

**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, 2021

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)

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(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

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.
- We were and may be 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.
- 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.
- There are large vacant areas in the CTN complex, our largest property, due to the departure of large tenants that accounted for approximately 22% of our annualized rental income.
- 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.
- With respect to our commercial properties, we may be required to invest significant amounts as capital expenditures to bring certain properties up to code.
- 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, 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

A. [RESERVED]

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

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 and in 2021 we operated at a loss. During 2017 through 2019 and in 2021, 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. For further information, see Item 4.B. “Business Overview - Properties”, and Item 10.C. “Material Contracts”. 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).

As of December 31, 2021, we have accumulated losses of \$81 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 “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 affect 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. Although to date, the COVID-19 pandemic did not have a material effect on our business and operations, there is no assurance that we will not be affected, including significantly in the future. 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, 2021. 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.

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.

We were, 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. We were subject of a motion to approve a derivative claim against the Company's controlling shareholder, directors and CEO and certain former controlling shareholder and directors, which was denied and rejected (following the filing of an appeal) on May 3, 2021. 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. We are also subject, from time to time, to litigation with tenants in our ordinary course.

We have experienced significant fluctuations in our results of operations at times in the past and expect these fluctuations to continue.

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 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.

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, 2021, 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 2021, 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, 2021, our commercial property, CTN complex, in Geneva, Switzerland, accounted for approximately 80% 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. Furthermore, there are large vacant areas of approximately 9,650 square meters starting April 2022 in the CTN complex due to the departure of large tenants that account for approximately 22% of our annualized rental income. For additional information regarding the CTN complex, see Item 4.B. “Business Overview - Properties - The CTN Complex in Geneva, Switzerland”.

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 dependent 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. We may be required to invest significant amounts as capital expenditures to bring certain properties up to code. 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.

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 80% 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 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 the loans during 2017 and 2020 (as of December 31, 2021 the balance of all such loans was \$103.6 million, see also Item 5.B "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 2015 to 2021, 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. During the second half of 2021 and to date, the U.S real estate market started showing evident signs of strength as the increased liquidity in the market turned into investments both in the commercial real estate sector and the high-end residential market. 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.

As of December 31, 2021, we owned, through our wholly-owned subsidiary, 23 residential properties in Miami and Miami Beach, Florida, including 20 luxury condominium units and two penthouse units in the Marquis Residences, and one condominium units in the Continuum on South Beach Condominium. 16 of the units are occupied by tenants and the remaining units are being marketed to potential tenants and potential buyers. In November 2021 we sold one of the apartment units in consideration for approximately \$690,000. During the first quarter of 2022, we sold three apartment units in consideration for approximately \$2.4 million, and two penthouses units in consideration for approximately \$5.7 million. Following the last sale of the penthouse in March 2022, we fully repaid the loan taken in connection with these residential properties in Miami and Miami Beach, Florida.

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.

Physical damages and other natural disasters 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.

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 U.S. Dollars 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 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 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 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 0.6%, -0.7% and 3.8% in 2019, 2020 and 2021 respectively. The changes of the NIS against the dollar were a devaluation of approximately 7.8%, 7% and 3.3% in 2019, 2020 and 2021 respectively. The changes of the CHF against the dollar were an appreciation of approximately 1.4% and 10% in 2019 and 2020, respectively, and a devaluation of approximately 3.6% in 2021. The changes of the Euro against the dollar were a devaluation of approximately 2.1% in 2019, an appreciation of approximately 9.5% in 2020, and a devaluation of approximately 7.7% in 2021.

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.

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

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

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. From our formation until 2010 we were engaged in the video solution business. 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.

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 traded on The NASDAQ Global Market under the symbol "OBAS" beginning with our initial public offering on April 7, 1999. On March 22, 2022, Capri successfully completed a full tender offer for our ordinary shares for \$12.64 per share and purchased all of ordinary shares not already held by Shlomo (Tom) Wylar, or the Tender Offer. Capri currently holds approximately 96.9% of our issued share capital and the remaining 3.1% is held by Shlomo (Tom) Wylar. As a result of the Tender Offer, our ordinary shares were delisted from Nasdaq on March 25, 2022.

We listed our ordinary shares for trade on the Tel Aviv Stock Exchange Ltd., or the TASE, on August 6, 2007. In September 2008, we decided to delist our ordinary shares from trade on the TASE. In April 2015, we listed again our ordinary shares for trade on the TASE under the symbol "OBAS". In August 2015, we completed an offering of NIS 60 million TASE-listed non-convertible bonds to the public in Israel. Following the full repayment of our series A bonds, we applied to the TASE on January 11, 2022 for the delisting of our ordinary shares from the TASE. Such delisting took place on April 13, 2022.

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.

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 2021, 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. Since the outbreak of the coronavirus in the first quarter of 2021, the real estate market has struggled in most asset classes. However, during the second half of 2021 we witnessed a certain recovery in certain asset classes especially in the U.S real estate market. It is currently very difficult to estimate how the coronavirus and the expected interest rate increases in the U.S will impact the real estate market 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 two 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 December 31, 2021:

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 ⁽⁵⁾	11,276	92%	352
Rümlang	Rümlang, Switzerland	October 29, 2009	100%	Ownership	Commercial	12,500	1,666	88%	151
Miami, Florida	Miami, Florida	2010-2013	100%	Ownership	Residential - Condominium Units	4,260	1,222	74%	388
Portfolio Total/ Weighted Average	-	-	-	-	-	51,560	14,164	90%	306

(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, 2021 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.

(5) Due to the departure of one tenant in the CTN complex which took place in April 2022, the occupancy rate in the CTN complex as of April 2022 is 63%.

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 items 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\$		
	2019	2020	2021
GAAP Operating income	5,828	14,984	4,537
Adjustments:			
Real estate depreciation, amortization and impairment	4,321	3,946	3,939
General and administrative	3,047	2,523	3,410
Gain on sale of operating properties	-	(9,127)	(273)
Non-GAAP Total Net Operating Income (NOI)	13,196	12,326	11,613

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\$		
	2019	2020	2021
GAAP Net income (loss) attributable to Optibase Ltd.	(1,993)	6,433	(894)
Adjustments:			
Real estate depreciation, amortization and impairment	4,321	3,946	3,939
Pro rata share of real estate depreciation and amortization from unconsolidated associates	3,085	3,087	3,282
Non-controlling interests share in the above adjustments	(1,162)	(1,234)	(1,295)
Non-GAAP Fund From Operation (FFO)	4,251	12,232	5,032
Gain on sale of operating properties, net	-	(7,570)	(273)
Non- GAAP Recurring Fund From Operation (Recurring FFO)	4,251	4,662	4,760

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 December 31, 2021:

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	10,857	86%	24
Texas Shopping Centers Portfolio	Houston, Dallas, San Antonio, Texas	December 31, 2012	4%	Beneficial interest in the portfolio	Commercial	2,036,290	26,284	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	24,468	98%	23
Portfolio Total/ Weighted Average	-	-	-	-	-	3,325,438	61,610	93%	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, 2021 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 47 tenants, primarily in the field of advanced industries including biotech electronic and information technology industries, and is currently 92% occupied. There are large vacant areas of approximately 9,650 square meters in the CTN complex starting April 2022 due to the departure of large tenants that accounted for approximately 22% of our portfolio annualized rental income.

The following table sets forth certain information regarding leases of tenants in the CTN Complex, as of December 31, 2021:

	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 (%)
2022	16	11,192	33%	4,252	38%
2023	8	3,127	9%	1,084	10%
2024	6	5,952	18%	2,179	19%
2025	6	1,520	4%	456	4%
2026	12	3,851	11%	1,359	12%
Thereafter	6	5,665	17%	1,916	17%
Sub-total	54	31,307	92%	11,246	100%
Vacant	-	2,549	8%	-	-
Total	54	33,856	100%	11,246	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.

We may be required to invest significant amounts as capital expenditures to bring certain properties up to code.

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 “Liquidity and Capital Resources”.

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 22 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, 2021:

	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 (%)
2022	5	4,530	37%	662	40%
2023	3	1,060	9%	174	10%
2024	2	314	3%	34	2%
2025	8	1,652	13%	331	20%
2026	4	3,130	25%	441	27%
Thereafter	1	121	1%	19	1%
Sub-total	23	10,807	88%	1,661	100%
Vacant	-	1,471	12%	-	-
Total	23	12,278	100%	1,661	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. 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 “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. Crown Two Penn Center Associates, Limited Partnership made a distribution of \$2.2 million out of the said \$5 million in 2021 and we were informed that additional distribution of approximately \$2 million is expected to occur during 2022.

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, 2021, the Two Penn Center was 86% occupied and the annual rental income for the year 2021 totaled to approximately \$11 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, 2021, Texas shopping centers portfolio annual rental income totaled to approximately \$26.3 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.

In November 2021 we sold one of the apartment units in consideration for approximately \$690,000 and during the first quarter of 2022, we sold three apartment units in consideration for approximately \$2.4 million. To date, 13 of the 17 units left are rented out and the remaining unit is being offered for rental or sale.

We intend to hold the units for investment purposes and will consider continuing 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.

During the first quarter of 2022, two penthouses located in Marquis Residence were sold, in consideration for an aggregated gross price of approximately \$5.7 million. Following the sale of the penthouses held on March 9, 2022, we fully repaid the loan granted as part of a financing agreement of the condominium units in Miami. For additional information on the loan, see Item 5.B "Liquidity and Capital Resources".

Following these sales, we no longer own any condominium penthouses.

A Condominium Unit in Miami Beach, Florida

We own, through our wholly owned subsidiaries, a condominium unit at the Continuum on South Beach Condominium, or Continuum. The unit 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. The unit is leased to an affiliate of Capri until no later than January 1, 2023. For additional information, see Item 7.B – "Related Party Transactions".

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 98% 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, 2021, these tenants occupied approximately 10,000 square meters and accounted for approximately \$4.1 million of rent income, or approximately 22% of our gross leasable area in Switzerland and approximately 32% of our annual rent in Switzerland.

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 believes it has sufficient provision to cover the expected outcome of such review process.

C. ORGANIZATIONAL STRUCTURE

As of December 31, 2021, 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.

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, 2021, we had available cash and cash equivalents of approximately \$31.1 million. As of April 1, 2022, we have available cash and cash equivalents, of approximately \$32.9 million. For information regarding the investment of our available cash, see Item 5.B. "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 and Miami.

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 2021, 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 Luxemburg, Zurich, Switzerland and Germany is subject to tax at the rate of approximately 29%, 21% and 16%, respectively, for the years 2019 through 2021. Taxable income of Geneva, Switzerland is subject to tax at the rate of approximately 14% for the years 2020 through 2021 and 24% for the year 2019.

We have final tax assessments through the tax year 2015.

We are currently subject to a tax audit for the years 2016 through 2019 by the Israeli Tax Authority ("ITA"). We received tax assessment for the years 2016 to 2019. We, based on a legal opinion received from its legal counsels, believes that it has adequately provided for any reasonably foreseeable outcome related to the ITA tax audits. We filed an objection for a second review by the ITA for the years 2016 to 2019. Nevertheless, the ITA may disagree with our position taken in the tax return, and we may be subject to additional tax liabilities.

As of December 31, 2021, we had approximately \$78 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 \$59 million that can be carried forward and offset against taxable income. Approximately \$12 million of these carry-forward tax losses have no expiration date and approximately \$47 million can be carried forward and offset against taxable income for 20 years, no later than 2038. 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 2021 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.

A. OPERATING RESULTS

The following table sets forth, for the years ended December 31, 2019, 2020 and 2021 statements of operations data as percentages of our total revenues:

	Year Ended December 31		
	2019	2020	2021
Fixed income from real estate rent	100%	100%	100%
Costs and expenses:			
Cost of real estate operations	18.3	17.1	16.7
Real estate depreciation, amortization, and impairment	26.8	26.5	28.3
General and administrative	18.9	17	24.5
Total costs and expenses	63.9	60.6	69.4
Operating income	36.1	100.7	32.6
Other income, net	4.5	3.1	5.6
Financial expenses, net	(16.3)	(12)	(11.8)
Income before taxes on income	24.3	91.8	26.4
Taxes on income	(9.1)	(14.5)	(5.2)
Equity share in losses of associates, net	(14.4)	(14)	(7.6)
Net income	0.7	63.3	13.5
Net income attributable to non-controlling interest	13.1	20	19.9
Net income (loss) attributable to Optibase Ltd.	(12.3)	43.2	(6.4)

Results of Operations for the Years Ended 2020 and 2021

Fixed income from real estate rent. Our fixed income real estate rent in 2021 totaled to \$13.9 million compared to \$14.9 million in 2020. The decrease was mainly due to our sale of our real-estate portfolio in Germany.

Cost of real estate operations. Our cost of real estate operation decreased in 2021 to \$2.3 million, compared to \$2.5 million in 2020.

Real estate depreciation, amortization and impairment. Our real estate depreciation, amortization, and impairment in 2021 totaled to \$3.9 million, compared to \$3.9 million in 2020.

General and Administrative Expenses. General and administrative expenses increased in 2021 to \$3.4 million, compared to \$2.5 million in 2020. The increase was mainly due to an increase in directors' and officers' liability insurance expenses and additional expenses related to the Tender Offer (for further details, see Item 4.A. "History and development of the Company"), which were off-set by a decrease in legal expenses.

Gain on sale of operating properties. In 2021 we recorded gain on sale of operating properties of \$273,000 mainly due to the Miami apartment sale compared to \$9.1 million in 2020 due to our sale of our portfolio of real estate assets in Germany.

Operating Income. As a result of the foregoing, we recorded operating income of \$4.5 million in 2021 compared to an operating income of \$15 million in 2020. The decrease in our operating income in 2021, is mainly attributed to the sale of our portfolio of real estate assets in Germany.

Other income. We recorded other income of \$783,000 in 2021, compared to other income of \$454,000 in 2020, related to dividend received and interest income on loan to an associated company.

Financial Expenses, Net. We recorded financial expenses, net of \$1.6 million in 2021, compared with financial expenses, net of \$1.8 million in 2020.

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 decrease in our tax expenses of \$731,000 in 2021, compared to \$2.2 million in 2020 mainly related to the sale of our portfolio of real estate assets in Germany. The tax expenses balance includes tax expense recorded against deferred tax liability, in relation to Company's subsidiary 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 \$1 million in 2021 and \$2.1 million in 2020, 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 \$1.9 million in 2021, compared with a net income of \$9.4 million in 2020. The decrease was mainly due to the sale of our portfolio of real estate assets in Germany.

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 loss of \$1.9 million in 2021, compared with a net gain of \$6.4 million in 2020.

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 the sale of our portfolio of real estate assets in Germany.

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 the sale of our portfolio of real estate assets in Germany.

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 the sale of our portfolio of real estate assets in Germany.

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 the sale of our portfolio of real estate assets in Germany and due to an out-of-court settlement with our tenant LEM.

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

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 the sale of our portfolio of real estate assets in Germany.

Other income. We recorded other income of \$454,000 in 2020, compared to other income of \$722,000 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 the sale of our portfolio of real estate assets in Germany 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 the sale of our portfolio of real estate assets in Germany 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 the sale of our portfolio of real estate assets in Germany.

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.

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, 2021, we had cash and cash equivalents of \$31.1 million, and as of April 1, 2022, we have available cash, and cash equivalents of approximately \$32.9 million.

Net cash provided by our operating activities was \$5.6, \$5.1 million and \$7.4 million, in each of the years ended December 31, 2021, 2020 and 2019, respectively. Net cash provided by operating activities in 2021 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, decrease in right-of-use assets, offset by gain on sale of operating properties, decrease in lease liabilities and in land lease liabilities and increase in other accounts receivable and prepaid expenses and in trade receivables and decrease in deferred tax liabilities. Net cash provided by operating 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 by investment activities in 2021 totaling \$3.6 million reflects primarily proceeds from our associates, proceeds from sale of real estate property and decrease in other long-term deposits offset by our investment in building improvements. 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 financial activities in 2021 totaling \$6.3 million reflects loans and bonds repayments. 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.

Non-GAAP NOI decreased by \$713,000, or 6%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. 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 the sale of our portfolio of real estate assets in Germany.

Non-GAAP Recurrent FFO increased by \$98,000, or 2%, for the year ended December 31, 2021, compared to the year ended December 31, 2020. The increase in FFO was mainly due to decrease in tax expenses and decrease in equity share in losses of associates, net and financial expenses offset by decrease in our fixed income from real estate rent mainly due to the sale of our portfolio of real estate assets in Germany and to an increase in general and administrative expenses.

During 2021, 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 (Relief 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. Crown Two Penn Center Associates, Limited Partnership made a distribution of \$2.2 million out of the said \$5 million in 2021 and we were informed that additional distribution of approximately \$2 million is expected to occur in 2022.

The following table summarizes the principal terms of our material financing agreements in effect as of December 31, 2021:

Type of Facility	Borrower	Original Date and Maturity Date	Original Amount ⁽¹⁾	Outstanding Amount (as of December 31, 2021) ⁽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. (4) During 2020 and to date, the Borrower has been utilizing the credit facility every 3 months in USD or CHF.	CHF 79.5 million (app. \$87 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- March 31, 2023	\$8.82 million ⁽³⁾	\$5.9 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.		Following the last sale of the penthouse in Miami Beach, Florida held on March 9, 2022, the loan was repaid in full, and therefore, the terms of the loan are not described.	

Type of Facility	Borrower	Original Date and Maturity Date	Original Amount ⁽¹⁾	Outstanding Amount (as of December 31, 2021) ⁽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 14.3 million (app. \$15.6 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 Rüm-lang 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, 2021

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

(4) Use of 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 2021 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.

C. RESEARCH AND DEVELOPMENT

Not applicable.

D. TREND INFORMATION

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 until the first half of 2021, 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. During the second half of 2021 and to date, the U.S. real estate market started showing evident signs of strength as the increased liquidity in the market turned into investments both in the commercial real estate sector and the high-end residential market. During that period, other global real estate markets also started showing signs of stabilization and increased demand.

During 2015 throughout 2021 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 and through the first half of 2021, 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. During the second half of 2021 and to date, the Swiss market is showing signs of stabilization in most real estate sectors both in assets prices and in the rental prices. Following the anticipated interest rate increases in the U.S., there is some uncertainty in the market as to expected interest rates in the Swiss market.

Since the outbreak of the Coronavirus, market conditions around the world, including in the areas we operate in have taken a significant downturn. Since the second half of 2021, we witnessed a certain stabilization in the real estate market conditions around the world, however, as of now we still cannot assess the full impact of the Coronavirus outbreak and future expected changes in interest rates 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 and in 2021 we operated at a loss. During 2017, 2018, 2019 and 2021 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).

E. CRITICAL ACCOUNTING ESTIMATES

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 accrued interest and penalties related to unrecognized tax benefits in our financial expenses.

F. [RESERVED]

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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
Amir Philips	54	Chief Executive Officer and Director
Reuwen Schwarz	45	Director
Avraham Unterman	45	Director
Shlomo (Tom) Wyler	70	Chief Executive Officer of Optibase Inc.
Yakir Ben-Naim	50	Chief Financial Officer

Amir Philips serves as our Chief Executive Officer and joined our board of directors in April 2022. 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.

Reuwen 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.

Avraham Unterman joined our board of directors in April 2022. Mr. Unterman is an Israeli attorney specializing in real estate in Israel and USA. From 2004 until today, Mr. Unterman owns a law firm in Israel. From 2000 through 2004 Mr. Unterman served as a lawyer at the firm of Wine, Misheiker and Ernstoff, in Jerusalem, Israel. Mr. Unterman holds an LL.B. degree from Leeds University, United Kingdom and an M.A. degree from the London School of Jewish Studies, United Kingdom. Mr. Unterman is also a member of the Israeli Bar Association.

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 VBox 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 the Bar Ilan University and an MBA in Finance from the Bar Ilan University.

As a result of the Tender Offer and our becoming a private company, three of our directors, Messrs. Haim Ben-Simon and Danny Lustiger and Ms. Tali Yaron Eldar resigned during April from our board of directors.

B. COMPENSATION

The compensation terms for the Company's directors and officers are 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, December 30, 2020 and November 24, 2021 or the Compensation Policy. The total compensation paid to our directors for their service in 2021 is approximately \$265,000 and the total compensation paid to our officers (other than directors) for their service in 2021 is approximately \$946,000.

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, 2021. The compensation detailed in the table below refers to actual compensation granted or paid to the director or officer during the year 2021.

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)	288.7	76	69.6	-	27.7	462
Shlomo (Tom) Wyler, Chief Executive Officer of Optibase Inc. (6)	220	12.1	-	-	0.2	232.3
Yakir Ben-Naim, Chief Financial Officer (7)	140.4	47.7	46.8	-	16.5	251.4
Alex Hilman, Executive Chairman (8)	-	-	-	-	86.9	86.9
Reuven Schwarz, Director (9)	57	-	-	-	2.6	59.6

- (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 2021.
- (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, 2021.
- (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 \$24,100). 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. Mr. Philips does not receive any additional compensation for his service as a director.
- (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. On 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 \$12,200). 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 were 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 item 6.B. “Indemnification, exemption and insurance of Directors and Officers”, below.

In accordance with our Compensation, 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) was 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 amended 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.

Following the Tender Offer, none of directors or executive officers beneficially own any ordinary shares of the Company, except for Mr. Shlomo (Tom) Wyler. See Item 7.A – “Major Shareholders”.

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 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.

We had an insurance policy for our directors' and officers' liability, including as directors or officers of our subsidiaries, for the period commencing on February 9, 2022 and ending on April 10, 2022, 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 \$645,000, respectively.

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".

C. BOARD PRACTICES

Following the Tender Offer, we became a private company and on April 11, 2022, we approved amended and restated articles of association for a private company. Pursuant to our amended and restated articles of association, our board of directors is required to consist of one to five 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 three members. Our amended and restated 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.

Our board of directors established three committee, audit committee, compensation committee and nominating committee which ceased to exist upon the completion of the Tender Offer and the resignation of certain of our previous directors. See also Item 6.A "Directors and Senior Management". As a private company, our board of directors is not required by applicable law or by our amended and restated articles of association to appoint any committees of the board. 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.

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.

E. SHARE OWNERSHIP

See Item 7.A "Major Shareholders".

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

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 20, 2022.

Name of Beneficial Owner	No. of Ordinary Shares Beneficially Owned ⁽¹⁾	Percentage of Ordinary Shares Beneficially Owned
The Capri Family Foundation ⁽²⁾	5,039,143	96.9%
Shlomo (Tom) Wyler ⁽³⁾	159,218	3.1%

(1) Number of shares and percentage ownership is based on 5,216,256 ordinary shares outstanding as of April 20, 2022. 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. 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) Based on Amendment No. 10 to Schedule 13D filed with the SEC on April 8, 2022, by Capri. According to such Amendment No. 10 to Schedule 13D, Capri directly owns 5,039,143 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) Based on Amendment No. 10 to Schedule 13D filed with the SEC on April 8, 2022, by Capri, in connection with the completion of the Tender Offer.

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, 2019, 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 Capri Family Foundation	April 8, 2022	5,039,143**

* 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.

** The information is based on Amendment No. 10 to Schedule 13D filed with the SEC on April 8, 2022, by Capri, in connection with the completion of the Tender Offer.

All of our shares have the same voting rights.

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.

B. RELATED PARTY TRANSACTIONS

For a description of the insurance and indemnification 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.

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, 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.

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. 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.

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, 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.

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, 2021, 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. Wylar, 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, 2021 - 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.

On April 9, 2021, Crown Two Penn Center Associates Limited Partnership, refinanced the loan. 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.

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.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

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 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 Rümlang property, or the Option, in connection with an option agreement between Swiss Pro and our subsidiaries, dated March 1, 2010, or the Agreement.

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 parties have finished discovery and a court hearing is scheduled in November 2022, 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.

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 exhibit 2.1 “Description of Share Capital” and item 10.E. “Taxation - 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 item 10.E. "Taxation - 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.

B. SIGNIFICANT CHANGES

On March 22, 2022, Capri successfully completed the Tender Offer. For further details, see Note 18a to the financial statements.

During the first quarter of 2022, we sold three apartment units in consideration for approximately \$2.4 million, and two penthouses units in consideration for approximately \$5.7 million. For further details, see Note 18b to the financial statements.

ITEM 9. THE OFFER AND LISTING

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. On April 29, 2015, our ordinary shares were registered for trading on the Tel Aviv Stock Exchange under the symbol OBAS.

Following the full repayment of our series A bonds, we applied to the TASE on January 11, 2022 for the delisting of our ordinary shares from the TASE. Such delisting took place on April 13, 2022.

Following the Tender Offer, Capri holds app. 96.9% of our issued share capital and the remaining 3.1% of our issued share is held by Shlomo (Tom) Wyler. As a result, our ordinary shares were delisted from Nasdaq on March 25, 2022.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares were listed on The NASDAQ Global Market since April 7, 1999 and until March 25, 2022, and on the TASE since April 2015 and until April 13, 2022, both under the symbol "OBAS". For additional information see Item 4.A "History and Development of the Company".

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The description below is a short summary of our amended and restated articles of association following our becoming a private company.

Purposes and Objects of the Company

We are a private 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. A consideration to the Company's purpose and objectives can be found in Chapter 1 of the Company's articles of association.

Our articles of association also state that we may make contributions, 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 board of directors and the shareholders at a general meeting.

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.

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 20, 2022. 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.

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 twenty five percent (25%) 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, one 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, or by proxy.

The directors are appointed by decision of an ordinary majority at a general meeting and they serve until the next annual meeting. 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. 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.

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 the Companies Law, the share capital may be divided into different classes of shares 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 may decide not to convene an annual meeting of shareholders every year, unless for the appointment of our external auditors. The term of external auditors lasts up to three years, as a result, we are obliged to convene a general meeting at least once every three years in order to appoint external auditors. According to the Company Law notice of at least twenty-one days prior to the date of the meeting is required. However, our articles of association allow for a shorter notice period if the consent of all shareholders entitled at that time to receive notice has been given. Such consent may be given in writing retrospectively, even after the meeting has taken place. An extraordinary meeting may be convened by the board of directors, as it decides or upon a demand of any one director, or by one or more shareholders holding in the aggregate at least 10% of the issued capital and at least 1% of the voting rights in the Company, or by one or more shareholders holding in the aggregate at least 10% 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. 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.

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.

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.

Approval of Certain Transactions

Generally, under the Companies Law, engagement terms of directors and officers serving in a private company (including the grant of an exemption from liability, purchase of directors' and officers' insurance, or grant of indemnification (whether prospective or retroactive) require approval by the board of directors, and in the case of directors, also by the shareholders of the company.

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 10.E. "Taxation".

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.

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 anticipated 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 "Liquidity and Capital Resources".

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.

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 2021, 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 647,640 for 2021 (and as of 2020, the additional tax was on annual income exceeding NIS 651,600), 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 Luxembourg, Germany and United States is subject to federal tax at the rate of approximately 29%, 16% and 21%, respectively, in 2021 and 2020. In Switzerland, the tax rate is 14% (including cantonal tax rate), for 2021 and 2020.

F. DIVIDEND AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

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>.

We intend to take steps to cause the termination of the registration of our ordinary shares under, and suspend all of our reporting obligations under, the U.S. Securities Exchange Act, as promptly as practicable.

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 0.6%, -0.7% and 3.8% in 2019, 2020 and 2021 respectively. The changes of the NIS against the dollar was a devaluation of approximately 7.8% and 7% and 3.3% in 2019, 2020 and 2021 respectively. The change of the CHF against the dollar was an appreciation of approximately 1.4% and 10% in 2019, and 2020, respectively, and a devaluation of approximately 3.6% in 2021. The change of the Euro against the dollar was a devaluation of approximately 2.1% in 2019, and an appreciation of approximately 9.5% in 2020, and a devaluation of approximately 7.7% in 2021.

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, 2021, our available net cash was \$31.1 million. As of December 31, 2021, 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.

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, 2021. 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, 2021 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, 2021.

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

ITEM 16B. CODE OF ETHICS

We 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.

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, 2021, 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 2020 and 2021 (in thousands of dollars):

	2020	2021
Audit fees (1)	109	114
Audit-related fees (2)	5	5
Tax fees (3)	34	57
Total	148	176

(1) Audit fees consist of fees billed, or expected to be 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, or expected to be 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, or expected to be 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

Prior to our becoming a private company and upon the resignation of certain of our directors during April 2022, we had an audit committee whose main role was 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. The audit committee oversaw 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 included 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 could have included audit services, audit-related services, tax services and other services, as described above. It was 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 could be pre-approved by our audit committee on an individual basis during the year.

During 2020 and 2021, 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 did not 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 differed 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, 2021

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, 2021 and 2020, 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, 2021, and the related notes (collectively referred to as the "consolidated 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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 \$ 0 thousand and \$ 1,928 thousand as of December 31, 2021 and 2020, respectively, and the Company's equity in the net loss of 300 RIVER HOLDINGS LLC is stated at \$ 4,335 thousand in 2021, \$ 4,476 thousand in 2020 and \$ 4,859 thousand in 2019. 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	<p>As discussed in Note 2g to the consolidated financial statement, held real estate assets, net of accumulated depreciation as of December 31, 2021 were \$ 176.9 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.</p> <p>Auditing management's evaluation of held real estate assets for impairment was complex due to the high degree of subjectivity in determining the future undiscounted cash flows and estimated fair values of the assets.</p> <p>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.</p>
How we addressed the matter in our audit	<p>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.</p> <p>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.</p> <p>We also evaluated the related disclosures included in Note 3 to the consolidated financial statements.</p>

/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, 2022

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 31,119	\$ 28,820
Restricted cash	528	835
Trade receivables (net of allowance for credit losses of \$155 and \$178 at December 31, 2021 and 2020, respectively)	401	216
Other accounts receivable and prepaid expenses	1,342	569
Bonds related deposits	509	2,564
Property held for sale	5,893	-
Total current assets	39,792	33,004
LONG-TERM INVESTMENTS:		
Long-term deposits	99	98
Right-of-use assets	131	272
Investments in companies and associates	5,998	9,269
Total long-term investments	6,228	9,639
Real estate property, net	176,922	192,054
Total assets	\$ 222,942	\$ 234,697

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,	
	2021	2020
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term loans and bonds	\$ 8,478	\$ 6,447
Other accounts payable and accrued expenses	4,084	4,144
Operating lease liabilities	130	166
Total liabilities attributed to discontinued operations	<u>2,061</u>	<u>2,061</u>
Total current liabilities	<u>14,753</u>	<u>12,818</u>
COMMITMENTS AND CONTINGENT LIABILITIES		
LONG-TERM LIABILITIES:		
Deferred tax liabilities	14,217	15,095
Land lease liability, net	6,785	7,054
Operating lease liabilities	27	146
Long-term loans, net of current maturities	<u>100,950</u>	<u>112,923</u>
Total long-term liabilities	<u>121,979</u>	<u>135,218</u>
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.65 par value -		
Authorized: 6,000,000 shares at December 31, 2021 and 2020; Issued: 5,216,256 shares at December 31, 2021 and 2020; Outstanding: 5,198,361 shares at December 31, 2021 and 2020	994	994
Additional paid-in capital	138,187	138,187
Treasury shares: 17,895 shares at December 31, 2021 and 2020	(87)	(87)
Other reserves	1,255	2,759
Accumulated deficit	<u>(81,283)</u>	<u>(80,389)</u>
Total shareholders' equity of Optibase Ltd.	<u>59,066</u>	<u>61,464</u>
Non-controlling interests	<u>27,144</u>	<u>25,197</u>
Total shareholders' equity	<u>86,210</u>	<u>86,661</u>
Total liabilities and shareholders' equity	<u>\$ 222,942</u>	<u>\$ 234,697</u>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2021	2020	2019
Fixed income from real estate rent	\$ 13,937	\$ 14,874	\$ 16,144
Costs and expenses:			
Cost of real estate operations	2,324	2,548	2,948
Real estate depreciation, amortization and impairment	3,939	3,946	4,321
General and administrative	3,410	2,523	3,047
Total costs and expenses	9,673	9,017	10,316
Gain on sale of operating properties	273	9,127	-
Operating income	4,537	14,984	5,828
Other income	783	454	722
Financial expenses, net	(1,641)	(1,781)	(2,630)
Income before taxes on income	3,679	13,657	3,920
Taxes on income	(731)	(2,162)	(1,472)
Equity share in losses of associates, net	(1,059)	(2,079)	(2,321)
Net income	1,889	9,416	127
Net income attributable to non-controlling interest	2,783	2,983	2,120
Net income (loss) attributable to Optibase Ltd.	\$ (894)	\$ 6,433	\$ (1,993)
Net earnings per share:			
Basic and diluted net earnings (loss) per share	\$ (0.17)	\$ 1.24	\$ (0.38)
Weighted average number of shares used in computing basic net earnings per share:	5,198,361	5,198,361	5,198,361
Weighted average number of shares used in computing diluted net earnings per share	5,198,361	5,198,361	5,198,361

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,		
	2021	2020	2019
Net income	\$ 1,889	\$ 9,416	\$ 127
Foreign currency translation adjustments	(2,340)	5,323	393
Financial liability related to hedging	-	68	137
Total comprehensive income (loss)	(451)	14,807	657
Net loss attributable to non-controlling interests	(2,783)	(2,983)	(2,120)
Other comprehensive loss (income) attributable to non-controlling interests	836	(2,204)	(283)
Comprehensive income (loss) attributable to Optibase Ltd.	\$ (2,398)	\$ 9,620	\$ (1,746)

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, 2019	\$ 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	994	138,187	(87)	2,759	(80,389)	61,464	25,197	86,661
Other comprehensive loss	-	-	-	(1,504)	-	(1,504)	(836)	(2,340)
Net income (loss)	-	-	-	-	(894)	(894)	2,783	1,889
Balance as of December 31, 2021	<u>\$ 994</u>	<u>\$ 138,187</u>	<u>\$ (87)</u>	<u>\$ 1,255</u>	<u>\$ (81,283)</u>	<u>\$ 59,066</u>	<u>\$ 27,144</u>	<u>\$ 86,210</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,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 1,889	\$ 9,416	\$ 127
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment	3,939	3,946	4,321
Gain on sale of operating properties	(273)	(9,127)	-
Decrease (increase) in trade receivables	(190)	353	(105)
Equity share in losses of associates, net	1,059	2,079	2,321
Decrease in deferred tax liabilities	(402)	(22)	(140)
Increase (decrease) in land lease liabilities	(34)	319	(106)
Increase (decrease) in lease liabilities	(155)	(43)	257
Decrease (increase) in right-of-use assets	141	104	(376)
Decrease (increase) in other accounts receivable and prepaid expenses	(411)	79	(665)
Increase (decrease) in accrued expenses, other accounts payable and other liabilities	92	(1,986)	1,763
Net cash provided by operating activities	5,655	5,118	7,397
Cash flows from investing activities:			
Investment in real estate property	(913)	(989)	(1,109)
Proceeds from associates, net	2,212	309	398
Decrease (increase) in other long-term deposits	1,669	(9)	116
Proceeds from sale of real estate property	631	41,483	-
Net cash provided by (used in) investing activities	3,599	40,794	(595)

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,		
	2021	2020	2019
Cash flows from financing activities:			
Repayment of long-term bank loans and bonds	(6,344)	(28,221)	(5,958)
Dividend paid to non-controlling interests	-	-	(2,227)
Repayment of controlling shareholders' loan	-	(2,618)	-
Net cash used in financing activities	<u>(6,344)</u>	<u>(30,839)</u>	<u>(8,185)</u>
Exchange differences on balances of cash and cash equivalents	(918)	1,986	112
Increase (decrease) in cash and cash equivalents and restricted cash	1,992	17,059	(1,271)
Cash and cash equivalents and restricted cash at the beginning of the year	29,655	12,596	13,867
Cash and cash equivalents and restricted cash at the end of the year	<u>\$ 31,647</u>	<u>\$ 29,655</u>	<u>\$ 12,596</u>
(a) Supplemental disclosures of cash flows information:			
Cash and cash equivalents	\$ 31,119	\$ 28,820	\$ 12,564
Restricted cash	<u>528</u>	<u>835</u>	<u>32</u>
Total cash and cash equivalents and restricted cash	<u>\$ 31,647</u>	<u>\$ 29,655</u>	<u>\$ 12,596</u>
(b) Supplemental cash flows activities:			
Cash paid during the year for:			
Taxes	<u>\$ 2,141</u>	<u>\$ 3,040</u>	<u>\$ 1,433</u>
Interest	<u>\$ 920</u>	<u>\$ 1,492</u>	<u>\$ 2,320</u>
(c) Significant non-cash transactions:			
Net lease liabilities arising from obtaining right of use assets	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 22</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, operates 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, 2021, 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 OPCTN SA, a Luxembourg company owned 51% by the Company which was incorporated in February 2011 ("Subsidiaries"), (collectively, the "Group").

On March 22, 2022, the Company's controlling shareholder and its affiliates, successfully completed a full tender offer for the Company's ordinary shares and purchased all of the Company's ordinary shares held by the Company's other shareholders. As a result, the Company's ordinary shares were delisted from NASDAQ on March 25, 2022.

- b. Investments in associates:

Retail portfolio in Bavaria, Germany:

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

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).

On February 11, 2020 the Company by its wholly owned European subsidiary, Optibase Bavaria GmbH & Co. KG, had entered into a definitive agreement to sell its retail portfolio in Germany, for an aggregate cash consideration of EUR 35,000,000 (approximately \$ 38,900).

The sale was completed in 2020 and a gain in the amount of \$ 9,127 was recognized in that year.

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, 22% and 20% of the Company revenues for the years ended 2021 and 2020, respectively, and two major tenants: 18% and 16% of the Company revenues of the year ended December 31, 2019. No other tenants accounted for more than 10% of the Company revenues.

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, 2021 and 2020, which relates to the discontinued operations and presented in the consolidated balance sheets, are summarized as follows:

	Year ended December 31,	
	2021	2020
Liabilities:		
Total liabilities attributed to discontinued operations	\$ 2,061	\$ 2,061

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 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", 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 exceeding 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. During the year ended December 31, 2021, no impairment losses have been identified. During the year ended December 31, 2020 an amount of \$ 247 was recorded as impairment.

h. Investments in companies:

The Company's equity investment is an investment in equity securities a of privately-held company, that are not traded and therefore not supported by observable market prices. The Company elected to account for its equity investments without readily determinable market values that either (i) do not meet the definition of in-substance common stock or (ii) do not provide the Company with control or significant influence, using Accounting Standards Update ("ASU") 2016-01, and measure the investment at cost minus impairment if any.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Under ASU 2016-01, the Company adjusts the carrying value of its investments to fair value upon observable transactions for identical or similar investments of the same issuer.

The Company periodically evaluates the carrying value of the investments in privately-held companies when events and circumstances indicate that the carrying amount of the investment may not be recovered. The maximum loss the Company can incur for its investments is their carrying value.

The Company may determine the fair value by reviewing equity valuation reports, current financial results, long-term plans of the privately-held companies, the amount of cash that the privately-held companies have on-hand, the ability to obtain additional financing and overall market conditions in which the privately-held companies operate or based on the price observed from the most recent completed financing.

All gains and losses on investments in privately-held companies, realized and unrealized, are recognized in financial (expenses) income, net.

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 Company'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.

j. 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.)

k. 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, the Company had outstanding hedging instruments in the amount of \$ 332, which were included in short-term assets. As of December 31, 2021, the Company had no hedging instruments.

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.

l. 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 is 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 for considerations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. 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.

n. 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.

o. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company maintains cash and cash equivalents with diverse financial institutions and monitors the amount of credit exposure to each financial institution.

Accounts receivable include 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.

p. 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".

q. 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.

r. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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, 2021 and 2020.

s. 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.

t. Recently adopted accounting pronouncements:

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 adoption of this standard did not have a material impact 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

	<u>Land</u>	<u>Building</u>	<u>Condominium units</u>	<u>Currency translation adjustment</u>	<u>Total</u>
Cost:					
At January 1, 2020	\$ 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
Additions	-	996	(83)	(7,186)	(6,273)
Disposals	(61)	-	(432)	-	(493)
Reclassification – property held for sale*)	(697)	-	(6,074)	-	(6,771)
At December 31, 2021	25,557	167,197	13,133	7,869	213,756
Accumulated depreciation and impairment:					
At January 1, 2020	-	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
Depreciation and impairment charge for the year	-	3,365	574	(1,331)	2,608
Disposals	-	-	(135)	-	(135)
Reclassification - property held for sale*)	-	-	(878)	-	(878)
At December 31, 2021	-	31,504	3,184	2,146	36,834
Real estate property, net:					
At December 31, 2020	<u>\$ 26,315</u>	<u>\$ 138,062</u>	<u>\$ 16,099</u>	<u>\$ 11,578</u>	<u>\$ 192,054</u>
At December 31, 2021	<u>\$ 25,557</u>	<u>\$ 135,693</u>	<u>\$ 9,978</u>	<u>\$ 5,723</u>	<u>\$ 176,922</u>

*) Balance of property held for sale is comprised of Condominium units in Miami.

For details regarding the Condominium units sales, see Note 18b.

Estimated depreciation expenses by years are as follows:

<u>Year</u>	<u>Estimated depreciation expenses</u>
2022	3,728
2023	3,728
2024	3,728
2025	3,728
2026 and thereafter	136,453
	<u>151,365</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2021	2020
Prepaid expenses	\$ 63	\$ 38
Income receivable	367	442
Government (mainly tax advances)	899	-
Others	13	89
	<u>\$ 1,342</u>	<u>\$ 569</u>

NOTE 5- DEPOSITS

Short-term deposits:

	December 31,	
	2021	2020
Bonds deposit and other (1)	\$ 444	\$ 2,045
Restricted account (2)	65	187
SWAP (3)	-	332
	<u>\$ 509</u>	<u>\$ 2,564</u>

Long-term deposits:

	December 31,	
	2021	2020
Rent deposit	\$ 99	\$ 98
	<u>\$ 99</u>	<u>\$ 98</u>

(1) Bonds deposit of one payment of principal and interest reserves. See Note 10.

(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. As of December 31, 2020, the hedged amount was \$ 1,455. As of December 31, 2021, the Company had no hedging instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6- 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, 2021 and December 31, 2020:

	December 31,	
	2021	2020
Operating right-of-use assets	\$ 131	\$ 272
Operating lease liabilities, current	130	166
Operating lease liabilities long-term	27	146
Total operating lease liabilities	<u>\$ 157</u>	<u>\$ 312</u>

Cash paid for amounts included in the measurement of operating lease liabilities was \$ 185 and \$ 162 during the years ended December 31, 2021 and 2020, respectively.

Minimum lease payments for our right of use assets over the remaining lease periods as of December 31, 2021, are as follows:

Year ended December 31,	
2022	\$ 133
2023	29
Total undiscounted lease payments	162
Less - interest	(5)
Present value of lease liabilities	<u>\$ 157</u>

The weighted average remaining lease terms and discount rates for all of operating leases were as follows as of December 31, 2021:

Remaining lease term and discount rate:

Weighted average remaining lease term (years)	0.75
Weighted average discount rate	4.02%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- LEASES (Cont.)

The Company as lessor:

Future minimum rental payments to be received under operating leases:

Year ended December 31,

2022	\$	1,841
2023		4,331
2024		2,213
2025		787
2026 and thereafter		<u>3,734</u>
Total future minimum rentals	<u>\$</u>	<u>12,906</u>

NOTE 7:- 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.

On April 9, 2021, Two Penn Center Plaza refinanced the existing loan on the property with an outstanding principal balance of approximately \$ 44,000, was replaced with a new loan with a principal amount of \$ 67,900. As a result of the refinancing, the Company's share in the excess cash is approximately \$ 5,000. As of December 31, 2021, the Company received a distribution of approximately \$ 2,200 out of the said \$ 5,000.

	December 31,	
	2021	2020
Invested in equity	\$ 4,025	\$ 4,025
Distributions	(4,006)	(1,794)
Accumulated net income	<u>1,979</u>	<u>1,110</u>
Total investment	<u>\$ 1,998</u>	<u>\$ 3,341</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 at cost minus impairment if any. 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 at cost minus impairment if any.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- 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. 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,	
	2021	2020
Invested in equity	\$ 13,142	\$ 13,142
Accumulated net loss	(13,142)	(11,214)
Total investment	<u>\$ -</u>	<u>\$ 1,928</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,	
	2021	2020
Assets	\$ 324,691	\$ 321,153
Liabilities	\$ 491,157	\$ 459,620
Income	\$ 59,961	\$ 59,294
Net loss	\$ (10,949)	\$ (11,947)

- *) 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 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2021	2020
Employees and payroll accruals	\$ 291	\$ 308
Accrued expenses	2,182	2,640
Government (mainly tax provision)	301	264
Advance tenants payments	805	397
Tenant security deposits	142	116
Trade payables	340	397
Others	<u>23</u>	<u>22</u>
Total	\$ 4,084	\$ 4,144

NOTE 9:- LONG-TERM LOANS

- a. On October 29, 2009, Optibase RE1 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, 2021, the Company met the required covenants.

Maturities of the loan by years are as follows:

Year ended December 31,	
2022 (current maturity)	<u>412</u>
Long-term portion:	
2023	412
2024	412
2025	412
2026	412
Thereafter	<u>13,592</u>
Total	<u>15,240</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- 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, 2021, the Company met these covenants.

Maturities of the loan by years are as follows:

<u>Year ended December 31,</u>	
2022 (current maturity)	<u>2,191</u>
Long-term portion:	
2023	2,191
2024	2,191
2025	2,191
2026	2,191
Thereafter	<u>76,946</u>
Total	<u>85,710</u>

- 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. 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 9:- 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 originally taken for a term of three (3) years, with an interest rate of Libor 30-day-rate plus 2.65%.

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 original loan maturity date is September 30, 2021. Optibase Inc. has the right to extend the maturity date to March 31, 2023 if no event of default has occurred and subject to certain other conditions. In September 2020, Optibase Inc. extended the maturity date to March 31, 2023. Optibase Inc. will pay the fee in amount equal to 2% of the amount of the deficiency if Optibase Inc. or its subsidiary, fail to maintain depository accounts totaling \$ 1,500, this covenant shall be measured for compliance annually, commencing December 2020, and continuing on December 31 of each calendar year thereafter. The securities for the loan include a restricted cash deposit of approximately \$ 550. In May 2020, Optibase Inc. repaid an amount of \$ 2,271, and in November 2021, Optibase Inc. repaid an amount of \$ 621. As of December 31, 2021, the loan in the amount of \$ 5,875 is presented under current maturities of long-term loans and bonds as the Company expects to sell the condominium units classified as properties held for sale during the upcoming year. As of December 31, 2021 Loan issuance costs of \$ 59 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, 2021, the Company met these covenants. On March 9, 2022, following the sale of condominium units the Company fully repaid the loan. For details regarding the condominium units sales, see Note 18b.

- e. For information regarding a loan received from the controlling shareholder, see Note 17b(4).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- 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 with respect to these bonds amounted to \$ 384 and were recorded as a direct deduction from the gross amount of the bonds. The debt issuance costs were amortized over the bond's term. As of December 31, 2021, following the payment of the last installment, the debt issuance costs were fully amortized.

As of December 31, 2021 the bonds were fully repaid.

NOTE 11:- 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 9a.

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, 2021, 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 11:- 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 to be paid quarterly until the maturity on June 1, 2022. As of December 31, 2021, 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On May 3, 2021, following a Supreme Court hearing, and the recommendation of the Supreme Court, the applicants withdrew the appeal, and the appeal was dismissed with prejudice.

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 SARL 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The parties were referred to mediation that ended without reaching a settlement. Preliminary hearing has been scheduled to May 27, 2020.

The parties have finished documents disclosure.

A court hearing is scheduled to November 2022 after submitting the affidavits.

At this stage the Company cannot provide an assessment as to the chances of the claim.

NOTE 12:- 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.

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 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.

As of December 31, 2021, the Company had no hedging instruments.

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 13:- 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 13:- TAXES ON INCOME (Cont.)

b. Corporate tax rates:

Israeli companies are generally subject to corporate tax on their taxable income. In 2021, 2020 and 2019 the corporate tax rate in Israel is 23%.

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 Luxembourg, Switzerland and the United States may be subject to the following statutory federal (approximate) tax rates:

	Year ended December 31,		
	2021	2020	2019
Luxemburg	29%	29%	29%
Zurich, Switzerland	21%	21%	21%
Geneva, Switzerland	14%	14%	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 subject to a tax audit for the years 2016 through 2019 by the Israeli Tax Authority ("ITA"). The Company received tax assessment for the years 2016 to 2019. The Company's management, based on a legal opinion received from its legal counsels, believes that it has adequately provided for any reasonably foreseeable outcome related to the ITA tax audit. The Company filed an appeal and requested a second review by the ITA for the years 2016 to 2019. Nevertheless, the ITA may disagree with the Company's position taken in the tax return, and the Company may be subject to additional tax liabilities.

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%, 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 13:- TAXES ON INCOME (Cont.)

Significant components of the Company and its subsidiary deferred tax assets are as follows:

	December 31,	
	2021	2020
Deferred tax assets:		
Net operating losses and other temporary differences	\$ 34,146	\$ 31,271
Lease provision	1,560	1,622
Other	186	199
Deferred tax assets	<u>35,892</u>	<u>33,092</u>
Deferred tax liabilities:		
Land	(5,543)	(5,734)
Building	(9,837)	(10,373)
Other	(3,877)	(3,553)
Distributable proceeds	(583)	(809)
Deferred tax liabilities	<u>(19,840)</u>	<u>(20,469)</u>
Valuation allowance	<u>(30,269)</u>	<u>(27,718)</u>
Deferred tax liabilities, net	<u>\$ (14,217)</u>	<u>\$ (15,095)</u>

e. Net operating losses carry-forward:

Through December 31, 2021, Optibase Ltd. had net operating losses carry-forward for tax purposes in Israel of approximately \$ 78,000 which may be carried forward and offset against taxable income in the future, for an indefinite period.

As of December 31, 2021, Optibase Inc. had U.S. federal net operating loss carry-forward of approximately \$ 59,000 that can be carried forward and offset against taxable income. Approximately \$ 12,000 of these carry-forward tax losses have no expiration date and Approximately \$ 47,000 can be carried forward and offset against taxable income for 20 years, no later than 2038. 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 13:- 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,		
	2021	2020	2019
Income before taxes as reported	\$ 3,679	\$ 13,657	\$ 3,920
Theoretical tax benefit computed at the statutory rate 23%	846	3,141	902
Foreign tax rates differences	(576)	(1,150)	101
Tax adjustments in respect of currency translation	-	-	7
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	280	842	465
Taxes for previous years	-	(23)	(40)
Other non-deductible expenses	181	(76)	37
Taxes on income	\$ 731	\$ 2,162	\$ 1,472

- g. Income before taxes on income consists of the following:

Domestic	\$ (2,296)	\$ 594	\$ (179)
Foreign	5,975	13,063	4,099
	\$ 3,679	\$ 13,657	\$ 3,920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- TAXES ON INCOME (Cont.)

- h. Income tax expenses (benefit) are comprised as follows:

	Year ended December 31,		
	2021	2020	2019
Current	\$ 1,133	\$ 2,184	\$ 1,612
Deferred	(402)	(22)	(140)
	<u>\$ 731</u>	<u>\$ 2,162</u>	<u>\$ 1,472</u>
Domestic	\$ (226)	\$ 809	\$ -
Foreign	957	1,353	1,472
	<u>\$ 731</u>	<u>\$ 2,162</u>	<u>\$ 1,472</u>

- i. As of December 31, 2021 the Company has an unrecognized tax benefit liability with respect to uncertain tax provision in the amount of \$ 711, which was fully offset against tax advances. The Company did not accrue penalties during the years ended December 31, 2021 and 2020.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals.

NOTE 14:- SHAREHOLDERS' EQUITY

- 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.
- On March 22, 2022, the Company's controlling shareholder and its affiliates, have successfully completed a full tender offer for the Company's ordinary shares (see Note 18a).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- FINANCIAL EXPENSES, NET

Financial income (expenses):

	Year ended December 31,		
	2021	2020	2019
Interest	\$ (1,329)	\$ (2,472)	\$ (2,546)
Re-measurement of derivatives	(322)	(73)	188
Foreign currency translation adjustments	10	764	(272)
	<u>\$ (1,641)</u>	<u>\$ (1,781)</u>	<u>\$ (2,630)</u>

NOTE 16:- 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, 2021, 2020 and 2019 and long-lived assets as of December 31, 2021, 2020 and 2019:

	2021		2020		2019	
	Total revenues	long-lived assets **)	Total revenues	long-lived assets **)	Total revenues	long-lived assets **)
Switzerland	\$ 12,738	\$ 167,733	\$ 12,499	\$ 175,956	\$ 11,975	\$ 162,422
Germany (*)	-	-	1,380	-	3,180	-
United States	1,199	9,189	995	16,098	989	18,687
Israel	-	131	-	240	-	312
Luxemburg	-	-	-	32	-	64
	<u>\$ 13,937</u>	<u>\$ 177,053</u>	<u>\$ 14,874</u>	<u>\$ 192,326</u>	<u>\$ 16,144</u>	<u>\$ 181,485</u>

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

**) Long-lived assets are comprised of real estate property, net and operating lease right of use assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17:- 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. See note 18a for further development on the Company's controlling shareholder.

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 17:- 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 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 extension of the lease agreement. The new lease is effective 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. As of December 31, 2021, there is an outstanding debt from the affiliated tenant related to the lease in the amount of \$ 253 included in trade receivables.

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.

4. 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. During the years ended December 31, 2020 and 2019 an amount of \$ 76 and \$ 205, respectively, was recorded as finance expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17:- MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS (Cont.)

5. 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.

NOTE 18:- SUBSEQUENT EVENTS

- a. On March 22, 2022, the Company's controlling shareholder and its affiliates, successfully completed a full tender offer for the Company's ordinary shares and purchased all of the Company's ordinary shares held by the Company's other shareholders. As a result, the Company's ordinary shares were delisted from NASDAQ on March 25, 2022.
- b. During the first quarter of 2022, the Company sold three apartment units in total consideration of approximately \$ 2,400, and two penthouses units in total consideration for approximately \$ 5,700. Following the last sale of the penthouse in March, 2022, the Company fully repaid the loan.

300 RIVER HOLDINGS, LLC
(a Delaware limited liability company)

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021

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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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, 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, 2022

300 River Holdings, LLC
(a Delaware limited liability company)

Consolidated Balance Sheets

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
ASSETS		
Real estate, net of accumulated depreciation	\$ 206,757,566	\$ 216,166,292
Cash	512,221	1,917,162
Segregated cash and other escrows	9,142,469	10,644,343
Tenant account receivable		
Current	392,060	447,818
Unbilled straight-line rent	22,231,510	19,618,007
Prepaid expenses and other assets	1,009,054	996,760
Deferred leasing costs, net of accumulated amortization of \$13,641,028 and \$11,279,299, respectively.	15,155,766	17,035,105
	<u>\$ 255,200,646</u>	<u>\$ 266,825,487</u>
LIABILITIES AND MEMBERS' DEFICIT		
Lease financing obligation, including accrued interest of \$5,403,056 and \$4,519,883, less unamortized value of deferred lease financing costs of \$8,594,785 and \$8,688,137, respectively.	\$ 216,808,271	\$ 215,831,746
Notes payable	17,000,000	17,000,000
Mortgage payable, net of unamortized deferred financing costs of \$560,311 and \$1,171,575, respectively	174,439,689	173,828,425
Accounts payable, accrued expenses and other liabilities	8,591,850	7,356,089
	<u>416,839,810</u>	<u>414,016,260</u>
Members' deficit	(161,639,164)	(147,190,773)
	<u>\$ 255,200,646</u>	<u>\$ 266,825,487</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,

	2021	2020	2019
Revenue:			
Base rent	\$ 25,782,568	\$ 25,362,370	\$ 25,091,596
Escalation and other income	20,259,896	20,534,157	17,333,020
Amortization of acquired below market leases	-	838,107	495,931
	<u>46,042,464</u>	<u>46,734,634</u>	<u>42,920,547</u>
Expenses:			
Depreciation and amortization	14,097,504	14,989,215	14,174,470
Operating expenses	12,601,202	14,354,171	13,158,869
Real estate taxes	7,903,669	6,769,280	7,901,058
Management fees	1,552,363	1,481,895	1,221,311
	<u>36,154,738</u>	<u>37,594,561</u>	<u>36,455,708</u>
Operating income	9,887,726	9,140,073	6,464,839
Interest including amortization of deferred financing costs of \$704,616, \$704,616, and \$704,616, respectively, and related party interest of \$2,028,000, \$1,870,373, and \$766,151, respectively.	<u>(24,336,117)</u>	<u>(24,059,995)</u>	<u>(22,660,043)</u>
Net loss	<u>\$ (14,448,391)</u>	<u>\$ (14,919,922)</u>	<u>\$ (16,195,204)</u>

See notes to consolidated financial statements

300 River Holdings, LLC
(a Delaware limited liability company)

Consolidated Statements of Members' Deficit

Balance - December 31, 2018	\$ (116,075,647)
Net loss	<u>(16,195,204)</u>
Balance - December 31, 2019	\$ (132,270,851)
Net loss	<u>(14,919,922)</u>
Balance - December 31, 2020	\$ (147,190,773)
Net loss	<u>(14,448,391)</u>
Balance - December 31, 2021	\$ (161,639,164)

See notes to consolidated financial statements

300 River Holdings, LLC
(a Delaware limited liability company)

Consolidated Statements of Cash Flows
Years Ended December 31,

	2021	2020	2019
Cash flows from operating activities:			
Net loss	\$ (14,448,391)	\$ (14,919,922)	\$ (16,195,204)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	14,802,120	15,693,831	14,879,085
Amortization of below market leases	-	(838,107)	(495,931)
Accrued interest on notes payable	-	-	(14,729)
Unbilled straight-line rental income	(2,613,503)	(2,992,403)	(5,967,786)
Lease financing obligation	883,173	843,594	809,910
Changes in assets and liabilities:			
Tenant accounts receivable	55,758	59,649	(197,772)
Prepaid expenses and other assets	(12,294)	(540,611)	(339,527)
Accounts payable, accrued expenses and other liabilities	989,579	(1,501,038)	3,980,206
Net cash used in operating activities	<u>(343,558)</u>	<u>(4,195,007)</u>	<u>(3,541,748)</u>
Cash flows from investing activities:			
Additions to leasing costs	(482,390)	(245,930)	(1,753,551)
Additions to real estate	(2,080,867)	(5,341,446)	21,947,030
Net cash used in investing activities	<u>(2,563,257)</u>	<u>(5,587,376)</u>	<u>(23,700,581)</u>
Cash flows from financing activities:			
Proceeds from notes payable	-	11,530,000	7,498,891
Repayment of notes payable	-	(5,228,891)	-
Net cash provided by financing activities	<u>-</u>	<u>6,301,109</u>	<u>7,498,891</u>
Decrease in cash, cash equivalents, and escrows	(2,906,815)	(3,481,274)	(19,743,438)
Cash, cash equivalents and escrows at beginning of year	12,561,505	16,042,779	35,786,217
Cash, cash equivalents and escrows at end of year	<u>\$ 9,654,690</u>	<u>\$ 12,561,505</u>	<u>\$ 16,042,779</u>
Supplemental disclosures of cash flow information:			
Interest paid	<u>\$ 22,768,328</u>	<u>\$ 22,538,552</u>	<u>\$ 21,158,942</u>
Supplemental disclosures of noncash investing activities:			
Accrued additions to real estate	<u>\$ 330,522</u>	<u>\$ 84,340</u>	<u>\$ 1,185,419</u>
Accrued additions to leasing costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,930</u>

The following table provides a reconciliation of cash, cash equivalents and escrows reported within the balance sheet:

	December 31, 2021	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 512,221	\$ 1,917,162	\$ 3,006,645
Segregated cash and other escrows	9,142,469	10,644,343	13,036,134
Total cash, cash equivalents and escrows shown in the statement of cash flows	<u>\$ 9,654,690</u>	<u>\$ 12,561,505</u>	<u>\$ 16,042,779</u>

Amounts included in segregated cash and other escrows as of December 31, 2021, 2020, and 2019 represent tenant security deposits, cash received through the Company's lockbox account and monies required to be set aside by the lender 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, 2021, 2020 and 2019

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, 2021, 2020 and 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization of deferred leasing costs for the next five years is approximately as follows:

Year Ending December 31,	Deferred Leasing Costs
2022	\$ 2,430,000
2023	2,324,000
2024	2,141,000
2025	2,082,000
2026	1,576,000

[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, 2021, 2020 and 2019.

[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 was 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 were amortized over the remaining non-cancelable lease term of each lease.

Below market lease values, an intangible credit, represented the unfavorable element of contractual rents below prevailing market rents for existing leases. Such credit was amortized over the estimated remaining term of the leases, including anticipated and estimated renewal periods (approximately 10 years).

In the event a tenant vacated prior to the end of their lease term, any unamortized intangible lease values associated with such lease were written off to operations as of the date of vacancy.

Notes to Consolidated Financial Statements
December 31, 2021, 2020 and 2019

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 collectability 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 uncollectable. 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, 2021 and 2020. 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, 2021, 2020, 2019.

[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, 2022, 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, 2021, 2020 and 2019

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 years ended December 31, 2021 and 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, 2021, and 2020 the Company’s real estate consisted of the following:

	December 31,	
	2021	2020
Leasehold interest	\$ 25,310,232	\$ 25,310,232
Building and improvements	177,320,972	177,320,972
Tenant improvements	104,498,559	102,171,510
Equipment	1,729,420	1,729,420
	308,859,183	306,532,134
Less: accumulated depreciation	(102,101,617)	(90,365,842)
	<u>\$ 206,757,566</u>	<u>\$ 216,166,292</u>

Depreciation expense was \$11,735,775 and \$12,234,003 for the years ending December 31, 2021 and 2020, respectively.

NOTE E - IN-PLACE AND OTHER LEASE VALUES AND BELOW MARKET LEASE VALUES

As of December 31, 2021, and 2020, the Company’s in-place and other lease values and below market lease values consisted of the following:

	December 31,	
	2021	2020
In-place and other lease values	\$ 39,462,415	\$ 39,462,415
Less: accumulated amortization	(39,462,415)	(39,462,415)
	<u>\$ -</u>	<u>\$ -</u>

	December 31,	
	2021	2020
Below market lease values	\$ (48,377,197)	\$ (48,377,197)
Less: accumulated amortization	48,377,197	48,377,197
	<u>\$ -</u>	<u>\$ -</u>

Notes to Consolidated Financial Statements
December 31, 2021, 2020 and 2019

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 5.02% through January 31, 2019, 5.11% through January 31, 2020, 5.21% through January 31, 2021 5.28% through January 31, 2022 and 5.42% thereafter, as a result of the change in CPI creating an increased minimum rent payment. Given the current effective rate of 5.28% 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, 2021, 2020 and 2019 the required minimum rent payments made by the Company were approximately \$10,970,000, \$10,814,000, and \$10,575,000 respectively. Total interest expense for the lease financing obligation for the years ended December 31, 2021, 2020 and 2019 was approximately \$11,853,000, \$11,658,000, and \$11,386,000 respectively.

NOTE G – MORTGAGE PAYABLE

	Rate	December 31,	
		2021	2020
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		(560,311)	(1,171,575)
		<u>\$ 174,439,689</u>	<u>\$ 173,828,425</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, 2021 and 2020 the total balance of these accounts was approximately \$6,819,000 and \$8,312,000, respectively.

The Company can prepay the Senior Notes without penalty.

Notes to Consolidated Financial Statements
December 31, 2021, 2020 and 2019

NOTE G – MORTGAGE PAYABLE (CONTINUED)

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, 2021 and 2020 the balance of this account was approximately \$2,323,000 and \$2,332,000, 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.

The Company is currently pursuing replacement financing and expects that it will be able to refinance the Senior Notes and Mezz Note prior to maturity.

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 \$2,040,000, \$1,919,000, and \$811,000 in 2021, 2020 and 2019, of which approximately \$2,028,000, \$1,870,000, and \$776,000, 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 three largest tenants in the Property (who collectively occupy approximately 34% of the building's rentable square footage during 2021) accounted for approximately 41% of the building's base rental income for the year ended December 31, 2021. The leases with such tenants expire from April of 2026 through June of 2031. For the year ended December 31, 2020, base rent from the two largest tenants in the Property (who collectively occupy approximately 17% of the building's rentable square footage during 2020) accounted for approximately 25% of the building's base rental income. For the year ended December 31, 2019, base rent from the two largest tenants in the Property (who collectively occupied approximately 25% of the building's rentable square footage during 2019) accounted for approximately 30% of the building's base rental income.

Notes to Consolidated Financial Statements
December 31, 2021, 2020 and 2019

NOTE I - TENANT LEASES (CONTINUED)

[3] As of December 31, 2021, future minimum rentals under the Company's operating leases with its tenants, for the next five years and thereafter are approximately as follows:

	Total	
2022	\$	26,007,000
2023		25,380,000
2024		23,577,000
2025		23,504,000
2026		21,215,000
Thereafter		72,082,000
	\$	<u>191,765,000</u>

NOTE J - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2021, 2020 and 2019 the Property was managed by an affiliate of a 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 \$1,552,000, \$1,482,000, and \$1,221,000 for the year ended December 31, 2021, 2020 and 2019 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, for each of the years ended December 31, 2021, 2020 and 2019 respectively. In addition, affiliates of the managing member were paid approximately \$253,000, \$223,000, and \$195,000, for the years ended December 31, 2021, 2020 and 2019, respectively, for consulting services provided to the Company. 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, 2022

OPTIBASE LTD.

By: /s/ Amir Philips

Name: Amir Philips

Title: Director and Chief Executive Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
1.1	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).
1.2*	Amended and Restated Articles of Association of Optibase Ltd.
2.1*	Description of Share Capital.
4.1	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).
4.2	Framework Agreement between Eldista GmbH and CREDIT SUISSE (Switzerland) Ltd, dated January 8, 2020 (incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2020).
4.3	Security Agreement between Eldista GmbH and CREDIT SUISSE (Switzerland) Ltd, dated January 8, 2020 (incorporated by reference to Exhibit 4.8 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2020).
4.4	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).
4.5	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).
4.6	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).
4.7	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 (incorporated by reference to Exhibit 4.18 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2020).
4.8	Compensation Policy of Optibase Ltd. as amended on November 24, 2021 (incorporated by reference to Annex A to the Registrant's Report on Form 6-K dated November 24, 2021).
4.9	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 (incorporated by reference to Exhibit 8.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2020).
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.
101*	The following financial information from Optibase Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2020 and 2021; (ii) Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2021, 2020 and 2019; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019; and (vi) Notes to Consolidated Financial Statements.

* Filed herewith

THIS VERSION IS AN UNOFFICIAL TRANSLATION OF THE ARTICLES OF ASSOCIATION
THE HEBREW LANGUAGE FOR CONVENIENCE PURPOSES ONLY. THE BINDING VERSION
OF THIS ARTICLES OF ASSOCIATION IS IN THE HEBREW LANGUAGE.

Articles of Association

Of

Optibase Ltd.

(the "Company")

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First Chapter – General

1. Introduction

Each one of the words specified hereafter shall have the meaning in these Articles of Association that appears next to it:

Law-	The provisions of any law which applies in the State of Israel.
Administrative Proceeding-	A proceeding under Chapters H'3 (Imposition of a Monetary Sanction by the Securities Authority), H'4 (Imposition of Administrative Enforcement Measures by the Administrative Enforcement Committee) or I'1 (Arrangement to Refrain from Instituting Proceedings or Terminating Proceedings, subject to conditions) of the Securities Law, 5729 -1969, as amended from time to time.
The Companies Law-	The Companies Law, 5759 – 1999.
The Securities Law-	The Securities Law, 5728 – 1968.
Business Day-	Sundays – Thursdays in the week, except for Jewish Holidays, eves of holidays and official statutory holidays in the State of Israel.
Writing-	Print and any other form of the printing of words including documents which have been transferred in writing by facsimile, by telegram, telex, electronic mail, computer or by any other communication media, which produces or makes possible the production of a copy and/or printed extract of the document.
Securities-	Shares, bonds, capital notes, securities convertible into shares and rights of each of the aforesaid, that the Company issued.
Incompetent-	A person who was declared as incompetent in accordance with the Law of Legal Competence and Guardianship, 5722-1962.
Simple Majority-	A majority of more than half of the votes of the shareholders entitled to vote and who voted themselves or by proxy, except for those who abstained.
Articles of Association-	The Articles of Association of the Company as worded here or as lawfully amended from time to time, whether expressly or according to any law.
The Companies Regulations-	Regulations that were enacted by virtue of the Companies Law and/or by virtue of the Companies Ordinance.
Securities Regulations-	Regulations that were enacted by virtue of the Securities Law

In these Articles of Association, the reference to any organ or officer is to those of the Company.

The provisions of sections 3-10 of the Interpretation Law 5741- 1981, shall apply, mutatis mutandis also on the interpretation of these Articles of Association, provided there is no other provision with respect to this matter and if there is nothing in this matter or in its context that does not fit the application of this law.

Except for the aforesaid in this section, each word and expression in these Articles of Association shall have the meaning known for them in the Companies Law, and if no meaning is known for them in the Companies Law then their meaning shall be the meaning known for them in the Companies Regulations, and if they do not have any meaning as mentioned above, then their meaning shall be the meaning known for them in the Securities Law, and if they do not have any meaning as mentioned above, then their meaning shall be the meaning known for them in the Securities Regulations, and if they don't have any meaning as mentioned above, then their meaning shall be the meaning known for them in any other law, provided nothing in the meaning given to them as mentioned above contradicts the context in which the word or expression appears as mentioned above or the objective of the relevant provision in these Articles of Association.

In the event these Articles of Association refer to a provision of the law, and this provision has been amended or canceled, this provision shall be considered valid as if it was a part of these Articles, unless as a result of the said amendment or cancellation this provision is not valid.

The provisions of these Articles of Association add to and supersede the provisions stipulated in the Companies Law. In any event that a provision of these Articles of Association contravenes what is permitted according to law, the provisions of these Articles of Association will be interpreted as much as possible in accordance with the provisions of the law.

2. Private Company

The Company is a private company.

3. Donations

The Company is entitled to donate donations even if the donation is not within business considerations.

4. Objectives of the Company

The Company shall engage in any legal business.

5. Limitation of Liability

The liability of the shareholders in the Company is limited, each one to the full payment of the amount he undertook to pay for the shares allotted to him at the time of the allotment.

6. Amending the Articles of Association

- 6.1. Unless otherwise provided in relation to a particular provision of these Articles of Association the Company may amend any provision of these Articles of Association or replace it with another provision by a resolution adopted at the General Meeting with a simple majority of the shareholders entitled to vote and who voted themselves.
- 6.2. Notwithstanding the provisions of section 6.1, where a provision of these Articles of Association determines any majority required for a resolution of the Board of Directors or of the General Meeting, this provision may not be modified or amended except by a resolution adopted at the Board of Directors or the General Meeting, as applicable, with the majority stipulated in that provision.

Second Chapter – Share Capital of the Company.

7. The Share Capital

- 7.1. The registered share capital of the Company is NIS 3,900,00 divided into 6,000,000 ordinary shares of a par value of NIS 0.65 each (hereinafter: “Share”, “Ordinary Share”, “Shares”, or “Ordinary Shares”, as applicable). Each share confers the right to receive invitations, to participate and to vote in the General Meetings. A shareholder will have one vote for each share he owns. All shares have equal rights between them with regard to the amounts of capital that were paid or were credited as paid for them, with respect to dividends, distribution of bonus shares and any other distribution, to a refund of the capital and to participation in the distribution of the surplus of the Company’s assets upon liquidation.
- 7.2. The provisions of these Articles of Association regarding shares, shall apply also to other securities which the Company shall issue, mutatis mutandis.

8. Issuing Shares and other Securities.

8.1. Offer to the Public

The Company will not offer securities or bonds to the public.

8.2. The Number of Shareholders in the Company

The number of shareholders in the Company will not exceed 50. The count of the shareholders will be as provided in the Companies Law.

8.3. Redeemable Securities

The Board of Directors of the Company may issue redeemable securities, with rights and subject to conditions as shall be determined by the Board of Directors.

9. Register of Shareholders of the Company and Issuing Share Certificates

- 9.1. The Company’s secretary or whoever was appointed for this by the Board of Directors shall be responsible for administering a Register of Shareholders. A shareholder is entitled to receive from the Company, free of charge, within two months after the allotment or registration of the transfer (unless the allotment conditions determine a different period) one certificate or a number of certificates, according to the Company’s decision, regarding all the shares of a specific class registered in his name, which shall specify the number of shares, the class of shares (is existing) and any other additional detail which is important according to the opinion of the Board of Directors. In the event of a jointly held share, the Company shall not be required to issue more than one certificate for the joint holders, and delivering such certificate to one of the joint holders shall be considered as if it was delivered to all of them.
- 9.2. The Board of Directors may close the Register of Shareholders for a total period of 30 days each year.
- 9.3. Each certificate shall be stamped with a Company seal or stamp or its printed name and it shall bear the signatures of one director and the Company’s secretary, or of two directors or any other person that was appointed by the Board of Directors for this purpose.
- 9.4. The Company is entitled to issue a new certificate in the place of a certificate that was issued and lost or ruined or destroyed, based on proof and guarantees as shall be required by the Company, and after payment of any amount that will be determined by the Board of Directors and the Company is entitled in accordance with a decision of the Board of Directors to replace existing certificates with new certificates without payment and subject to the terms to be determined by the Board of Directors.

- 9.5. When two people or more are registered as joint shareholders, each one is entitled to confirm the receipt of dividends or other payments with respect to such share and his confirmation shall bind all the holders of the share.
- 9.6. The Company is entitled to recognize a shareholder as a trustee, and to issue share certificates in the name of the trustee, provided the trustee notified the Company regarding the identity of the beneficiary of the trust. The Company shall not be required to recognize the right based on the rules of equity or a conditional right, or a right in the future, or a partial right in a share, or any other right with respect to a share, except for the absolute right of the registered shareholder of each share, unless this is based on a judicial decision or according to the requirements of any law.

10. Transfer of Shares in the Company

- 10.1. The shares in the Company are transferable subject to the approval of the Board of Directors. Notwithstanding the aforesaid, an approval of the Board of Directors to transfer shares to a receiver or trustee to realize a pledge on the Company's shares or to the purchaser of the shares in a realization proceeding as mentioned, is not required provided that the Company's Board of Directors approved the pledge of the shares.
- 10.2. A transfer of shares shall not be registered unless a transfer document of the shares has been submitted to the Company (hereinafter: "Transfer Document"). The Transfer Document shall be in the following form or similar form as much as possible or in a different form that will be approved by the Board of Directors.

Transfer Certificate

I, _____, I.D./corporate number _____ (hereinafter: the "Transferor") from _____ transfer to _____ I.D./corporate number _____ (hereinafter: the "Transferee") from _____ in consideration of the sum of NIS _____ which has been paid to me _____ shares _____, marked by the numbers _____ until _____ inclusive of _____ Ltd., (hereinafter: the "Company"), and they shall be held by the Transferee, his executors, , guardians and those on his behalf, according to the conditions according to which I held the share at the time I signed this document, and I the Transferee, do hereby agree to receive the said shares subject to the above mentioned conditions and subject to the Articles of Association of the Company, as shall be from time to time.

In witness whereof we hereby signed on the _ day of the month _____, year _____

The Transferor
 Name: _____
 Signature: _____
Witness of the Transferor's Signature
 Name: _____, Adv.
 Signature: _____

The Transferee
 Name: _____
 Signature: _____
Witness of the Transferee's Signature
 Name: _____, Adv.
 Signature: _____

- 10.3. The transfer of shares which are not fully paid, or shares on which the Company has a lien or pledge, shall not be valid unless approved by the Board of Directors which may, according to its complete discretion refuse to register such transfer, without giving any reason for such refusal.
- 10.4. The Board of Directors is entitled to refuse to transfer shares and the Board of Directors is entitled to set a condition for the transfer of shares by an undertaking of the Transferee, to the extent and in a manner as shall be determined by the Board of Directors, to pay the Transferor's obligations for the shares or his obligations for which the Company has a lien or pledge on the shares.

- 10.5. The Transferor shall continue to be considered the shareholder of the transferred shares until the name of the Transferee shall be registered in the Register of Shareholders of the Company.
- 10.6. The transfer document shall be submitted to the office for registration, including the certificates in which the shares are registered, which are to be transferred (if issued) and any other proof which the Company shall demand regarding the ownership right of the Transferor in the shares or his right to transfer them. The transfer documents will remain with the Company. The Company will not be required to keep the transfer documents and the share certificates that were canceled.
- 10.7. A shareholder who jointly holds a share with others who wishes to transfer his rights in a share but does not hold a share certificate, shall not be required to attach the share certificate to the transfer document provided that the transfer document shall mentioned that the transferor does not hold the share certificate for the respective share whose right in it is being transferred and that the transferred share is held jointly with others, including their details.
- 10.8. The Company may demand payment of a fee for registering the transfer by an amount or rate that will be determined by the Board of Directors from time to time.
- 10.9. Upon the death of a shareholder the Company shall recognize the guardians or executors, administrators of the will, and if these do not exist, the legal heirs of the shareholder as the only holders of rights to the shares of the shareholder, and this is after his entitlement to this has been proven, as shall be determined by the Board of Directors.
- 10.10. In the event of the death of a shareholder who held shares jointly with others, the Company shall recognize the one that remained alive as the shareholder regarding the said shares, unless all the joint shareholders of the share notified the Company in writing before the death of any of them of their wish that the provisions of this article shall not apply, however this shall not exempt the estate of the joint holder of the share from any obligation he would have owed had he not died.
- 10.11. A person acquiring a right to shares due to him being guardian, executor, heir of such shareholder, receiver, liquidator or trustee in bankruptcy proceedings of such shareholder or in accordance with any other law, may, when providing proof regarding his right, as the Board of Directors shall require, be registered as the shareholder or transfer them to another person, subject to the provisions of these Articles with respect to such transfer.
- 10.12. A person acquiring a right to a share as a result of its transfer by law, shall be entitled to dividends and other rights in respect of the share and he shall be entitled to receive and to give receipts for dividends or other payments paid in connection with such share, however he shall not be entitled to receive notices regarding General Meetings of the Company,(to the extent that such right exists) and to participate or vote in them in connection with such share or to use any right, which is conferred by such share, except for the aforesaid, until after he has been registered in the Register of Shareholders.

11. Pledge on Shares

- 11.1. The Company shall have a first pledge and lien on all shares which have not been fully paid up, which are registered in the name of each shareholder, and on the consideration from their sale, with respect to monies (whether or not their due date has actually arrived or not), for which payment thereof has already been called or that are about to be paid at a set time for these shares.

Furthermore, the Company shall have a first pledge and lien on all the shares (except for shares that have been fully paid) registered in the name of each shareholder to ensure the monies due from him or from his assets, whether these are his own debts or joint debts with others.

This said pledge shall also apply to the dividends that have been declared from time to time with respect to such shares.

- 11.2. For the realization of the pledge and lien, the Board of Directors may sell the shares, to which the pledge applies, or any part thereof, as they shall see fit. Such sale shall not be made until after a written notice has been delivered to these shareholders regarding the Company's intention to sell the shares, and the amounts have not been paid within fourteen days after the notice. The net consideration from each such sale, after payment of expenses of the sale, shall be used for settling the debts or liabilities of such shareholder and the balance (if any) shall be paid to the shareholder.

If shares have been sold for the purpose of realizing a pledge or lien supposedly using the powers conferred above, the Board of Directors may register these shares in the Register of Shareholders in the name of the purchaser, and the purchaser will not have to check the legality of the actions or the manner in which the purchase price is used. After the said shares have been registered in the Register of Shareholders in the name of the purchaser, no one will not have the right to appeal the validity of the sale.

Third Chapter – General Meetings

12. Annual and Special General Meetings and Class Meetings

12.1. Annual Meetings

12.1.1. An annual meeting will be held at the registered offices of the Company, unless otherwise determined by the Board of Directors.

12.1.2. The Company may not hold an annual meeting, except to the extent necessary for the appointment of an auditor.

12.2. Shortening the Duration of the Notice of Convening a General Meeting

A meeting may be convened by a shorter notice than prescribed in the Companies Law, if the consent of all shareholders entitled at that time to receive notices has been given. Consent as aforesaid may be given in writing retroactively, even after the meeting has taken place.

12.3. Not Attaching Financial Statements

The Company's financial statements will not be attached to the notice of convening an annual meeting, however they can be viewed in the 7 days prior to the annual meeting at the Company's registered office during normal business hours, or elsewhere and at other times if this was mentioned in the notice.

13. Voting of Shareholders

13.1. Written Resolution

Subject to the provisions of any law, a valid resolution shall be - any written resolution, signed by all the holders of the Company's issued shares at the time of adopting the resolution which entitle their owners to attend and vote at General Meetings of the Company, or of the class of shares to which the resolution relates, as applicable, and it will be valid for any purpose and matter as a resolution that was adopted in the Company's General Meeting or of that class of shareholders, as applicable, which was duly summoned and convened for the purpose of adopting such resolution.

Such resolution can be included in a number of documents in the same wording, each of which is signed by one shareholder or by several shareholders.

13.2. The Record Date for Participation and Voting

The shareholders entitled to participate and vote at that General Meeting will be the shareholders registered in the Register of Shareholders of the Company at the time of the meeting or as determined in the notice of convening the meeting.

13.3. A Debtor's Right to Participate and Vote in Respect of Shares

A shareholder shall not be entitled to participate and vote at any General Meeting or to be considered in the count of those present, as long as he owes the Company payment called for the shares held by him, unless the terms of the issuance of the shares provide otherwise.

13.4. Voting by an Incompetent Person

An incompetent person may vote only by a trustee, natural guardian, or other legal guardian. These people may vote by themselves or by proxy.

13.5. Voting by Joint Holders of a Share

Where two or more shareholders are joint shareholders in a share, one of them shall vote, either by himself or by proxy. If more than one partner shall wish to participate in the vote the first partner only will be able to vote. For this purpose, the first partner will be considered, the person whose name is first registered in the Register of Shareholders.

13.6. Fault

An immaterial fault in the convening or conducting of the General Meeting, including a fault resulting from non-compliance with a provision or condition set forth in the law or the Company's Articles of Association, including with respect to the manner of convening or conducting the General Meeting, shall not invalidate any resolution adopted at the General Meeting and it will not prejudice the discussions held in it.

14. The Appointment of a Proxy to Vote

14.1. Voting by Proxy

A shareholder registered in the Register of Shareholders is entitled to appoint a proxy to participate and vote in his place, whether in a specific General Meeting or generally in the General Meetings of the Company in general, provided the authorization document of the appointment of the proxy has been delivered to the Company at least two business days before the time of the General Meeting. A proxy is not required to be a shareholder in the Company.

If the authorization document is not for a specific General Meeting, then the authorization document that was deposited before one General Meeting shall be in force also for other General Meetings after it.

The aforesaid shall also apply to a shareholder that is a corporation, which appoints a person to participate and vote in its place in the General Meeting.

14.2. Wording of the Authorization Document

The authorization document shall be signed by the shareholder or a person authorized to do so in writing, and if the appointor is a corporation it shall sign in a manner binding the corporation. The Company is entitled to demand to receive a written authorization to its satisfaction regarding the power of the signatories to bind the corporation. The authorization document shall be worded in the following form. The secretary of the Company or the Board of Directors of the Company shall be entitled, at its discretion, to accept a modified version of the authorization document, provided the modifications are not material. The Company shall only an original authorization document or a copy thereof, provided it shall be certified by a notary or a lawyer licensed to practice in Israel.

Authorization Document

To _____ date: _____
[name of the Company]
Address of Company]
Dear Sirs,

Re: The Annual/Special General Meeting of _____ (the "Company") which be held on the day _____ (the "Meeting").

I the undersigned, _____ ID number/ registration number _____, of _____, being a shareholder of _____ (*) ordinary shares hereby appoint _____ ID number (**) _____ and/or _____ ID number _____ and/or _____ I.D. number _____ to participate and vote in my name and on my behalf at the meeting referred to above or at any adjourned meeting of the said meeting of the Company/at any General Meeting of the Company, until I notify you otherwise.

Signature

(*) A registered shareholder can grant a number of authorization documents, each one of them relating to a different number of Company shares held by him, provided he shall not give authorization documents for a number of shares larger than the amount held by him.

(**) In the event a proxy does not hold an Israel identity card, his passport number must be mentioned and the country granting the passport.

14.3. The Validity of an Authorization Document- Voting according to an authorization document shall be legal eve if the appointor previously passed away, became incompetent or bankrupt, or in the case of a corporation – it liquidated, or he canceled the authorization document or transferred the share in respect of which it was given, unless a written notice was received at the Company's offices before the meeting that such an event has occurred.

14.4. Disqualification of an Authorization Document- Subject to the provisions of the law, the Company's secretary shall be authorized, according to his discretion, to disqualify authorization documents if there is reasonable concern that they are forged or that were given by virtue of shares which gave other authorization documents by their virtue.

Fourth Chapter – the Board of Directors

15. The Appointment of Directors and the Termination of their Office

- 15.1. Number of Directors - The number of directors in the Company shall be not less than one (1) and not more than five (5), unless it was decided otherwise by the General Meeting. In the event that the Board of Directors consists of only one director, the provisions of these Articles of Association shall change accordingly that naturally relate to a Board of Directors that consists of two directors and more.
- 15.2. Appointing directors at a special meeting - A special meeting of the Company may appoint directors to the Company in place of directors whose term of office has been terminated and, in any case, where the number of the members of the Board of Directors has decreased from the minimum set in the Articles of Association or by the General Meeting. Such appointment shall be valid until the next annual meeting, unless it is determined otherwise in the appointment decision.
- 15.3. Appointment of directors by the Board of Directors - The directors have the right, at any time, in a resolution that was approved by a majority of the directors in the company to appoint any person as a director subject to the maximum number of directors stipulated in these articles, whether to fill a vacancy or as an addition to the Board of Directors and to terminate his term of office. Any director so appointed shall serve until the next annual meeting and may be re-elected, unless his term of office has been terminated by the Board of Directors or by the General Meeting.
- 15.4. Validity of the appointment - The elected directors shall take office starting from the end of the General Meeting at which they were elected or at the time of their appointment by the Board of Directors as stated in section 15.3 above, as applicable, unless a later date is set in the decision on their appointments.
- 15.5. Substitute director - A director may from time to time appoint for himself a substitute director (hereinafter: “**Substitute Director**”), dismiss such Substitute Director, and also appoint another Substitute Director in place of any Substitute Director whose office has been vacated for any reason, whether for a specific meeting or permanently. A director may appoint as a Substitute Director a person who serves as a director or as a Substitute Director.
- 15.6. Implications of the termination of the term of office of a director on the actions of the Board of Directors – In the event that the office of a director becomes vacant, the remaining directors will be entitled to continue to act as long as the number of directors remaining does not fall below the minimum number of directors set by the Articles of Association or by the General Meeting.

In the event that the number of directors has become less than the aforesaid, the remaining directors will be entitled to act solely to convene a General Meeting of the Company.
- 15.7. Convening a meeting by means of communication - In a meeting that took place through the use of any means of communication, it is sufficient that all the directors entitled to participate in the discussion and in the vote will participate in the meeting.

16. Chairman of the Board of Directors

Appointment- In the appointment resolution the period in which he will serve. If not determined otherwise in the appointment resolution, the Chairman shall serve until another one is elected in his place or until he ceased to serve as director, whichever is earlier. If the Chairman of the Board of Directors has ceased to serve as a director in the Company, the Board of Directors shall elect a new chairman, in the first meeting of the Board of Directors that shall be held afterwards.

17. The Directors' Actions

- 17.1. Summoning a Meeting of the Board of Directors - Any notice regarding a meeting of the Board of Directors can be given orally or in writing provided that notice shall be given at least two business days prior to the time scheduled for the meeting, unless all member of the Board of Directors or their substitutes or their attorneys have agreed to a shorter notice. Such notice shall be delivered in writing by facsimile, by electronic mail or by other means of communications all to the address or the facsimile number or the electronic mail address or the address to which notices may be sent by other means of communications, as applicable, that the director gave upon his appointment, or by written notice to the Company afterwards.

17.2. The Validity of the Board of Directors' Actions in the Event of a Disqualified Director - All actions done in good faith at any meeting of the Board of Directors or of a committee of the Board of Directors or by any person acting as a director shall be valid, even if it shall be discovered afterwards that the appointment of such director or acting person was faulty or such a person acting as said above or any other them were disqualified, as if such person was lawfully appointed and was competent to serve as director.

Fifth Chapter- Officers in the Company (who are not Directors), Auditing Accountant

18. Appointing Officers and other Position Holders

The general manager (or the CEO) will appoint and dismiss officers in the Company except for directors and a general manager, and it will determine the terms of their employment, unless it is determined otherwise by the Board of Directors.

The Board of Directors may decide that additional officers shall be appointed and dismissed by it, whether in general or in a particular case. In such a case, the Board of Directors will appoint the position holder, define his role and powers, as well as determine his salary and working conditions.

19. Secretary

The Board of Directors may appoint a secretary to the Company, under such terms as it deems appropriate, and appoint a deputy secretary and determine the areas of their duties and powers. If a secretary was not appointed to the Company, the general manager, or whoever he authorizes, and in the absence of a general manager, whoever is authorized to do so by the Board of Directors, will perform the duties assigned to the secretary according to any law, according to these Articles of Association and according to the decision of the Board of Directors.

The company secretary will be responsible for all the documents that will be kept in the Company's registered office and will administer the records that the Company administers according to law.

20. Auditing Accountant

Subject to the provisions of the Companies Law the General Meeting may appoint an auditor for a period of over a year as shall be decided by the General Meeting.

The Board of Directors shall determine the remuneration of the auditor of the Company for an auditing action and his remuneration for the additional services that are not an auditing action, unless decided otherwise by the General Meeting of the Company.

21. Dividends and Bonus Shares

21.1. The Right to Dividends and Bonus Shares

- 21.1.1. A dividend or bonus share shall be distributed to whoever is registered in the Register of Shareholders of the Company at the time of the resolution regarding the distribution or at a different time that shall be decided in that same resolution (hereinafter the “**Record Date**”).
- 21.1.2. All the dividends and bonus shares on shares that were not fully paid within any period for which the dividends are paid or the bonus shares are distributed, will be distributed in proportion to amounts that were paid or credited as paid on the par value of these shares value during any part of the said period (Pro Rata Temporis).

21.2. Payment of the Dividend

21.2.1. The Method of Payment

If other instructions were not given in the resolution to distribute dividends, it shall be permitted to pay each dividend after deducting the tax required according to any law by a check payable to the beneficiary only which shall be sent by registered mail according to the registered address of the shareholder entitled to it, or by bank transfer. Any check as mentioned shall be drawn up to the order of the person to whom it is sent. Actual dividends shall be distributed as shall be determined in distribution resolution.

In the event of registered joint holders, the check shall be sent to the same shareholder whose name is registered first in the Register of Shareholders with respect to the joint ownership.

Sending a check to a person, who at the record date is registered in the Register of Shareholders as the holder of a share, or in the event of joint holders – to one of the joint holders, shall serve as a release regarding all the payments made with respect to such share.

The Company is entitled to decide not to send a check under a specific amount, and the dividend amounts that were supposed to be paid shall be regarded as a dividend which was not claimed.

The Company is entitled to offset from a dividend amount to which a shareholder is entitled any debt of the shareholder to the Company, whether the due date has arrived or not.

21.2.2. Unclaimed Dividend

The Board of Directors is entitled to invest any amount of dividend which was not claimed for the duration of one year after it was declared or to use it in another manner for the benefit of the Company until it is claimed. The Company shall not be required to pay interest or linkage for a dividend which was not claimed.

21.3. Profits Capitalization Method and the Distribution of Bonus Shares

21.3.1. Funds

The Board of Directors may, at its discretion, deposit into special funds any amount of the Company’s profits, or from an estimation of its assets, or a relative part in the estimated assets of companies that are affiliated to it and to determine the purpose of these funds. The Board of Directors may also cancel such funds.

21.3.2. Distribution of Bonus Shares

For the purpose of distributing bonus shares the Board of Directors may settle any difficulty as it sees fit, which may arise and to make adjustments, including to decide that fractional shares shall not be distributed, to issue certificates for an accumulated amount of fractional shares and to sell the fractions and to pay their consideration to those entitled to receive the fractional bonus shares and to decide that payment in cash shall be paid to the shareholders, or that fractions with a value of less than an amount to be determined (and if it is not determined then whose amounts is less than 50 NIS) shall not be taken into account in order to make such adjustments as mentioned above.

Chapter Seven – Indemnification and Insurance of Officers

22. Exemption of Officers

The Company may exempt an officer retroactively from his liability, all or in part, due to damage as a result of a breach of a duty of care towards it at the maximum extent permitted according to any law.

23. Indemnification of Officers

- 23.1. The Company may indemnify its officers to the maximum extent permitted by any law. Without derogating from the generality of the aforesaid, the provisions hereafter shall apply.
- 23.2. The Company may indemnify an officer in it due to an obligation or expense imposed on him or incurred by him as a result of an action, he performed by virtue of him being an officer in it, as set forth hereafter:
 - 23.2.1. A financial liability imposed on him in favor of another person according to a judgment, including a judgment rendered in a settlement or an arbitral award approved by a court.
 - 23.2.2. Payment to a victim of a violation as stated in section 52 54 (a) (1) (a) of the Securities Law, 5728- 1968 (hereinafter: "**Victim of a Violation**").
 - 23.2.3. Reasonable litigation expenses, including attorney's fees, incurred by the officer due to an investigation or proceeding conducted against him by the authority authorized to conduct an investigation or proceeding, and which ended without an indictment being filed against him and without a financial liability being imposed on him as an alternative to a criminal proceeding, or which ended without an indictment being filed against him but with the imposition of a financial liability an alternative to a criminal proceeding in an offense that does not require proof of mens rea or that he incurred in connection with a monetary sanction.
 - 23.2.4. Expenses that he incurred in connection with an administrative proceeding that was conducted in his case, including reasonable litigation expenses, including legal fees.
 - 23.2.5. Reasonable litigation expenses, including attorney's fees, incurred by the officer or charged by a court, in a proceeding filed against him by the Company or on its behalf or by another person, or a criminal charge from which he was acquitted, or a criminal charge for which he was convicted for an offense that does not require proof of mens rea.
 - 23.2.6. Any liability or other expense for which it is permitted or it will be permitted according to law to indemnify an officer.

23.3. Indemnification in Advance

The Company may give an undertaking in advance to indemnify an officer in it due to liability or an expense as set forth in section 23.2.1. above, provided that the undertaking to indemnify is limited to events which in the opinion of the Board of Directors are expected in light of the Company's actual activity when granting the undertaking to indemnify and to the amount or criterion that the Board of Directors has determined are reasonable in the circumstances of the matter, and that in the undertaking to indemnify the events which in the opinion of the board of directors are foreseeable on light of the company's actual activities when giving the undertaking to indemnify will be mentioned and the amount and the criteria which the board of directors determined to be reasonable in the circumstances of the matter. Furthermore, the company may give an advance undertaking to indemnify an officer in it due to liabilities or an expense as specified in sections 23.2.2- 23.2.6 above.

23.4. Retroactive Indemnification

The Company may indemnify an officer of the Company retroactively.

24. Insurance of Officers

- 24.1. The Company may insure an officer of the Company to the maximum extent allowed according to any law. Without derogating from the generality of the aforesaid, the Company may enter into an insurance contract for insuring the liability of an officer in the Company due to an obligation that will be imposed on him following an action he performed by virtue of his position as an officer in the Company, and each of the following:
- 24.2. A breach of the duty of care towards the Company or towards another person;
- 24.3. A breach of the duty of trust towards the Company, provided that the officer acted in good faith and had a reasonable basis to assume that the action would not harm the Company's interests.
- 24.4. Payment to a victim of a breach;
- 24.5. Expenses he incurred in connection with an administrative proceeding conducted in his case and/or in connection with a monetary sanction, including reasonable litigation expenses, including legal fees.
- 24.6. A monetary liability imposed on him in favor of another person.
- 24.7. Any other event for which it is permitted or it will be permitted according to law to insure the liability of an officer.

25. Exemption, Indemnification and Insurance – General

- 25.1. The provisions with respect to exemption, indemnification and insurance, do not intend to and will not limit the Company in any way in its engagement in a contract for exemption, insurance or indemnification of those set forth hereafter:
 - 25.1.1. Those who are not officers of the Company, including employees, contractors or consultants of the Company, who are not officers of the Company;
 - 25.1.2. Officers in other companies. The Company shall be entitled to enter into a contract for the exemption, indemnification and insurance of officers in companies under its control, related companies or other companies in which it has any interest, to the maximum extent permitted by any law, and the provisions above regarding the exemption, indemnification and insurance of officers of the Company shall apply to this matter, mutatis mutandis.
- 25.2. It is clarified that in this chapter, an undertaking in relation to an exemption, indemnification and insurance as mentioned for an officer may be valid even after the officer ceases to hold office in the Company.

Eighth Chapter – Merger, Liquidation, Reorganization of the Company

26. Merger

Notwithstanding the provisions of the Companies Law, the majority required for approval of a merger by the General Meeting, or a class meeting shall be a majority of at least 75% of the votes of shareholders entitled to vote and who have voted themselves. Any change or amendment of this section shall be subject to a resolution of the General Meeting by the same majority as set forth above in this section.

27. Forced Purchase

Notwithstanding the provisions of the Companies Law, the proportion of shares whose holders must agree to an offer to purchase shares in the Company will be 90% of the shares to be transferred. Any change or amendment of this section shall be subject to a resolution of the General Meeting by the same majority as set forth above in this section.

28. Liquidation

- 28.1. If the Company is liquidated, voluntarily or otherwise, the liquidator may, with the approval of a General Meeting, divide among the shareholders parts of the Company's property, and he may, with a similar approval, deposit any part of the Company's property in the hands of trustees in favor of the shareholders as the liquidator with the approval mentioned above shall deem fit.
- 28.2. Subject to special rights of shares, if shares have been issued with special rights, the Company's shares have equal rights with respect to the amounts of capital paid or credited as paid on the par value of the shares, in respect of the return of the capital and participation in the distribution of the Company's surplus assets upon liquidation.

29. Reorganization of the Company

- 29.1. When selling the property of the Company, the Board of Directors, or the liquidators (in the case of liquidation), if permitted to do so in a resolution adopted by the General Meeting of the Company, may receive shares paid in full or in part, bonds or securities of another company, Israeli or foreign, whether incorporated or about to be incorporated for purchasing the Company's property, or part thereof, and the directors (if the Company's profits allow this) or the liquidators (in the event of a liquidation), may distribute among the shareholders the shares or securities mentioned above or any other property of the Company without realizing them or depositing them with trustees for the shareholders. Any change or amendment of this section requires a resolution of the General Meeting by the same majority as set forth above in this section.
- 29.2. The General Meeting may, in a resolution adopted by the General Meeting of the Company by a simple majority, decide on the valuation of the securities or property mentioned above at the same price and in the same manner as the General Meeting shall decide, and all shareholders shall be required to accept any valuation or division that was permitted as mentioned above and to waive their rights in this matter, except, in the event that the Company is about to be liquidated or is in the process of liquidation, those legal rights (if any) which according to the provisions of the law may not be changed or objected to. Any change or amendment of this section requires the decision of the General Meeting by the same majority as set forth above in this section.

30. Notices

- 30.1. A notice or any other document may be delivered by the Company to any shareholder appearing in the Company's Register of Shareholders, either in person or by delivery by registered mail addressed to that shareholder's registered address in the Register of Shareholders or according that same address that the shareholder gave in writing to the Company as an address for delivering notices.
- 30.2. All the notices to be given to the shareholders shall be given in respect of the shares whose holders are joint holders, to the same person whose name is first mentioned in the Register of Shareholders and any notice given in this way shall be deemed to be sufficient notice to all the joint shareholders.
- 30.3. Any notice or other document that has been delivered or sent to a shareholder in accordance with these Articles of Association shall be deemed to have been delivered and sent in respect of all shares held by him (whether in respect of shares held by him alone or by him in partnership with others), even if that same shareholder passed away at that time or went bankrupt, or an order was granted to liquidate the shareholder, or a trustee or liquidator or receiver was appointed for his shares (whether the Company knew about it or not), until another person will be registered in the Register of Shareholders in his place as holding them, and delivery of a notice or document as mentioned shall be deemed to be sufficient delivery to any person who has a right in these shares.
- 30.4. Any notice or other document that was sent by the Company by mail according to an address in Israel will be considered as if it was delivered within 48 hours from the date the letter containing the notice or the document was delivered to the post office, or within 96 hours in the event that the address is abroad, and when proving the delivery, it will be sufficient to prove that the letter containing the message or document is addressed to the correct address and was delivered to the post office.
- 30.5. An accidental omission in giving notice of a General Meeting to any shareholder or failure to receive notice of a meeting or other notice by any shareholder shall not result in the cancellation of a resolution adopted at that meeting or the cancellation of proceedings based on that notice.
- 30.6. Any shareholder and any member of the Board of Directors may waive his right to receive a notice or his right to receive notice at a particular time and may agree that a General Meeting of the Company or a meeting of the Board of Directors, as applicable will convene and take place even though he did not receive notice about it, or the notice was not received by him at the time required.

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 Objectives of the Company

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

Pursuant to our articles of association, our objective is to engage in any legal business.

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 board of directors and the shareholders.

Under Israeli law each director must act with an independent and sole discretion.

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

Registered Share Capital

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 the date of this Annual Report on Form 20-F. All outstanding ordinary shares are validly issued, fully paid and non-assessable.

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.

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.

The directors are appointed by decision of an ordinary majority of the shareholders. 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 been vacated for any reason, 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 are elected by an ordinary majority of the shareholders.

Rights in the Company's Profits or Upon a Liquidation

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

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. As of the date hereof, we only have one class of shares.

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 Mergers and Tender Offers

Notwithstanding the provisions of the Companies Law, the majority required for approval of a merger by a general meeting, or a class meeting shall be a majority of at least 75% of the votes of shareholders entitled to vote and who have voted themselves.

Notwithstanding the provisions of the Companies Law, the proportion of shares whose holders must agree to an offer to purchase shares in the Company will be 90% of the shares to be transferred.

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:

- o 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;
- o the avoidance of any act in competition with the company's business;
- o the avoidance of exploiting any of the company's business opportunities in order to gain a personal advantage for himself or for others; and
- o 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.

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.

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, 2022

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, 2022

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, 2021, 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, 2022

/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, 2021, 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, 2022

/s/ Yakir Ben-Naim
Name: Yakir Ben-Naim
Title: Chief Financial Officer
