate of 3.0% (reference rate = internal funding rate) by the Borrower after 1 year and loan is reinvested by the Bank for residual term (1 year with a reinvestment rate of 2.5%). Interest is calculated in accordance with international conventions (actual number of days / 360).

- (i) Refinancing portion of early repayment result: 0.5% loss on CHF 10mn reinvestment (reference rate \cdot reinvestment rate) for residual term of 1 year (CHF 10mn x 365/360 x 0.5%) equals CHF 50'694.44.
- (ii) Early repayment processing flat fee of 0.1% of the loan amount: CHF 10mn x 0.1% equals CHF 10'000.00.
- (iii) Total early repayment penalty: CHF 60'694.44.

Example 2

Early repayment of a fixed advance of CHF 10mn with an interest period of 3 months with a base rate of 1.0% by the Borrower after 1 month and loan is reinvested by the Bank for residual term (2 months a reinvestment rate of 0.5%). Interest is calculated in accordance with international conventions (actual number of days / 360).

- (i) Refinancing portion of early repayment result: 0.5% loss on CHF 10mn reinvestment (base rate \cdot reinvestment rate) for residual term of 2 months (CHF 10mn x 60/360 x 0.5%) equals CHF 8'333.33.
- (ii) Early repayment processing flat fee of 0.1% of the loan amount: CHF 10mn x 0.1% equals CHF 10'000.00.
- (iii) Total early repayment penalty: CHF 18'333.33.

As the exact early repayment penalty is calculated as the present value, so the individual payment flows are discounted, the above calculation is merely an approximation.

Insurance

The mortgaged property shall be adequately insured against fire and natural hazards. The Bank is entitled to ask the Borrower at any time for a copy of the current certificate of buildings insurance and/or the terms applicable to the insurance.

Transferability

The Bank is authorized to transfer or assign all or any part of this loan relationship, with all collateral and ancillary rights, to a third party in Switzerland or abroad, for example, for the purposes of securitization or outsourcing. The right to further transfer the relationship or to transfer it back remains reserved.

The Bank may at any time make data and information associated with the loan relationship available to such a third party and other involved parties, such as rating agencies and trust companies; these parties shall be obliged to keep such information confidential. The Borrower expressly declares his/her agreement with the procedure described above.

Important Note regarding Transferability:

The significance of the provisions relating to transferability, and the impact on bank client confidentiality and data protection are explained in the Information Brochure. The Information Brochure can also be found online at (credit-suisse.com/legalnotes).

The signatory or signatories of this Framework Agreement for Loans confirm(s) that the Bank's Information Brochure has been received, read, understood, and accepted.

Borrower's affirmative obligations

- Obligation to provide information
The Borrower is obliged to inform the Bank without delay of current business developments and significant changes in its management and in its direct and/or indirect ownership/control as well as other significant changes that could influence the Borrower's financial situation.

In particular, the Borrower will submit the following documents to the Bank:

- Annually:
 - Balance sheet, profit and loss statement and the notes thereto, as well as the auditor's report within four months of the financial year-end
 - Current tenant schedule including respective rent of the real estate property "CTN" within four months of the financial year-end.

Borrower's Positive and Negative Obligations

- The Borrower undertakes, to the extent permitted by law, to refrain from providing new or additional collateral exceeding the total amount of CHF 2'000'000.00 in favour of a third party to secure existing or future liabilities of the Borrower or a third party.
- The Borrower undertakes, to the extent permitted by law, to refrain from establishing additional mortgage notes on the real estate property "CTN".
- Distributions in form of dividends and/or shareholder loans are only permitted in line with the available yearly profit after amortisation of the loan and interest payments and less yearly investments that are necessary for a sustainable value retention for the real estate property "CTN".
- The Borrower will undertake the necessary maintenance/investments to avoid any value reduction caused by insufficient investments into the property "CTN".

- Loans to third parties (excluding shareholders) by the Borrower are not permitted.
- The Borrower undertakes not to enter into any further credit or lease financing transactions without the written approval of the Bank. Notwithstanding the foregoing are credit or lease financing transactions up to the total amount of CHF 2'000'000.00 over the lifetime of this Framework Agreement.

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| Additional agreements and special contractual terms | <p>The Borrower will have all rent payments of the real estate property "CTN" made directly into an account at the Bank. In general, the Borrower undertakes to use the Bank for his account movements.</p> <p>The additional agreements that will be concluded or have already been concluded in accordance with the terms of this framework agreement and the agreed loan products (including the special contractual terms applicable to the individual loans) form an integral part of this framework agreement.</p> |
| General conditions | <p>The Bank's "General Conditions including the Safe Custody Regulations" supplement this framework agreement.</p> |
| Place of performance | <p>The place of performance is the location of the Swiss branch of the Bank with which the Borrower has a contractual relationship. For borrowers whose present or future domicile is outside Switzerland, the place of performance is also the place of debt enforcement ("special domicile" as defined in Art. 50 par. 2 of the Federal Law on Debt Collection and Bankruptcy).</p> |
| Applicable law and place of jurisdiction | <p>This framework agreement and the agreements based on this framework agreement are subject to and shall be construed in accordance with Swiss law. The Borrower recognizes the exclusive jurisdiction of the courts of Zurich or of the location of the branch of the Bank with which the contractual relationship exists. The Bank also has the right to bring legal action against the Borrower before any other competent court.</p> |
| Relationship to existing agreements | <p>This framework agreement replaces the loan agreement dated 05.10.2011, but shall not effect any novation of the Borrower's existing credit obligations pursuant to Art. 116 of the Swiss Code of Obligations.</p> |
| Issuance/Signing of Agreement | <p>This framework agreement has been drawn up and signed in duplicate. The Borrower and the Bank each receive one copy.</p> |

CREDIT SUISSE (Switzerland) Ltd.

Eldista GmbH

Ralf Schütz

Stefan Willi

Borrower's signature

Zurich, January 8, 2020

Place and Date

Agreement "Collateral Agreement"
(still to be signed by the Borrower)
"Information Brochure on Mortgage-Backed Credits (Mortgages)"
General Conditions incl. Safe Custody Regulations



CREDIT SUISSE (Switzerland) Ltd.
Paradeplatz 8
8001 Zürich

Agreement (Collateral Agreement)

between

Eldista GmbH

rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA

1207 Genève

(hereinafter referred to as the *Provider(s) of Collateral*)

and Credit Suisse (Switzerland) Ltd. (hereinafter referred to as the Bank).

1. The Bank holds or acquires creditors' rights to the bearer, registered, and paperless mortgage notes or bearer bonds with mortgage assignment (hereinafter referred to as mortgage notes) directly or through a trustee. The Bank is authorized to transfer existing mortgage notes either individually or collectively to a trustee, or to request, if mortgage notes are to be newly established, that they be established directly in favor of the trustee. The trustee holds the mortgage notes in its own name but on behalf of the Bank. The Bank may exercise all rights granted to it on the basis of the present agreement either on its own or by way of the trustee.

- CHF 81'666'000.00 first ranking bearer mortgage note, dated 18.05.2007

no prior ranking.

- CHF 41'959'000.00 third ranking bearer mortgage note, dated 18.05.2007

prior ranking CHF 82'523'922.00

on business premises "CTN", Ch. des Aulx 8 - 18, 1228 Plan-les-Ouates,

land register Plan-les-Ouates, land register folio 11095

Important Note regarding the Appointment of a Trustee:

The significance of the appointment of a trustee is explained in the "Information Brochure on Mortgage-Backed Credits (Mortgages)" (hereinafter referred to as the *Information Brochure*). The Information Brochure can also be found online at (credit-suisse.com/legalnotes).

The signatory or signatories of this agreement (Collateral Agreement) confirm(s) that the Bank's Information Brochure has been received, read, understood, and accepted.

2. The claims for capital payment from the mortgage notes provide the Bank with security for all claims against as individual debtor(s) and/or joint debtor(s) (hereinafter referred to as the Borrower) arising from any agreements or contracts already concluded or to be entered into in the future within the context of business relationships, as well as for all costs connected with such claims and their interest, as well as the commissions, charges, fees, costs, other debits, and early repayment penalties, etc. These claims for capital payment under the mortgage note also provide collateral for any right of the Bank to be indemnified and held harmless, especially when claims are asserted against it by third parties (including issuers, liquidators, legal administrators, bankruptcy administrators, institutions, and government authorities) in connection with transactions conducted or assets held on behalf of the Client (herein-after referred to as secured claims). In contrast, the interest on the mortgage note claims provides the Bank with security for all interest on the secured claims.

Eldista GmbH, rue des Pierres-du-Niton 17, c/o INTEREXPERTS SA, 1207 Genève

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| <p>To be completed by the Bank</p> <p>161849</p> <p>Client No. (CIF) <u>0251-1732456-0</u></p> | <p>Signature checked:</p> <p>Date, signature and stamp</p> <p>_____</p> |
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3. In the event of multiple secured claims against one or several Borrowers, the Bank shall determine to which of these claims the mortgage notes or their realization proceeds are to be allocated.

4. The Provider(s) of Collateral hereby explicitly acknowledge(s) his/her/their personal (joint, in the event of several Providers of Collateral) financial liability arising from the mortgage notes assigned to the Bank amounting to the sum of the claims for capital payment, in addition to the current and three-year accrued interest. This acknowledgement of debt is valid irrespective of any stipulations the mortgage deeds (if any). If the Provider(s) of Collateral is/are not the mortgage note debtor(s), he/she/they hereby declare joint and several liability for the debt to the extent detailed above.

The Bank may enforce the mortgage note claims instead of the secured claims. The Bank is also entitled to enforce the secured claims prior to and independently of the mortgage note claims.

5. Should the Borrower default on at least one of the secured claims, the Bank is entitled to call in the mortgage notes with a period of notice of three months to the end of a month. Insofar as the Borrower(s) default(s) on the payment of interest or amortization, the Bank is entitled to call in the payment with immediate effect. This shall apply irrespective of any stipulations in the mortgage deeds (if any).

6. In the event that a mortgage note is increased or converted into another type of mortgage note, this Agreement shall also apply.

7. The interest rate of the mortgage note claims is stipulated to be 5%; should a higher interest or maximum interest rate have been determined for a mortgage note, this shall be regarded as the interest rate of the mortgage note claim.

8. If, on transfer of the pledged property, the new owner acquires both the mortgage note debt (s) and the secured debt(s), the Bank is entitled to transfer this agreement with all associated rights and obligations to the new owner.

9. As soon as the Bank is no longer in possession of any secured claim(s) against the Borrower, the Bank is obliged to transfer the mortgage notes back to the assignor(s) or to have them transferred by the trustee. Should a third party who has provided personal or tangible security (e.g. surety bond, third-party pledge) satisfy the Bank's claims, the Bank shall be entitled to transfer the mortgage notes to this third party.

10. The Bank is authorised to transfer or assign all or part of the rights and obligations arising from this security agreement to a third party in Switzerland or abroad for the purposes of securitisation or outsourcing the claims for which security has been provided, for example. The right to further transfer the relationship or to transfer it back to the Bank is reserved.

The Bank may make information associated with the security agreement available to such a third party and other involved parties, such as rating agencies or trust companies, at any time; these parties shall be obliged to keep such information confidential. The Provider(s) of Collateral expressly declare(s) his/her/their agreement with the procedure described above.

Important Note regarding Transferability:

The significance of the provisions relating to transferability, and the impact on bank client confidentiality and data protection are explained in the Information Brochure. The Information Brochure can also be found online at (credit-suisse.com/legalnotes).

The signatory or signatories of this agreement (Collateral Agreement) confirm(s) that the Bank's Information Brochure has been received, read, understood, and accepted.

To be completed by the Bank
161849 Client No. (CIF) 0251-1732456-0

11. The place of performance is the location specified in the Bank's address. For Providers of Collateral whose current or future domicile is outside Switzerland, the place of performance is also the place of enforcement (special domicile pursuant to Art. 50 para. 2 of the Federal Law on Debt Enforcement and Bankruptcy).

The exclusive place of jurisdiction for all legal proceedings is **Zurich** or the place of business of the Swiss branch of the Bank with which the contractual relationship exists, or the respondent's registered office or place of domicile, or the location of the concerned property (ies). Mandatory places of jurisdiction prescribed by law remain reserved.

This agreement is governed by Swiss law, to the exclusion of the conflict of laws provisions of Swiss private inter-national law.

Place, date

The Provider(s) of Collateral

[Redacted]

X

[Redacted]

X

For CREDIT SUISSE (Switzerland) Ltd.

Place, date

Zürich, January 8, 2020

[Redacted]

[Redacted]

To be completed by the Bank
161849 Client No. (CIF) 0251-1732456-0

**SECOND AMENDMENT AND RATIFICATION OF LOAN AGREEMENT
AND OTHER LOAN DOCUMENTS**

THIS SECOND AMENDMENT AND RATIFICATION OF LOAN AGREEMENT AND OTHER LOAN DOCUMENTS (this "Agreement") is entered into on this 31st day of March, 2020, by and among OPTIBASE REAL ESTATE MIAMI, LLC, a Delaware limited liability company (the "Borrower"), OPTIBASE, INC., a California corporation (the "Guarantor") and CITY NATIONAL BANK OF FLORIDA, its successors and/or assigns (the "Lender").

RECITALS:

A. Borrower requested and Lender agreed to make a term loan to Borrower in the principal amount of FIFTEEN MILLION AND 00/100 DOLLARS (\$15,000,000.00) (the "Loan"), as evidenced by that certain Promissory Note dated as of June 7, 2015 from Borrower in favor of Lender in the original principal amount of FIFTEEN MILLION AND 00/100 DOLLARS (\$15,000,000.00) (the "Original Note"). The Original Note is secured, in part, by (i) that certain Mortgage, Assignment of Rents and Security Agreement dated as of July 7, 2015, from Borrower in favor of Lender, recorded in Official Records Book 29690, at Page 1805, of the Public Records of Miami-Dade County, Florida (the "Mortgage"), and (ii) that certain Collateral Assignment of Contracts, Etc. dated as of June 7, 2015, from Borrower in favor of Lender (the "Original Collateral Assignment of Contracts, Etc."). In connection with the execution of the Original Note, (i) Borrower and Lender entered into that certain Loan Agreement dated as of July 7, 2015 (the "Loan Agreement"), and (ii) Borrower, Guarantor and Lender entered into that certain Environmental Compliance and Indemnity Agreement dated as of June 7, 2015 (the "Original Environmental Indemnity Agreement").

B. In connection with the making of the Loan, Guarantor executed and delivered to Lender that certain Guaranty of Payment and Performance dated as of July 7, 2015 (the "Guaranty").

C. Borrower subsequently requested and Lender agreed to modify the Loan, as evidenced by that certain Amended and Restated Promissory Note dated as of November 17, 2017, from Borrower in favor of Lender in the original principal amount of NINE MILLION THREE HUNDRED EIGHTY-NINE THOUSAND SEVEN HUNDRED TWENTY-THREE AND 00/100 DOLLARS (\$9,389,723.00), as extended by that certain Extension Letter dated as of November 21, 2019 (as extended, the "First Amended Note"), which Note amended, restated, replaced and superseded the Original Note, in its entirety. The First Amended Note is secured, in part, by (i) the Mortgage, as modified by that certain Mortgage Modification Agreement dated as of November 17, 2017, recorded in Official Records Book 30771, at Page 1696, of the Public Records of Miami-Dade County (the "First Mortgage Modification"), (ii) that certain Amended and Restated Collateral Assignment of Contracts, Etc. dated as of November 17, 2017, from Borrower in favor of Lender (the "Collateral Assignment of Contracts, Etc."), which amended, restated, replaced and superseded the Original Collateral Assignment of Contracts, Etc. in its entirety, and (iii) that certain Pledged Collateral Agreement dated as of November 17, 2017, from Borrower in favor of Lender (the "Pledged Collateral Agreement"). In connection with the execution of the First Amended Note, (i) Borrower and Lender entered into as modified by that certain Amendment and Ratification of Loan Agreement dated as of November 17, 2017 (the "First Amendment to Loan Agreement"), and (iii) Borrower, Guarantor and Lender entered into that certain Amended and Restated Environmental Compliance and Indemnity Agreement dated as of November 17, 2017 (the "Environmental Indemnity Agreement"), which amended, restated, replaced and superseded the Original Environmental Indemnity Agreement in its entirety.

D. In connection with the modification of the Loan, Guarantor executed and delivered to Lender that certain Amendment and Ratification of Guaranty of Payment and Performance dated as of November 17, 2017 (the "First Ratification of Guaranty").

E. Borrower has now requested and Lender has agreed to further modify the Loan, as evidenced by that certain Second Amended and Restated Promissory Note dated as of even date herewith from Borrower in favor of Lender in the original principal amount of EIGHT MILLION EIGHT HUNDRED TWENTY-SEVEN THOUSAND EIGHT HUNDRED FIFTY-FIVE AND 91/100 DOLLARS (\$8,827,855.91 (as the same may be amended or modified from time to time, the "Note"), which Note amends, restates, replaces and supersedes the First Amended Note, in its entirety. The Note is secured, in part, by (i) the Mortgage, as modified by the First Mortgage Modification Agreement and that certain Second Mortgage Modification Agreement dated as of even date herewith, to be recorded in the Public Records of Miami-Dade County, Florida (the "Second Mortgage Modification"), (ii) the Collateral Assignment of Contracts, Etc., as modified by this Agreement, and (iii) the Pledged Collateral Agreement, as modified by this Agreement. In connection with the execution of the Note, Borrower and Lender are entering into this Agreement.

F. In connection with the modification of the Loan, Guarantor is executing and delivering to Lender that certain Second Amendment and Ratification of Guaranty of Payment and Performance dated as of even date herewith (the "Second Ratification of Guaranty").

G. The Loan Agreement, as modified by the First Amendment to Loan Agreement and this Agreement, is hereinafter referred to as the "Loan Agreement". The Mortgage, as modified by the First Mortgage Modification and the Second Mortgage Modification, is hereinafter referred to as the "Mortgage". The Guaranty, as modified by the First Ratification of Guaranty and the Second Ratification of Guaranty, is hereinafter referred to as the "Guaranty". The Pledged Collateral Agreement, as modified by this Agreement, is hereinafter referred to as the "Pledged Collateral Agreement". The Collateral Assignment of Contracts, Etc., as modified by this Agreement, is hereinafter referred to as the "Collateral Assignment of Contracts, Etc.". The Environmental Indemnity Agreement, as modified by this Agreement, is hereinafter referred to as the "Environmental Indemnity Agreement". The Note, the Loan Agreement, the Mortgage, the Pledged Collateral Agreement, Collateral Assignment of Contracts, Etc., the Environmental Indemnity Agreement, the Guaranty and all other documents executed in connection herewith and in connection with therewith hereinafter are collectively referred to as the "Loan Documents".

H. Lender is willing to further modify the Loan, subject to Borrower and Guarantor giving Lender the representations, assurances and other agreements set forth herein.

AGREEMENT:

In consideration of Lender's continued extension of credit and the agreements contained herein, the parties agree as follows:

1. The Recitals contained hereinabove are true and correct and are made a part hereof. All capitalized terms not otherwise defined herein shall be given the meaning ascribed to such terms in the Loan Agreement, as amended.

2. Borrower hereby acknowledges that, as of the date hereof, the outstanding principal balance of the First Amended Note (as defined in Recital "C" above) is \$8,827,855.91.

3. Any and all references in the Loan Agreement to the "Note" shall hereinafter mean the "Note" (as defined in Recital "E"), as the same may be amended or modified from time to time.
4. Any and all references in the Loan Agreement to the "Mortgage" shall hereinafter mean the "Mortgage" (as defined in Recital "G"), as the same may be amended or modified from time to time.
5. Any and all references in the Loan Agreement to the "Guaranty" shall hereinafter mean the "Guaranty" (as defined in Recital "G"), as the same may be amended or modified from time to time.
6. Any and all references in the Pledged Collateral Agreement to the "Note" shall hereinafter mean the "Note" (as defined in Recital "E"), as the same may be amended or modified from time to time.
7. Any and all references in the Pledged Collateral Agreement to the "Loan Agreement" shall hereinafter mean the "Loan Agreement" (as defined in Recital "G"), as the same may be amended or modified from time to time.
8. Any and all references in the Collateral Assignment of Contracts, Etc. to the "Note" shall hereinafter mean the "Note" (as defined in Recital "E"), as the same may be amended or modified from time to time.
9. Any and all references in the Collateral Assignment of Contracts, Etc. to the "Loan Agreement" shall hereinafter mean the "Loan Agreement" (as defined in Recital "G"), as the same may be amended or modified from time to time.
10. Any and all references in the Collateral Assignment of Contracts, Etc. to the "Mortgage" shall hereinafter mean the "Mortgage" (as defined in Recital "G"), as the same may be amended or modified from time to time.
11. Any and all references in the Environmental Indemnity Agreement to the "Note" shall hereinafter mean the "Note" (as defined in Recital "E"), as the same may be amended or modified from time to time.
12. Any and all references in the Environmental Indemnity Agreement to the "Loan Agreement" shall hereinafter mean the "Loan Agreement" (as defined in Recital "G"), as the same may be amended or modified from time to time.
13. Any and all references in the Environmental Indemnity Agreement to the "Mortgage" shall hereinafter mean the "Mortgage" (as defined in Recital "G"), as the same may be amended or modified from time to time.
14. Any and all references in the Environmental Indemnity Agreement to the "Guaranty" shall hereinafter mean the "Guaranty" (as defined in Recital "G"), as the same may be amended or modified from time to time.

15. The Loan Agreement is hereby amended by adding the following definitions to Section 1:

- (a) Collateral Assignment of Contracts, Etc.: That certain Amended and Restated Collateral Assignment of Contracts, Etc. dated as of November 17, 2017, from Borrower in favor of Lender, as modified by that certain Second Amendment and Ratification of Loan Agreement and Other Loan Documents dated as of March 31, 2020, as the same may be further amended, restated, modified or replaced from time to time.
- (b) Environmental Indemnity Agreement: That certain Amended and Restated Environmental Compliance and Indemnity Agreement dated as of November 17, 2017, from Borrower and Guarantor in favor of Lender, as modified by that certain Second Amendment and Ratification of Loan Agreement and Other Loan Documents dated as of March 31, 2020, as the same may be further amended, restated, modified or replaced from time to time.
- (c) Pledged Collateral Agreement: That certain Pledged Collateral Agreement dated as of November 17, 2017, from Borrower in favor of Lender, as modified by that certain Second Amendment and Ratification of Loan Agreement and Other Loan Documents dated as of March 31, 2020, as the same may be further amended or modified from time to time.

16. The Loan Agreement is hereby amended by deleting the following definitions from Section 1 in their entireties and substituting the following in lieu thereof:

- (a) Loan: That certain term loan in the amount of EIGHT MILLION EIGHT HUNDRED TWENTY-SEVEN THOUSAND EIGHT HUNDRED FIFTY-FIVE AND 91/100 DOLLARS (\$8,827,855.91), as evidenced by the Note and secured by the Mortgage and other Loan Documents as provided herein.
- (b) Loan Documents: Any and all documents evidencing, securing, or executed by Borrower and/or Guarantor in connection with the Loan, including, without limitation, the Note, the Mortgage, the Guaranty, the Collateral Assignment of Contracts, Etc., the Pledged Collateral Agreement, the Environmental Indemnity Agreement and this Agreement.
- (c) Maturity Date: Shall mean September 30, 2021.

17. The Loan Agreement is hereby amended by deleting Section 3 in its entirety and substituting the following in lieu thereof:

3. EXTENSION OPTION. Provided no Event of Default or Unmatured Event of Default exists, Borrower shall have the option to extend the Maturity Date of the Loan for a period of eighteen (18) months in accordance with this Section 3 (the "Extension Option"). Upon and subject to the Borrower's satisfaction of the following conditions (the "Conditions for Extension"), the Borrower shall have the right to extend the Maturity Date to March 31, 2023 (the "Extended Maturity Date"): (a) Borrower shall request the extension by written notice to Lender not less than thirty (30) days prior to the Maturity Date of the Note; (b) at the time of the request, and at the time of the extension, there shall not exist any Event of Default or any Unmatured Event of Default; (c) Borrower and Guarantor shall, at the time of the request, and at the time of the extension, be in compliance with all of the financial covenants set forth herein and the Interest Rate Threshold under the Note; (d) Borrower shall deposit additional funds with Lender in an amount necessary to rebalance the principal and interest reserve requirement more particularly described in Section 10 of this Agreement; and (e) at any time prior to the Maturity Date, Borrower shall make a mandatory principal payment under the Note in an amount equal to ten percent (10%) of the outstanding principal balance of the Note as of March 31, 2020, provided any payments made by Borrower to release any of the Units securing the Loan shall be applied toward the satisfaction of this condition.

18. The Loan Agreement is hereby amended by deleting Section 8(b) in its entirety and substituting the following in lieu thereof:

(b) Depository Relationship. At all times during the term of the Loan, the Borrower shall maintain its primary depository account(s) and treasury management services with Lender. Notwithstanding the foregoing, Borrower may maintain other depository accounts with other banking institutions. In addition, at all times during the term of the Loan, Borrower, Guarantor and any of their respective affiliates, members and/or executives shall maintain depository accounts with Lender with deposits totaling, on a combined basis, an average daily collected balance of not less than \$1,500,000.00 (including any interest reserve holdbacks related to the Loan) (the "Minimum Average Deposit"). This covenant shall be measured for compliance annually, commencing December 31, 2020, and continuing on December 31 of each calendar year thereafter. In the event that the Minimum Average Deposit is not met for any testing period, Borrower shall pay to Lender a fee in an amount equal to two percent (2%) of the amount of the deficiency.

19. The Loan Agreement is hereby amended by deleting Section 10 in its entirety and substituting the following in lieu thereof:

10. Interest Reserve: Upon the execution of this Agreement, Borrower shall fund \$550,000.00 into the Restricted Account to be used as an interest reserve. On the first (1st) day of each respective month, the Lender shall debit the Restricted Account to make payments of interest due under the Note for the account of Borrower, as the same become due by Lender's bookkeeping entries, unless Borrower elects to pay interest due in cash to Lender. Borrower shall replenish the funds in the Restricted Account once the balance in such account falls below an amount equal to three (3) months of interest payments due under the Note. Notwithstanding any other provision contained in this Agreement to the contrary, Lender shall not be required to utilize any sums from the Restricted Account if an Event of Default or Unmatured Event of Default exists under this Agreement or any of the Loan Documents and upon such occurrence, Borrower shall be required to make out-of-pocket payments of interest due under the Note. In the event an Unmatured Event of Default exists and Lender requires Borrower to make out-of-pocket payments of interest, Lender shall provide advance written notice of the same to Borrower.

20. Section 13(l) of the Loan Agreement is hereby amended to reflect that notices and other communications to Lender shall be sent to: City National Bank of Florida, 100 S.E. 2nd Street, 13th Floor, Miami, Florida 33131, Attention: Legal Department.

21. Upon the execution of this Agreement, Borrower shall pay to Lender a commitment fee in the amount of \$44,139.28.

22. Borrower acknowledges, represents and confirms to Lender that: (i) the Loan Agreement and the other Loan Documents are valid and binding upon Borrower and are enforceable in accordance with the terms thereof; (ii) all of the terms, covenants, conditions, representations, warranties and agreements contained in the Loan Agreement and the other Loan Documents are hereby ratified and confirmed in all respects; (iii) there are no defenses, set-offs, counterclaims, cross-actions or equities in favor of Borrower to or against the enforcement of the Loan Agreement or any of the other Loan Documents; (iv) no payments of interest or any other charges have been made to Lender or paid by Borrower in connection with any indebtedness evidenced by the Loan Agreement or any of the other Loan Documents which would result in the computation or earning of interest in excess of the maximum rate of interest which is legally permitted under the laws of the State of Florida or federal law, in effect from time to time, whichever is the highest; (v) Lender is under no obligation to further amend or modify the Loan Agreement or any of the other Loan Documents; and (vi) to Borrower's knowledge, after the execution, delivery and consummation of this Agreement, no default now exists under the Loan Agreement or any of the other Loan Documents.

23. Guarantor represents and warrants unto Lender that: (i) the Guaranty and all other documents executed by Guarantor in connection therewith are valid and binding obligations of Guarantor, enforceable in accordance with their respective terms; (ii) the Guaranteed Obligations (as defined in the Guaranty) shall continue to be guaranteed by Guarantor pursuant to the terms of the Guaranty; (iii) all of the terms, covenants, conditions, representations, warranties and agreements contained in the Guaranty and in the Loan Documents are hereby ratified and confirmed in all respects; and (iv) no oral representations, statements, or inducements have been made by Lender with respect to the Loan, this Agreement or the Guaranty.

24. Except as amended by this Agreement and the documents executed in connection herewith, no term or condition of the Loan or the other Loan Documents shall be modified and the same shall remain in full force and effect; provided, however, if any provision of this Agreement is in conflict with, or inconsistent with, any provision in the Loan Agreement or the other Loan Documents, then the provision contained in this Agreement shall govern and control.

25. This Agreement shall be binding upon, and shall inure to the benefit of, the respective successors and assigns of the parties hereto.

26. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original. Said counterparts shall constitute but one and the same instrument and shall be binding upon each of the undersigned individually as fully and completely as if all had signed but one instrument so that the joint and several liability of each of the undersigned shall be unaffected by the failure of any of the undersigned to execute any or all of said counterparts.

27. AS A MATERIAL INDUCEMENT FOR LENDER TO EXECUTE THIS AGREEMENT, BORROWER AND EACH GUARANTOR DO HEREBY RELEASE, WAIVE, DISCHARGE, COVENANT NOT TO SUE, ACQUIT, SATISFY AND FOREVER DISCHARGE LENDER ITS OFFICERS, DIRECTORS, EMPLOYEES, AND AGENTS AND ITS AFFILIATES AND ASSIGNS FROM ANY AND ALL LIABILITY, CLAIMS, COUNTERCLAIMS, DEFENSES, ACTIONS, CAUSES OF ACTION, SUITS, CONTROVERSIES, AGREEMENTS, PROMISES AND DEMANDS WHATSOEVER IN LAW OR IN EQUITY WHICH BORROWER OR ANY GUARANTOR EVER HAD, NOW HAS, OR WHICH ANY PERSONAL REPRESENTATIVE, SUCCESSOR, HEIR OR ASSIGN OF BORROWER OR ANY GUARANTOR HEREAFTER CAN, SHALL OR MAY HAVE AGAINST LENDER, ITS OFFICERS, DIRECTORS, EMPLOYEES, AND AGENTS, AND ITS AFFILIATES AND ASSIGNS, FOR, UPON OR BY REASON OF ANY MATTER, CAUSE OR THING WHATSOEVER THROUGH THE DATE THAT THIS AGREEMENT IS EXECUTED. BORROWER AND EACH GUARANTOR FURTHER EXPRESSLY AGREE THAT THE FOREGOING RELEASE AND WAIVER AGREEMENT IS INTENDED TO BE AS BROAD AND INCLUSIVE AS PERMITTED BY THE LAWS OF THE STATE OF FLORIDA.

28. **WAIVER OF JURY TRIAL.** TO THE EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND EACH GUARANTOR BY EXECUTION HEREOF AND LENDER BY ACCEPTANCE HEREOF, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONNECTION WITH THIS AGREEMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY WITH RESPECT HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT TO LENDER TO ACCEPT THIS AGREEMENT.

BORROWER, EACH GUARANTOR AND LENDER AGREE THAT THEY SHALL NOT HAVE A REMEDY OF PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER IN ANY DISPUTE AND HEREBY WAIVE ANY RIGHT OR CLAIM TO PUNITIVE OR EXEMPLARY DAMAGES THEY HAVE NOW OR WHICH MAY ARISE IN THE FUTURE IN CONNECTION WITH ANY DISPUTE WHETHER THE DISPUTE IS RESOLVED BY ARBITRATION OR JUDICIALLY.

29. **WAIVER OF BANKRUPTCY STAY.** BORROWER AND EACH GUARANTOR HEREBY AGREE, IN CONSIDERATION OF THE RECITALS AND MUTUAL COVENANTS CONTAINED HEREIN, AND FOR OTHER GOOD AND VALUABLE CONSIDERATION, INCLUDING THE FORBEARANCE OF LENDER FROM GOING TO TRIAL AND EXERCISING ITS OTHER RIGHTS AND REMEDIES OTHERWISE AVAILABLE TO IT, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, THAT IN THE EVENT THAT BORROWER OR ANY GUARANTOR SHALL FILE WITH ANY BANKRUPTCY COURT OF COMPETENT JURISDICTION OR BE THE SUBJECT OF ANY PETITION UNDER TITLE 11 OF THE UNITED STATES CODE THE AUTOMATIC STAY IMPOSED BY SECTION 362 OF TITLE 11 OF THE UNITED STATES CODE IS WAIVED, AND SUCH WAIVER CONSTITUTES "CAUSE" PURSUANT TO 11 U.S.C. SECTION 362(d)(1) FOR THE IMMEDIATE LIFTING OF THE AUTOMATIC STAY IN FAVOR OF LENDER, AND BORROWER AND EACH GUARANTOR HEREBY KNOWINGLY AND IRREVOCABLY WAIVES ALL DEFENSES AND OBJECTIONS TO SUCH LIFTING OF THE AUTOMATIC STAY.

[CONTINUES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the undersigned have signed and sealed this Agreement as of the day and year first set forth above.

BORROWER:

OPTIBASE REAL ESTATE MIAMI, LLC, a Delaware limited liability company, acting by and through its Sole Member, to wit:

By: OPTIBASE, INC., a California corporation

By: _____
Robert A. Feingold, Executive Vice President

LENDER:

CITY NATIONAL BANK OF FLORIDA

By: _____
Suhail Farooq, Vice President

[CONTINUES ON THE FOLLOWING PAGE]

JOINDER OF GUARANTOR

The undersigned, as Guarantor, hereby joins in and consents to the foregoing Second Amendment and Ratification of Loan Agreement and Other Loan Documents.

OPTIBASE, INC., a California corporation

By: _____
Robert A. Feingold, Executive Vice President

COMPENSATION POLICY

OPTIBASE LTD.

Compensation Policy for Executive Officers and Directors

(As Adopted by the Shareholders on February 14, 2019 and as amended on February 18, 2020 and on December 30, 2020)

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A. Overview and Objectives

1. Introduction

This document sets forth the Compensation Policy for Executive Officers and Directors (this "**Compensation Policy**" or "**Policy**") of Optibase Ltd. ("**Optibase**" or the "**Company**"), in accordance with the requirements of the Companies Law of 1999 (the "**Companies Law**").

Compensation is a key component of Optibase's overall human capital strategy to attract, retain, reward, and motivate highly skilled individuals that will enhance Optibase's value and otherwise assist Optibase to reach its business and financial long term goals. Accordingly, the structure of this Policy was established to tie the compensation of each officer to Optibase's goals and performance.

For purposes of this Policy, "**Executive Officers**" shall mean "Office Holders" as such term is defined in Section 1 of the Companies Law, excluding, unless otherwise expressly indicated herein, Optibase's directors; and "**Directors**" shall mean the Optibase's directors, as shall be from time to time, including the Executive Chairperson, unless otherwise expressly indicated herein.

This Compensation Policy shall serve as Optibase's Compensation Policy for three (3) years, commencing as of its adoption.

The Compensation Committee and the Board of Directors of Optibase (the "**Compensation Committee**" and "**Board**" respectively) shall review and reassess the adequacy of this Policy from time to time, as required by the Companies Law.

2. Objectives

Optibase's objectives and goals in setting this Compensation Policy are to attract, motivate and retain highly experienced personnel who will provide leadership for Optibase's success and enhance shareholder value, while supporting a performance culture that is based on merit, and rewards excellent performance in the long term, while recognizing Optibase's core values. To that end, this Policy is designed, among others:

- 2.1. To closely align the interests of the Executive Officers with those of Optibase's shareholders in order to enhance shareholder value;
- 2.2. To provide the Executive Officers with a structured compensation package, putting the emphasis on a proper balance between the fixed components, *i.e.*, the base salaries and benefits, and on the variable compensation, such as bonuses and equity-based compensation in order to minimize potential conflicts between the interests of Executive Officers and those of Optibase;
- 2.3. To strengthen the retention and the motivation of Executive Officers in the long term.

3. Compensation structure and instruments

Compensation instruments under this Compensation Policy may include the following:

- Base salary;
- Benefits;
- Cash bonuses;
- Equity based compensation; and
- Retirement and termination of service arrangements.

4. Overall Compensation - Ratio Between Fixed and Variable Compensation

This Policy aims to balance the mix of "Fixed Compensation" (comprised of base salary and benefits) and "Variable Compensation" (comprised of cash bonuses and equity based compensation) in order to, among other things, appropriately incentivize Executive Officers to meet Optibase's short and long term goals while taking into consideration the Company's need to manage a variety of business risks.

The total Variable Compensation of each Executive Officer (as well as the Executive Chairman of the Board ("**Executive Chairman**")) shall not exceed 60% of the total compensation package of such Executive Officer (and the Executive Chairman) on an annual basis. The Compensation Committee and Board believe that such range expresses the appropriate compensation mix in the event that all performance objectives are achieved and assumes that all compensation elements are granted with respect to a given year.

5. Intra-Company Compensation Ratio

In the process of drafting this Policy, Optibase's Board and Compensation Committee have examined the ratio between employer cost, as such term is defined in the Companies Law, associated with the engagement of the Executive Officers (as well as the Executive Chairman) and the average and median employer cost associated with the engagement of the other employees of Optibase (the "**Ratio**"). The Compensation Committee and Board believe that the current Ratio does not adversely impact the work environment in Optibase.

B. Base Salary and Benefits

6. Base Salary

- 6.1. The base salary varies between Executive Officers (among themselves) and the Executive Chairman of the Board, and is individually determined by the Compensation Committee and the Board (unless other approvals are required under any applicable law) **according** to the educational background, prior vocational experience, qualifications, role, business responsibilities, past performance and previous compensation arrangements of such Executive Officer and Executive Chairman of the Board.
- 6.2. The maximum monthly base salary for each of the following roles shall be as follows:
 - (i) Chief Executive Officer ("**CEO**") – up to NIS 100,000 for a full time position
 - (ii) CEO of the Company's subsidiary ("**Subsidiary CEO**") – up to NIS 90,000 for a full time position;
 - (iii) Executive Officer who is not a director, CEO or Subsidiary CEO – up to NIS 50,000 for a full time position

Such amounts may be linked to increases in the Israeli Consumer Price Index ("**Israeli CPI**") or to the representative rate of exchange of the US dollar, as the case may be.

- 6.3. The Executive Chairman may be paid management fee in amount that shall not exceed NIS 50,000 per month.

7. Benefits

- 7.1. In addition to the base salary, the following benefits may be granted to the Executive Officers in order, among other things, to comply with legal requirements:
 - Vacation days in accordance with market practice and applicable law;
 - Sick days in accordance with market practice and applicable law;
 - Convalescence pay according to applicable law;

- Monthly remuneration for a study fund, as allowed by applicable tax law and with reference to Optibase's practice and common market practice;
 - Contribution by Optibase on behalf of the Executive Officer to an insurance policy or a pension fund, as allowed by applicable tax law and with reference to Optibase's policies and procedures and common market practice; and
 - Contribution by Optibase on behalf of the Executive Officer towards work disability insurance, as allowed by applicable tax law and with reference to Optibase's policies and procedures and common market practice.
- 7.2. Optibase may offer additional benefits to its Executive Officers, including but not limited to: communication, company car and travel benefits, insurances, other benefits (such as newspaper subscriptions, academic and professional studies), etc., including their gross up.
- 7.3. Optibase may reimburse its Executive Officers and its Executive Chairman for reasonable work-related expenses incurred as part of their activities, including without limitations, meeting participation expenses, reimbursement of business travel including a daily stipend when traveling and accommodation expenses. Optibase may provide advance payments to its Executive Officers in connection with work-related expenses.
- 7.4. Non-Israeli Executive Officers may receive other similar, comparable or customary benefits as applicable in the relevant jurisdiction in which they are employed.

8. Signing Bonus

At the Compensation Committee's and Board's discretion, Optibase may grant a newly recruited Executive Officer a signing bonus. The signing bonus shall not exceed two (2) monthly base salaries of such Executive Officer.

C. Cash Bonuses

9. Annual Bonuses

- 9.1. The payment of annual bonuses to the Executive Chairman and any Executive Officer for any particular fiscal year shall be subject to the fulfillment (in addition to the fulfillment of the applicable objectives set forth below as the case may be) of any one of the two following criteria: (a) that Optibase's EBITDA was at least USD \$10 million (on a consolidated basis) during such fiscal year; or (b) that Optibase's net profit for such fiscal year was at least USD \$500,000, net of equity gains or losses, and net of non-recurring expenses related to the purchase or disposal of real estate investments.
- 9.2. The Compensation Committee and Board may decide, at their sole discretion, to grant annual bonuses to the Executive Chairman and the Executive Officers, subject to the fulfillment of the pre-conditions for payment of bonuses as detailed in section 9.1 above.
- 9.3. The annual bonus to the Executive Chairman and the CEO will be based on measurable criteria. The measurable criteria and their relative weight shall be determined by the Compensation Committee and the Board in respect of each calendar year. These measurable criteria may include, *inter alia*, objectives relating to the annual income, annual profit (net profit, pre tax profit), budget, annual EBITDA, acquisition and/or disposal of assets, financing, re-financing and fundraising.
- 9.4. In addition, the Company may grant the CEO a bonus of up to three (3) monthly base salaries, at the sole discretion of the Compensation Committee and Board, based on the CEO's contribution to the Company.
- 9.5. The Company may also grant, subject to the approval of the Compensation Committee and the Board, an annual bonus to its Executive Officers (other than the CEO) for their contribution to the Company. Such grants may be based in whole or in part on discretion, provided that they do not exceed the ceiling specified in section 9.6 below.

- 9.6. The annual bonus that may be paid to the Executive Officers for any fiscal year shall not exceed six (6) monthly base salaries to the CEO, and three (3) monthly base salaries to any other Executive Officer (excluding the CEO). The annual bonus that may be paid to the Executive Chairman for any fiscal year shall not exceed two (2) monthly payments of management fee.
- 9.7. The Board, following the recommendation of the Compensation Committee, shall be entitled to decrease the annual bonus to be paid to the Executive Chairman and/or Executive Officers based on measurable criteria (if such criteria were determined) or cancel such grant of bonuses altogether in its sole discretion, even in the event measurable criteria were determined and met..

10. Special Bonuses

In addition to the annual bonus, Optibase may grant its Executive Chairman and Executive Officers (other than the CEO) a special bonus as an award for special achievements (such as in connection with mergers and acquisitions, offerings, achieving target budget or business plan under exceptional circumstances or, regarding the Executive Officers, special recognition in case of retirement) at the discretion of the Compensation Committee and Board which shall not exceed three (3) monthly base salaries for any Executive Officer (other than the CEO) and two (2) monthly payments of management fee for the Executive Chairman.

11. Pro Rata Payment

Should the employment or service of the Executive Chairman or any Executive Officer terminate prior to the end of a fiscal year, Optibase may pay the Executive Chairman or the Executive Officer his or her pro rata share of that fiscal year's bonus, based on the period the Executive Chairman or such Executive Officer was employed by the Company or has served in the Company.

12. Compensation Recovery ("Clawback")

- 12.1. In the event of an accounting restatement, Optibase shall be entitled to recover from its Executive Chairman or Executive Officers the bonus compensation in the amount in which such bonus exceeded what would have been paid under the financial statements, as restated, provided that a claim is made by Optibase prior to the third anniversary of fiscal year end of the restated financial statements.
- 12.2. Notwithstanding the aforesaid, the compensation recovery will not be triggered in the following events:
- The financial restatement is required due to changes in the applicable financial reporting standards; or
 - The Compensation Committee has determined that clawback proceedings in the specific case would be impossible, impractical or not commercially or legally efficient; or
 - The amount to be paid under the clawback proceedings is less than 10% of the relevant bonus received by the Executive Chairman or Executive Officer.
- 12.3. Nothing in this Section 12 derogates from any other "clawback" or similar provisions regarding disgorging of profits imposed on the Executive Chairman and Executive Officers by virtue of applicable securities laws.

D. Equity-Based Compensation

13. General and Objectives

- 13.1. The Compensation Committee and Board may grant from time to time equity-based compensation which will be individually determined and awarded according to the performance, educational background, prior business experience, qualifications, role and the personal responsibilities of the Executive Officer. Equity-based compensation may also be awarded to the Directors, subject to the provisions of the Companies Law and the regulations thereunder and the receipt of all additional approvals that may be required under the Companies Law.
- 13.2. The main objectives of the equity-based compensation is to enhance the alignment between the Executive Officers' and Directors' interests with the long term interests of Optibase and its shareholders, and to strengthen the retention and the motivation of Executive Officers in the long term. In addition, since equity-based awards are structured to vest over several years, their incentive value to recipients is aligned with longer-term strategic plans.
- 13.3. The equity based compensation offered by Optibase is intended to be in a form of share options, restricted shares and/or other equity based awards, such as RSUs, in accordance with the Company's incentive plan in place as may be updated from time to time.

14. Fair Market Value

The fair market value of the equity-based compensation for each Executive Officer and each Director shall not exceed USD \$200,000, as shall be determined according to acceptable valuation practices at the time of grant.

15. Additional Terms

- 15.1. Subject to any applicable law, Optibase may determine, at the Compensation Committee and the Board's discretion, the tax regime under which equity-based compensation may be granted, including a tax regime which will maximize the benefit to the Executive Officers and Directors.
- 15.2. All equity-based incentives granted to Executive Officers and Directors shall be subject to vesting periods in order to promote long-term retention of such recipients. Unless otherwise determined in a specific award agreement approved by the Compensation Committee and the Board, grants to Executive Officers shall vest gradually over a period of at least two years.
- 15.3. All other terms of the equity awards shall be in accordance with Optibase's incentive plans and other related practices and policies. Accordingly, the Board may, following approval by the Compensation Committee, extend the period of time for which an award is to remain exercisable and make provisions with respect to the acceleration of the vesting period of any Executive Officer's or Director's awards, including, without limitation, in connection with a corporate transaction involving a change of control, subject to any additional approval as may be required by the Companies Law.

E. Retirement and Termination of Service Arrangements

16. Advanced Notice Period

- 16.1. Optibase may provide each Executive Officer, according to his or her seniority in the Company, his or her contribution to the Company's goals and achievements and the circumstances of retirement, a prior notice of termination of up to three (3) months, except for the CEO whose prior notice may be of up to six (6) months. During such advance notice period, the Executive Officer may be entitled to all of the compensation elements, and to the continuation of vesting of his or her options, restricted shares or RSUs.
- 16.2. Optibase may waive the Executive Officer's services to the Company during the advance notice period and pay the amount payable in lieu of notice, plus the value of benefits.

17. Adjustment Period/Retirement Bonus

In addition to the advance notice period, the Compensation Committee and Board may provide an additional adjustment period/retirement bonus that will be determined, among other things, taking into consideration the Executive Officer's seniority in the Company, performance during employment, contribution to Optibase achieving its goals and the circumstances of retirement or termination. The maximum adjustment period/retirement bonus that may be paid to each Executive Officer is as follows:

- 17.1. CEO – for seniority of up to 5 years – the CEO will not be entitled to any Adjustment Period; seniority between 5 to 10 years – up to 4 monthly base salaries; and seniority of 10 years or more – up to 8 monthly base salaries.
- 17.2. Executive Officer (except the CEO) – for seniority of up to 5 years – such Executive Officer will not be entitled to any Adjustment Period; seniority between 5 to 10 years – up to 2 monthly base salary; and seniority of 10 years or more – up to 4 monthly base salaries.

The amounts for the adjustment period and the retirement bonus to be granted to an Executive Officer shall be calculated on the Executive Officer's gross base salary without benefits, bonuses or grants which were granted to him or her during the Executive Officer's employment.

18. Additional Retirement and Termination Benefits

Optibase may provide additional retirement and terminations benefits and payments as may be required by applicable law (e.g., mandatory severance pay under Israeli labor laws), or which will be comparable to customary market practices.

19. Non-Compete Grant

Upon termination of employment and subject to applicable law, Optibase may grant to its Executive Officers a non-compete grant as an incentive to refrain from competing with Optibase for a defined period of time. The terms and conditions of the Non-Compete grant shall be decided by the Board and shall not exceed such Executive Officer's monthly base salary multiplied by six (6).

F. Exemption, Indemnification and Insurance

20. Exemption

Optibase may exempt in advance and retroactively its directors and Executive Officers, from any liability to the Company, in whole or in part, for damages in consequence of his or her duty of care vis-a-vis the Company, to the fullest extent permitted by law and subject to the provisions of the Company's articles.

21. Indemnification

Optibase may indemnify its directors and Executive Officers to the fullest extent permitted by applicable law, for any liability and expense that may be imposed on the director or the Executive Officer, as provided in the Indemnity Agreement between such individuals and Optibase, all subject to applicable law and the Company's articles of association.

22. Insurance

22.1. Optibase will provide "Directors' and Officers' Liability Insurance" (the "**Insurance Policy**") for its directors and Executive Officers as follows:

- The limit of liability of the insurer shall not exceed the greater of \$25 million or 25% of the Company's shareholders equity (based on the most recent financial statements of the Company at the time of approval by the Compensation Committee) per incident and insurance period (for a one-year period) in addition to reasonable litigation expenses;

- The purchase of each Insurance Policy shall be approved by the Compensation Committee (and, if required by law, by the Board) which shall determine that the Insurance Policy reflects the current market conditions, and it shall not materially affect the Company's profitability, assets or liabilities.
- 22.2. Upon circumstances to be approved by the Compensation Committee (and, if required by law, by the Board), Optibase shall be entitled to enter into a "run off" Insurance Policy of up to seven (7) years, with the same insurer or any other insurer, as follows:
- The limit of liability of the insurer shall not exceed the greater of \$25 million or 25% of the Company's shareholders equity (based on the most recent financial statements of the Company at the time of approval by the Compensation Committee) per incident and insurance period (for a one-year period) in addition to reasonable litigation expenses;
 - The purchase of such Insurance Policy shall be approved by the Compensation Committee (and, if required by law, by the Board) which shall determine that the Insurance Policy reflects the current market conditions, and that it shall not materially affect the Company's profitability, assets or liabilities.
- 22.3. Optibase may extend the Insurance Policy in place to include cover for liability pursuant to a future public offering of securities as follows:
- The purchase of such Insurance Policy shall be approved by the Compensation Committee (and if required by law, by the Board) which shall determine that the Insurance Policy reflects the current market conditions, and it does not materially affect the Company's profitability, assets or liabilities.

G. Arrangements upon Change of Control

23. The following benefits may be granted to the Directors and/or Executive Officers in addition to the benefits applicable in the case of any retirement or termination of service upon a "Change of Control" following of which the employment of the Executive Officer is terminated or adversely adjusted in a material way:
- 23.1. Vesting acceleration of outstanding options or restricted shares.
- 23.2. Extension of the exercising period of options or restricted shares for Optibase's Executive Officers for a period of up to one (1) year and two (2) years, respectively, following the date of termination of employment.
- 23.3. For Executive Officers only - up to an additional six (6) months of continued base salary and benefits following the date of employment termination (the "**Additional Adjustment Period**"). For avoidance of doubt, such additional Adjustment Period shall be in addition to the advance notice and adjustment periods pursuant to Sections 14 and 15 of this Compensation Policy.
- 23.4. For Executive Officers only - a cash bonus not to exceed together with the annual cash bonus, up to eighteen (18) monthly base salaries, in the case of the CEO, and nine (9) monthly base salaries, in the case of other Executive Officers (excluding the CEO).

H. Board of Directors Compensation

24. All the Directors, excluding the Executive Chairman, shall be entitled to an equal annual and per-meeting compensation.

25. The compensation of the Directors (including external directors and independent directors, but excluding the Executive Chairman) shall not exceed the maximum amounts provided in the Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director) of 2000, as amended by the Companies Regulations (Relief for Public Companies Traded in Stock Exchange Outside of Israel) of 2000, as such regulations may be amended from time to time ("**Compensation of Directors Regulations**").
26. Directors may be granted equity-based compensation in accordance with the principles detailed in this Policy, and subject to the provisions of the Companies Law and the regulations thereunder.
27. Optibase's external and independent Directors may be entitled to reimbursement of expenses in accordance with the Compensation of Directors Regulations. Optibase's Directors, excluding external and independent Directors, may be entitled to reimbursement of work-related expenses, including meeting participation expenses, reimbursement of business travel including a daily stipend when traveling and accommodation expenses. Optibase may provide advance payments to its Directors in connection with work-related expenses.

I. Miscellaneous

28. This Policy is designed solely for the benefit of Optibase. Nothing in this Compensation Policy shall be deemed to grant any of Optibase's Executive Officers, Directors or employees or any third party any right or privilege in connection with their employment by the Company. Such rights and privileges shall be governed by the respective personal employment agreements.
29. This Policy is subject to applicable law and is not intended, and should not be interpreted as limiting or derogating from, provisions of applicable law to the extent not permitted, nor should it be interpreted as limiting or derogating from the Company's articles of association.
30. This Policy is not intended to affect current agreements nor affect obligating customs (if applicable) between the Company and its Executive Officers or Directors as such may exist prior to the approval of this Compensation Policy.
31. In the event of amendments made to the Companies Law or any regulations promulgated thereunder providing relief in connection with Optibase's compensation to its Executive Officers and Directors, Optibase may elect to act pursuant to such relief without regard to any contradiction with this Policy.
32. The Compensation Committee and Board may determine that none or only part of the payments, benefits and perquisites shall be granted, and is authorized to cancel or suspend a compensation package or part of it.

List of Subsidiaries

Optibase Inc., a California corporation

Optibase Real Estate Miami LLC, a Delaware limited liability company

Optibase 2Penn LLC, a Delaware limited liability company

OPTX Equity LLC, a Delaware limited liability company

OPTX Lender LLC, a Delaware limited liability company

Optibase FMC LLC, a Florida limited liability company

Optibase 300 Chicago LLC, a Delaware limited liability company

Optibase Real Estate Europe Sarl, a Luxemburg company

Optibase RE1 Sarl, a Luxemburg company

Optibase RE2 SARL, a Luxemburg company

Optibase RES SARL, a Luxemburg company

Optibase Bavaria GmbH & Co. KG, a German partnership

Optibase Bavaria Holding GmbH, a German corporation

OPCTN SA, a Luxemburg company

Eldista GmbH, a Swiss company

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Amir Philips, certify that:

1. I have reviewed this annual report on Form 20-F of Optibase Ltd.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2021

s/ Amir Philips

Amir Philips

Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Yakir Ben-Naim, certify that:

1. I have reviewed this annual report on Form 20-F of Optibase Ltd.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2021

s/ Yakir Ben-Naim

Yakir Ben-Naim

Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optibase Ltd. (the "Company") on Form 20-F for the period ending December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2021

/s/ Amir Philips

Name: Amir Philips

Title: Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Optibase Ltd. (the "Company") on Form 20-F for the period ending December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2021

/s/ Yakir Ben-Naim
Name: Yakir Ben-Naim
Title: Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Files No. 333-91650; 333-122128; 333-137644; 333-139688; 333-148774; 333-198519) pertaining to Optibase Ltd. of our report, dated April 27, 2021, with respect to the consolidated financial statements of Optibase Ltd., included in this Annual Report (Form 20-F) for the year ended December 31, 2020.

Tel-Aviv, Israel
April 27, 2021

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Optibase Ltd. on Form S-8 (Nos. 333-91650; 333-122128; 333-137644; 333-139688; 333-148774; 333-198519) of our report, dated April 27, 2021, on our audits of the consolidated balance sheets of 300 River Holdings LLC as of December 31, 2020 and 2019 and for the related consolidated statements of operations, members' deficit and cash flows for each of the years in the three-year period ended December 31, 2020 which report was included in this Annual Report on Form 20-F.

/s/ EisnerAmper LLP

EISNERAMPER LLP

New York, New York

April 27, 2021
