
THE FIRST ISRAEL FUND, INC.

ANNUAL REPORT
DECEMBER 31, 2009

Dear Shareholder,

We present this Annual Report which covers the activities of The First Israel Fund, Inc. (the “Fund”) for the year ended December 31, 2009. The Fund’s principal investment objective is to seek long-term capital appreciation by investing primarily in equity securities of Israeli companies.

For the year ended December 31, 2009, the total return to shareholders of the Fund based on the net asset value (NAV) of the Fund was 82.9% versus an 88.25% in the Fund’s benchmark, the Tel Aviv 100 Index. Based on market price, the Fund’s shares gained 88.8% during the year, assuming reinvestment of dividends and distributions.

Share Price Performance

The Fund’s share price increased 88.8% over the twelve months, from \$8.02 on December 31, 2008 to \$15.14 on December 31, 2009. The Fund’s share price on December 31, 2009 represented a discount of 7.9% to the NAV per share of \$16.44 on that date, compared with a discount of 10.8% to the NAV per share of \$8.99 on December 31, 2008. As of February 17, 2010, the share price was \$15.28, representing a discount of 10.5% to the NAV per share of \$17.07.

Change In Legal Entity Name

Since Aberdeen Asset Management Investment Services Limited (“Aberdeen”) now serves as investment manager of the Fund, the Board believes it is appropriate to add “Aberdeen” to the fund’s name in order to identify the Fund’s manager more clearly and to differentiate the funds in a competitive market with many known brands. Thus, the Fund name will change from The First Israel Fund, Inc. to Aberdeen Israel Fund, Inc. Aberdeen is an independent global asset manager, a market leader in global emerging markets, managing approximately US\$29.4 billion of assets in emerging market equities and bonds. It should be noted that the Fund’s ticker, ISL, will remain the same.

Market Review

Israeli equities rose significantly in 2009, ending the year with a more than 88% gain. Sustained liquidity, healthy risk appetite and resilient domestic economic data lifted sentiment and helped local equities outperform. In sector terms, energy and financials outperformed, rebounding from the sell-off in 2008. IT and consumer discretionary stocks lagged after proving more defensive during the downturn.

Following the transition of investment adviser from Credit Suisse Asset Management in July 2009, Aberdeen completed several transactions in an effort to align the Fund with Aberdeen’s investment process. We have significantly reduced the number of holdings in the portfolio since Aberdeen assumed management. This more highly concentrated portfolio reflects our bottom-up, conviction-led investment process. At the end of the year, the Fund held 36 holdings (including 11 private equity holdings), compared to 107 as of July 1, 2009. The core holdings of the portfolio are established companies with strong track records and solid business models. This includes companies such as Teva, the world’s leading generic pharmaceutical company; Israel Chemicals, the low cost fertilizer producer; Bezeq, which has the strongest balance sheet of Israel’s telecommunications companies; Checkpoint Software, a leading provider of software

protection technologies; and Bank Mizrahi Tefahot, a well capitalized and prudent lender. Analyst Exchange and Trading Securities Ltd. continues in its role as sub-adviser.

With regard to the Fund's private equity holdings, the twelve months ended December 2009 have been a volatile period for Israel's technology sector. The values of the Fund's underlying investments have decreased as a result of write downs of investment values. Some markdowns were the result of financings at lower valuations or markdowns driven by valuation criteria. We also saw a slowdown in both capital call and distribution activities. For the period of January through December 2009, the Fund received distributions from limited partnerships totaling \$154,648, compared to a total of \$676,150 during the same period of 2008. The portfolio companies have been focusing on conserving as much cash as possible in this difficult environment.

Outlook

Despite ample liquidity, improving Israeli GDP data and a fairly healthy earnings outlook, stocks are unlikely to repeat the stellar performance, given the strong gains posted in 2009. With the inherent imbalances in the global economy still not addressed, risks appear to have been carried over from last year. Nonetheless, domestic economic prospects appear bright; Israel's sizeable current account surplus will continue to buffer the economy, while household consumption remains supported by the buoyant real estate market. But a recovery in exports is likely to take longer as US fixed investments in equipment and software stay sluggish.

In the current economic environment, we will continue to uphold our disciplined process of investing in fundamentally strong companies, which we believe will deliver solid long-term results.

Dividend Reinvestment And Cash Purchase Plan

We invite you to participate in the Fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), which allows you to automatically reinvest your distributions in shares of the Fund's common stock at favorable commission rates. Distributions made under the Plan are taxable to the same extent as are cash distributions. The Plan also enables you to make additional cash investments in shares of at least \$100 per transaction. To request a brochure containing more information on the Plan, together with an enrollment form, please contact the Plan Agent toll free at 1-800-647-0584 (international 1-781-575-3100).

Investor Relations Information

For information about the Fund, daily updates of share price, NAV and details of recent distributions, please contact Aberdeen by:

- calling toll free at 1-866-839-5205 in the United States,
- e-mailing InvestorRelations@aberdeen-asset.com, or
- visiting the website at www.aberdeenisl.com.

For information about the Aberdeen Group, visit the Aberdeen website at www.aberdeen-asset.us.

Finally included within this report is a postage paid reply card which would register you into the Aberdeen enhanced email service. Following receipt of the completed form, updated investment information relating to the closed end funds would be circulated to your attention.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CPittard', with a large, stylized flourish at the end.

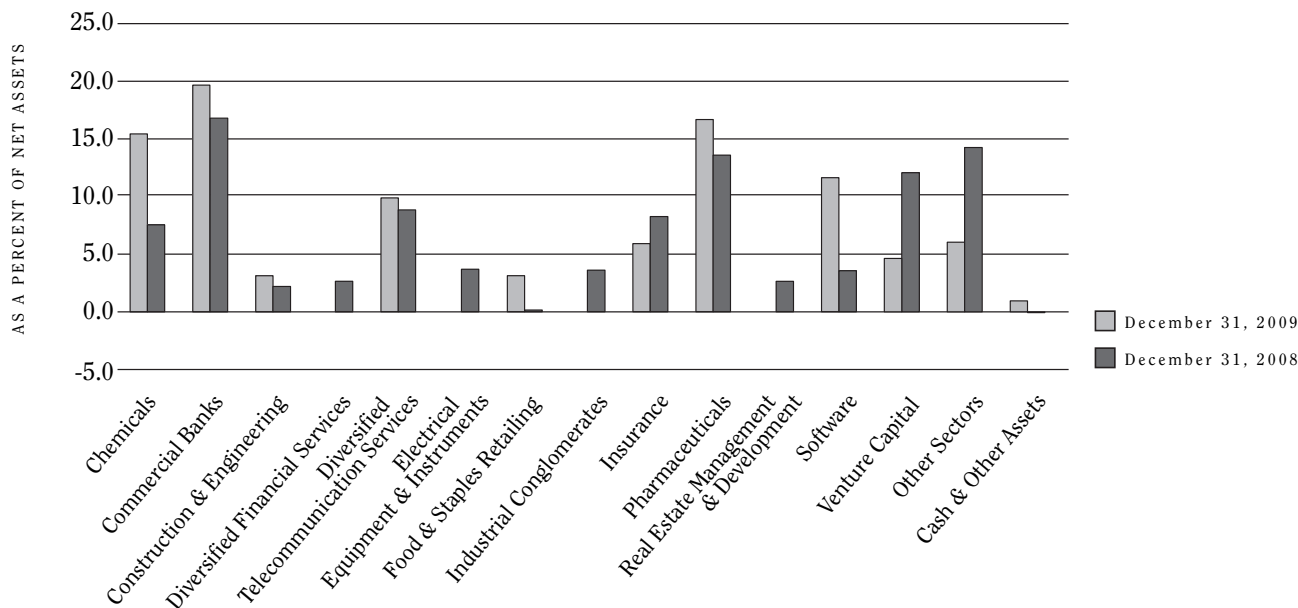
Christian Pittard
President

THE FIRST ISRAEL FUND, INC.

PORTFOLIO SUMMARY

DECEMBER 31, 2009 (UNAUDITED)

SECTOR ALLOCATION



TOP 10 HOLDINGS, BY ISSUER

| Holding | Sector | Percentage of Net Assets |
|--|--|--------------------------|
| 1. Teva Pharmaceutical Industries Ltd. | Pharmaceuticals | 11.5% |
| 2. Bezeq Israeli Telecommunication Corp. Ltd. | Diversified Telecommunication Services | 9.9% |
| 3. Israel Chemicals Ltd. | Chemicals | 9.8% |
| 4. Check Point Software Technologies Ltd. | Software | 9.3% |
| 5. Mizrahi Tefahot Bank Ltd. | Commercial Banks | 9.3% |
| 6. Perrigo Co. | Pharmaceuticals | 5.1% |
| 7. Bank Leumi Le-Israel Ltd. | Commercial Banks | 4.9% |
| 8. Bank Hapoalim Ltd. | Commercial Banks | 4.9% |
| 9. Harel Insurance Investments & Financial Services Ltd. | Insurance | 4.4% |
| 10. Shikun & Binui Ltd. | Construction & Engineering | 3.2% |

THE FIRST ISRAEL FUND, INC.**AVERAGE ANNUAL RETURNS****DECEMBER 31, 2009 (UNAUDITED)**

| | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|-----------------------|---------------|----------------|----------------|-----------------|
| Net Asset Value (NAV) | 82.87% | 7.25% | 10.11% | 5.71% |
| Market Value | 88.78% | 4.08% | 10.10% | 6.24% |

*During the fiscal year, Credit Suisse Asset Management LLC waived fees and/or reimbursed expenses, without which performance would be lower. Aberdeen Asset Management Investment Services Limited has agreed to voluntarily waive fees and/or reimburse expenses. This waiver may be discontinued in the future. Without such waivers and/or reimbursed expenses, performance would be lower. Waivers and/or reimbursements are subject to change and may be discontinued at any time. Returns represent past performance. Total investment return at net asset value is based on changes in the net asset value of fund shares and assumes reinvestment of dividends and distributions, if any. Total investment return at market value is based on changes in the market price at which the fund's shares traded on the stock exchange during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the fund's dividend reinvestment program. Because the fund's shares trade in the stock market based on investor demand, the fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on share price and NAV. **Past performance is no guarantee of future results.** The current performance of the fund may be lower or higher than the figures shown. The fund's yield, return and market price and NAV will fluctuate. Performance information current to the most recent month-end is available by calling 866-839-5205.*

The annualized gross expense ratio is 2.12%. The annualized net expense ratio after fee waivers and/or expense reimbursements is 1.85%.

THE FIRST ISRAEL FUND, INC.
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2009

| Description | No. of Shares | Value |
|--|---------------|-------------------|
| EQUITY OR EQUITY-LINKED SECURITIES-97.8% | | |
| ISRAEL-97.4% | | |
| AEROSPACE & DEFENSE-3.0% | | |
| Elbit Systems Ltd.^^ | 20,000 | \$ 1,293,562 |
| FMS Enterprises Migun Ltd.^^ | 19,498 | 799,385 |
| | | <u>2,092,947</u> |
| CHEMICALS-15.4% | | |
| Frutarom Industries Ltd.^^ | 240,000 | 1,985,455 |
| Israel Chemicals Ltd.^^ | 526,500 | 6,912,147 |
| The Israel Corp., Ltd.^^† | 2,705 | 1,941,904 |
| | | <u>10,839,506</u> |
| COMMERCIAL BANKS-19.5% | | |
| Bank Hapoalim Ltd.^^† | 787,000 | 3,422,549 |
| Bank Leumi Le-Israel Ltd.^^† | 750,000 | 3,427,032 |
| First International Bank of Israel Ltd.^^† | 100,000 | 318,234 |
| Mizrahi Tefahot Bank Ltd.^^† | 718,900 | 6,561,380 |
| | | <u>13,729,195</u> |
| CONSTRUCTION & ENGINEERING-3.2% | | |
| Shikun & Binui Ltd.^^ | 1,112,500 | 2,239,770 |
| DIVERSIFIED TELECOMMUNICATION SERVICES-9.9% | | |
| Bezeq Israeli Telecommunication Corp. Ltd.^^ | 2,751,000 | 6,934,695 |
| FOOD & STAPLES RETAILING-4.8% | | |
| Blue Square-Israel Ltd.^^† | 129,000 | 1,287,395 |
| Shufersal Ltd.^^ | 412,000 | 2,096,010 |
| | | <u>3,383,405</u> |
| HEALTH CARE EQUIPMENT & SUPPLIES-0.4% | | |
| Medtechnica Ltd.^^ | 39,860 | 252,266 |
| HOUSEHOLD PRODUCTS-0.6% | | |
| Albaad Massuot Yitzhak Ltd.^^ | 27,731 | 422,544 |
| INSURANCE-5.9% | | |
| Clal Insurance Enterprise Holdings Ltd.^^† | 50,000 | 1,080,612 |

| Description | No. of Shares | Value |
|--|---------------|-------------------|
| INSURANCE (CONTINUED) | | |
| Harel Insurance Investments & Financial Services Ltd.^^† | 61,750 | \$ 3,060,023 |
| | | <u>4,140,635</u> |
| MACHINERY-0.2% | | |
| Plasson Ltd.^^ | 7,000 | 151,300 |
| PAPER & FOREST PRODUCTS-0.6% | | |
| Hadera Paper Ltd.^^† | 6,602 | 436,640 |
| PHARMACEUTICALS-16.6% | | |
| Perrigo Co.^^ | 89,000 | 3,556,296 |
| Teva Pharmaceutical Industries Ltd., ADR | 143,820 | 8,079,808 |
| | | <u>11,636,104</u> |
| ROAD & RAIL-0.7% | | |
| Dan Vehicle & Transportation^^ | 79,527 | 507,735 |
| SOFTWARE-11.7% | | |
| Babylon Ltd.^^† | 75,000 | 111,457 |
| Check Point Software Technologies Ltd.† | 193,853 | 6,567,740 |
| Formula Systems (1985) Ltd.^^ | 83,713 | 902,159 |
| NICE Systems Ltd., ADR† | 20,000 | 620,800 |
| | | <u>8,202,156</u> |
| SPECIALTY RETAIL-0.2% | | |
| Golf & Co., Ltd.^^ | 27,500 | 165,274 |
| TRADING COMPANIES & DISTRIBUTORS-0.3% | | |
| Scope Metals Group Ltd.^^† | 17,500 | 177,289 |
| TRANSPORTATION INFRASTRUCTURE-0.1% | | |
| Maman Cargo Terminals & Handling Ltd.† | 47,756 | 75,013 |
| VENTURE CAPITAL-4.3% | | |
| ABS GE Capital Giza Fund, L.P.†‡^^ | 1,250,001* | 84,200 |
| BPA Israel Ventures LLC#†‡^^ | 1,674,588* | 525,842 |
| Concord Ventures Fund II, L.P.†‡^^ | 2,000,000* | 343,926 |

THE FIRST ISRAEL FUND, INC.
SCHEDULE OF INVESTMENTS (CONTINUED)
DECEMBER 31, 2009

| Description | No. of Shares | Value |
|---|------------------|---------------------|
| VENTURE CAPITAL (CONTINUED) | | |
| Delta Fund I, L.P.†‡^^ | 250,440* | \$ 102,216 |
| Giza GE Venture Fund III L.P.†‡^^ | 1,250,000* | 268,825 |
| K.T. Concord Venture Fund L.P.†‡^^ | 1,000,000* | 47,326 |
| Neurone Ventures II, L.P.#†‡^^ | 686,184* | 193,386 |
| Pitango Fund II LLC†‡^^ | 1,000,000* | 101,295 |
| SVE Star Ventures Enterprises GmbH & Co. No. IX KG†‡^^ | 2,001,470* | 631,504 |
| Walden-Israel Ventures III, L.P.#†‡^^ | 1,345,438* | 749,395 |
| | | <u>3,047,915</u> |
| TOTAL ISRAEL (Cost \$49,696,486) | | <u>68,434,389</u> |
| GLOBAL-0.4% | | |
| VENTURE CAPITAL-0.4% | | |
| Emerging Markets Ventures I, L.P.#†‡^^ | | |
| (Cost \$860,088) | 2,237,292* | <u>242,097</u> |
| TOTAL EQUITY OR EQUITY-LINKED SECURITIES (Cost \$50,556,574) | | <u>68,676,486</u> |
| | Principal Amount | (000's) |
| SHORT-TERM INVESTMENT-1.9% | | |
| GRAND CAYMAN-1.9% | | |
| Wells Fargo, overnight deposit, 0.03%, 01/04/10 | | |
| (Cost \$1,380,000) | \$1,380 | <u>1,380,000</u> |
| TOTAL INVESTMENTS-99.7% (Cost \$51,936,574) | | <u>70,056,486</u> |
| CASH AND OTHER ASSETS IN EXCESS OF LIABILITIES-0.3% | | <u>189,755</u> |
| NET ASSETS-100.0% | | <u>\$70,246,241</u> |

† Non-income producing security.
‡ Restricted security, not readily marketable. (See Notes H).
^^ Security was fair valued as of December 31, 2009. Security is valued at fair value as determined in good faith by, or under the direction of, the Board of Directors, under procedures established by the Board of Directors. (See Note B and H).
As of December 31, 2009, the aggregate amount of open commitments for the Fund is \$992,682. (See Note H).
* Represents contributed capital.
ADR American Depositary Receipts.

THE FIRST ISRAEL FUND, INC.
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2009

| ASSETS | |
|--|---------------------|
| Investments, at value (Cost \$51,936,574) (Notes B, E, G) | \$70,056,486 |
| Cash (including \$66,384 of foreign currencies with a cost of \$66,228) | 67,244 |
| Receivables: | |
| Investments sold | 261,743 |
| Israeli tax refunds (Note B) | 243,856 |
| Dividends | 2,957 |
| Prepaid expenses | 8,018 |
| Total Assets | <u>70,640,304</u> |
| LIABILITIES | |
| Payables: | |
| Investment advisory fees (Note C) | 173,629 |
| Custodian fees | 91,418 |
| Audit fees | 61,415 |
| Printing fees | 20,352 |
| Directors' fees | 9,295 |
| Other accrued expenses | 37,954 |
| Total Liabilities | <u>394,063</u> |
| NET ASSETS (applicable to 4,272,691 shares of common stock outstanding) (Note D) | <u>\$70,246,241</u> |
| NET ASSETS CONSIST OF | |
| Capital stock, \$0.001 par value; 4,272,691 shares issued and outstanding (100,000,000 shares authorized) | \$ 4,272 |
| Paid-in capital | 54,303,860 |
| Accumulated net investment loss | (60,165) |
| Accumulated net realized loss on investments and foreign currency related transactions | (2,122,097) |
| Net unrealized appreciation in value of investments and translation of other assets and liabilities denominated in foreign currencies | <u>18,120,371</u> |
| Net assets applicable to shares outstanding | <u>\$70,246,241</u> |
| NET ASSET VALUE PER SHARE (based on 4,272,691 shares issued and outstanding) | <u>\$16.44</u> |
| MARKET PRICE PER SHARE | <u>\$15.14</u> |

THE FIRST ISRAEL FUND, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009

INVESTMENT INCOME

| | |
|---|------------------|
| Income (Note B) : | |
| Dividends | \$ 1,336,855 |
| Interest | 10,388 |
| Less: Foreign taxes withheld | (229,231) |
| Total Investment Income | <u>1,118,012</u> |
| Expenses: | |
| Investment advisory fees (Note C) | 631,410 |
| Custodian fees | 197,098 |
| Directors' fees | 88,473 |
| Audit and tax fees | 57,419 |
| Legal fees | 52,935 |
| Printing fees (Note C) | 38,121 |
| Accounting fees (Note C) | 33,006 |
| Shareholder servicing fees | 17,360 |
| Insurance fees | 10,221 |
| Miscellaneous fees | 11,735 |
| Total Expenses | <u>1,137,778</u> |
| Less: Fee waivers (Note C) | (147,873) |
| Net Expenses | <u>989,905</u> |
| Net Investment Income | <u>128,107</u> |

NET REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND FOREIGN CURRENCY RELATED TRANSACTIONS

| | |
|---|---------------------|
| Net realized loss from: | |
| Investments | (3,387,621) |
| Foreign currency related transactions | (19,328) |
| Net change in unrealized appreciation in value of investments and translation of other assets and liabilities denominated in foreign currencies | <u>35,128,440</u> |
| Net realized and unrealized gain on investments and foreign currency related transactions | <u>31,721,491</u> |
| NET INCREASE IN NET ASSET RESULTING FROM OPERATIONS | <u>\$31,849,598</u> |

THE FIRST ISRAEL FUND, INC.
STATEMENTS OF CHANGES IN NET ASSETS

| | For the Years Ended December 31, | |
|--|----------------------------------|----------------------|
| | <u>2009</u> | <u>2008</u> |
| INCREASE/(DECREASE) IN NET ASSETS | | |
| Operations: | | |
| Net investment income | \$ 128,107 | \$ 844,860 |
| Net realized gain/(loss) on investments and foreign currency related transactions | (3,406,949) | 8,510,733 |
| Net change in unrealized appreciation/(depreciation) in value of investments and translation of other assets and liabilities denominated in foreign currencies | <u>35,128,440</u> | <u>(50,516,298)</u> |
| Net increase/(decrease) in net assets resulting from operations | <u>31,849,598</u> | <u>(41,160,705)</u> |
| Dividends and distributions to shareholders: | | |
| Net investment income | — | (1,280,980) |
| Net realized gain on investments | — | (8,240,973) |
| Total dividends and distributions to shareholders | <u>—</u> | <u>(9,521,953)</u> |
| Capital share transactions: | | |
| Issuance of 0 and 8,814 shares respectively from reinvestments of dividends and distributions | — | 190,852 |
| Issuance of 1,046 and 2,491 shares through the directors compensation plan (Note C) | <u>14,697</u> | <u>29,463</u> |
| Total capital share transactions | <u>14,697</u> | <u>220,315</u> |
| Total increase/(decrease) in net assets | <u>31,864,295</u> | <u>(50,462,343)</u> |
| NET ASSETS | | |
| Beginning of year | <u>38,381,946</u> | <u>88,844,289</u> |
| End of year* | <u>\$70,246,241</u> | <u>\$ 38,381,946</u> |

* Includes accumulated net investment loss of \$(60,165) and \$(6,556), respectively.

THE FIRST ISRAEL FUND, INC.
FINANCIAL HIGHLIGHTS

Contained below is per share operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each period indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares

| | For the Fiscal Years Ended December 31, | | | |
|--|---|-------------------|-------------------|----------|
| | 2009 | 2008 | 2007 | 2006 |
| PER SHARE OPERATING PERFORMANCE | | | | |
| Net asset value, beginning of year | \$8.99 | \$20.85 | \$18.51 | \$17.44 |
| Net investment income/(loss) | 0.03 [†] | 0.20 [†] | 0.28 [†] | 0.17 |
| Net realized and unrealized gain/(loss) on investments and foreign currency related transactions | 7.42 [†] | (9.83) | 4.26 | 2.25 |
| Net increase/(decrease) in net assets resulting from operations | 7.45 | (9.63) | 4.54 | 2.42 |
| Dividends and distributions to shareholders: | | | | |
| Net investment income | — | (0.30) | (0.38) | (0.18) |
| Net realized gain on investments and foreign currency related transactions | — | (1.93) | (1.82) | (1.17) |
| Total dividends and distributions to shareholders | — | (2.23) | (2.20) | (1.35) |
| Net asset value, end of year | \$16.44 | \$8.99 | \$20.85 | \$18.51 |
| Market value, end of year | \$15.14 | \$8.02 | \$23.49 | \$18.65 |
| Total investment return (a) | 88.78% | (57.01)% | 38.96% | 27.77% |
| RATIOS/SUPPLEMENTAL DATA | | | | |
| Net assets, end of year (000 omitted) | \$70,246 | \$38,382 | \$88,844 | \$78,857 |
| Ratio of expenses to average net assets (b) | 1.85% | 1.73% | 1.71% | 1.73% |
| Ratio of expenses to average net assets, excluding fee waivers | 2.12% | 2.02% | 1.99% | 1.97% |
| Ratio of net investment income/(loss) to average net assets (b) | 0.24% | 1.14% | 1.34% | 0.95% |
| Portfolio turnover rate | 49.51% | 19.43% | 9.32% | 9.82% |

[†] Based on average shares outstanding.

(a) Total investment return at market value is based on the changes in market price of a share during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividend reinvestment program.

(b) Ratios reflect actual expenses incurred by the Fund. Amounts are net of fee waivers.

(c) Annualized.

THE FIRST ISRAEL FUND, INC.
FINANCIAL HIGHLIGHTS

| | For the Three Months Ended December 31, 2005 | For the Fiscal Year Ended September 30, 2005 |
|---|--|--|
| PER SHARE OPERATING PERFORMANCE | | |
| Net asset value, beginning of year | \$18.28 | \$14.27 |
| Net investment income/(loss) | 0.01 | (0.07) |
| Net realized and unrealized gain/(loss) on investments and foreign currency related transactions | <u>0.75</u> | <u>4.08</u> |
| Net increase/(decrease) in net assets resulting from operations | <u>0.76</u> | <u>4.01</u> |
| Dividends and distributions to shareholders: | | |
| Net investment income | — | — |
| Net realized gain on investments and foreign currency related transactions | <u>(1.60)</u> | <u>—</u> |
| Total dividends and distributions to shareholders | <u>(1.60)</u> | <u>—</u> |
| Net asset value, end of year | <u>\$17.44</u> | <u>\$18.28</u> |
| Market value, end of year | <u>\$15.67</u> | <u>\$16.21</u> |
| Total investment return (a) | <u>6.15%</u> | <u>34.08%</u> |
| RATIOS/SUPPLEMENTAL DATA | | |
| Net assets, end of year (000 omitted) | \$74,273 | \$77,875 |
| Ratio of expenses to average net assets (b) | 1.65% (c) | 2.10% |
| Ratio of expenses to average net assets, excluding fee waivers | 1.87% (c) | 2.33% |
| Ratio of net investment income/(loss) to average net assets (b) | 0.16% (c) | (0.39)% |
| Portfolio turnover rate | 1.53% (c) | 10.65% |

† Based on average shares outstanding.

(a) Total investment return at market value is based on the changes in market price of a share during the period and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividend reinvestment program.

(b) Ratios reflect actual expenses incurred by the Fund. Amounts are net of fee waivers.

(c) Annualized.

NOTE A. ORGANIZATION

The First Israel Fund, Inc. (the “Fund”) was incorporated in Maryland on March 6, 1990 and commenced investment operations on October 29, 1992. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, non-diversified management investment company.

NOTE B. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“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.

Security Valuation: The net asset value of the Fund is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. (the “Exchange”) on each day the Exchange is open for business. Equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the “Valuation Time”). Valuation Time is as of the close of regular trading of the “Exchange” (usually 4:00 pm Eastern Time). If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest ask quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied by a pricing service, which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Debt obligations that will mature in 60 days or less are

valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Investments in mutual funds are valued at the mutual fund’s closing net asset value per share on the day of valuation.

Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Fund’s Valuation Time, but after the close of the securities’ primary market, are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors under procedures established by the Board of Directors. The Fund may utilize a service provided by an independent third party which has been approved by the Board of Directors to fair value certain securities. When fair-value pricing is employed, the prices of securities used by a fund to calculate its net asset value may differ from quoted or published prices for the same securities. The Fund’s estimate of fair value assumes a willing buyer and a willing seller neither acting under the compulsion to buy or sell. Although these securities may be resold in privately negotiated transactions, the prices realized on such sales could differ from the prices originally paid by the Fund or the current carrying values, and the difference could be material.

In accordance with ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements

THE FIRST ISRAEL FUND, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The

three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

- Level 1—quoted prices in active markets for identical investments.
- Level 2—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3—significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments, information provided by the General Partner or investee companies such as publicly traded prices, financial statements, capital statements, recent transactions, and general market conditions.)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2009 in valuing the Fund's investments carried at value:

| Investments, at value | Quoted Prices in Active Markets for Identical Investments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of 12/31/2009 |
|--|--|--|--|---|
| Aerospace & Defense | \$ — | \$ 2,092,947 | \$ — | \$ 2,092,947 |
| Chemicals | — | 10,839,506 | — | 10,839,506 |
| Commercial Banks | — | 13,729,195 | — | 13,729,195 |
| Construction & Engineering | — | 2,239,770 | — | 2,239,770 |
| Diversified Telecommunication Services | — | 6,934,695 | — | 6,934,695 |
| Food & Staples Retailing | — | 3,383,405 | — | 3,383,405 |
| Health Care Equipment & Supplies | — | 252,266 | — | 252,266 |
| Household Products | — | 422,544 | — | 422,544 |
| Insurance | — | 4,140,635 | — | 4,140,635 |
| Machinery | — | 151,300 | — | 151,300 |
| Paper & Forest Products | — | 436,640 | — | 436,640 |
| Pharmaceuticals | 8,079,808 | 3,556,296 | — | 11,636,104 |
| Road & Rail | — | 507,735 | — | 507,735 |

THE FIRST ISRAEL FUND, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

| <u>Investments, at value</u> | <u>Quoted Prices in Active Markets for Identical Investments (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | <u>Balance as of 12/31/2009</u> |
|--|--|--|--|---|
| Software | \$ 7,188,540 | \$ 1,013,616 | \$ — | \$ 8,202,156 |
| Specialty Retail | — | 165,274 | — | 165,274 |
| Trading Companies & Distributors | — | 177,289 | — | 177,289 |
| Transportation & Infrastructure | 75,013 | — | — | 75,013 |
| Venture Capital | — | — | 3,290,012 | 3,290,012 |
| Short-Term Investments | — | 1,380,000 | — | 1,380,000 |
| Total | <u>\$15,343,361</u> | <u>\$51,423,113</u> | <u>\$3,290,012</u> | <u>\$70,056,486</u> |

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

| <u>Investments, at value</u> | <u>Balance as of 12/31/2008</u> | <u>Accrued discounts/ premiums</u> | <u>Realized gain/(loss)</u> | <u>Change in unrealized appreciation/ (depreciation)</u> | <u>Net purchases (sales)</u> | <u>Net transfers in and/or out of Level 3</u> | <u>Balance as of 12/31/2009</u> |
|------------------------------|---|--|---------------------------------|--|--------------------------------------|---|---|
| Venture Capital | \$4,973,686 | \$ — | \$(1,977,224) | \$224,943 | \$68,607 | \$ — | \$3,290,012 |
| Total | <u>\$4,973,686</u> | <u>\$ —</u> | <u>\$(1,977,224)</u> | <u>\$224,943</u> | <u>\$68,607</u> | <u>\$ —</u> | <u>\$3,290,012</u> |

Short-Term Investment: The Fund sweeps available cash into a short-term time deposit available through Brown Brothers Harriman & Co., the Fund's custodian. The short-term time deposit is a variable rate account classified as a short-term investment.

Investment Transactions and Investment Income: Investment transactions are accounted for on a trade date basis. The cost of investments sold is determined by use of the specific identification method for both financial reporting and U.S. income tax purposes. Interest income is accrued as earned; dividend income is recorded on the ex-dividend date.

Taxes: No provision is made for federal taxes as it is the Fund's intention to continue to qualify for and elect the tax treatment applicable to regulated investment companies under the Internal Revenue Code of 1986, as amended, and to make the requisite distributions

to its shareholders, which will be sufficient to relieve it from federal income and excise taxes.

Pursuant to a ruling the Fund received from the Israeli tax authorities, the Fund, subject to certain conditions, will not be subject to Israeli tax on capital gains derived from the sale of securities listed on the Tel Aviv Stock Exchange ("TASE"). Gains derived from Israeli securities not listed on TASE (unlisted securities) will be subject to a 25% Israeli tax provided the security is an approved investment. Generally, stock of corporations that produce a product or provide a service that support the infrastructure of Israel are considered approved investments. Any gains sourced to unlisted unapproved securities are subject to a 40% Israeli tax and an inflationary tax. For the year ended December 31, 2009, the Fund did not incur any Israeli capital gains taxes. The Fund accrues any capital gains

tax estimated to be payable as if the security had been sold at the time unrealized gains are recorded.

Dividends derived from listed or approved Israeli securities are subject to a 20% withholding tax, while dividends from unlisted or unapproved securities are subject to a 25% withholding tax. The Fund accrued for a refund of a portion of these amounts withheld. Interest on debt obligations (whether listed or not) is subject to withholding tax of 25% to 35%. Withholding taxes are accrued when the related income is earned in an amount management believes is ultimately payable after any reclaims of taxes withheld.

The Fund is subject to the provisions of ASC 740 Income Taxes ("ASC 740"). The Fund has reviewed its current tax positions and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior four fiscal years remain subject to examination by the Internal Revenue Services.

Foreign Currency Translations: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis:

- (I) market value of investment securities, assets and liabilities at the valuation date rate of exchange; and
- (II) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Fund does not isolate that portion of gains and losses on investments in equity securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such

securities are included in the reported net realized and unrealized gains and losses on investment transactions balances.

The Fund reports certain foreign currency related transactions and foreign taxes withheld on security transactions as components of realized gains for financial reporting purposes, whereas such foreign currency related transactions are treated as ordinary income for U.S. income tax purposes.

Net unrealized currency gains or losses from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of net unrealized appreciation/depreciation in value of investments, and translation of other assets and liabilities denominated in foreign currencies.

Net realized foreign exchange gains or losses represent foreign exchange gains and losses from transactions in foreign currencies and forward foreign currency contracts, exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received.

Distributions of Income and Gains: The Fund distributes at least annually to shareholders substantially all of its net investment income and net realized short-term capital gains, if any. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. An additional distribution may be made to the extent necessary to avoid the payment of a 4% U.S. federal excise tax. Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

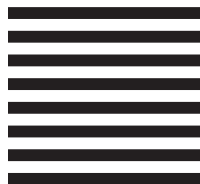


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www.aberdeen-asset.us

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The character of distributions made during the year from net investment income or net realized gains may differ from their ultimate characterization for U.S. income tax purposes due to U.S. generally accepted accounting principles/tax differences in the character of income and expense recognition.

Partnership Accounting Policy: The Fund records its pro-rata share of the income/(loss) and capital gains/(losses) allocated from the underlying partnerships and adjusts the cost of the underlying partnerships accordingly. These amounts are included in the Fund's Statement of Operations.

Other: The Fund may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risks (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity and valuation risks.

Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuations in exchange rates.

Investments in Israel may involve certain considerations and risks not typically associated with investments in the United States, including the possibility of future political and economic developments and the level of Israeli governmental supervision and regulation of its securities markets. The Israeli securities markets are substantially smaller, less liquid and more volatile than the major securities markets in the United States. Consequently, acquisition and disposition of securities by the Fund may be inhibited.

The Fund, subject to local investment limitations, may invest up to 30% of its assets (at the time of commitment) in illiquid equity securities, including securities of private equity funds (whether in corporate or partnership form) that invest primarily in emerging markets. When investing through another investment fund, the Fund will bear its proportionate share of the expenses incurred by the fund, including management fees. Such securities are expected to be illiquid which may involve a high degree of business and financial risk and may result in substantial losses. Because of the current absence of any liquid trading market for these investments, the Fund may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on such sales could be substantially less than those originally paid by the Fund or the current carrying values and these differences could be material. Further, companies whose securities are not publicly traded may not be subject to the disclosure and other investor protection requirements applicable to companies whose securities are publicly traded.

The Board of Directors has removed the limitation set forth in the Fund's original prospectus requiring that the portion of the Fund's investments not invested in Israeli securities be invested in securities of companies that are substantially involved in or with Israel. However, the Fund has adopted a policy to invest under normal circumstances, at least 80% of the value of its assets in investments that are tied economically to Israel.

NOTE C. AGREEMENTS

Effective July 1, 2009, Aberdeen Asset Management Investment Services Limited ("AAMISL") serves as the Fund's investment adviser with respect to all investments. The adviser is a direct wholly-owned subsidiary of Aberdeen Asset Management PLC. AAMISL receives as compensation for its advisory services from the Fund, an annual fee, calculated

weekly and paid quarterly, equal to 1.30% of the first \$50 million of the Fund's average weekly market value or net assets (whichever is lower), 1.25% on amounts from \$50-\$100 million, 1.20% on amounts from \$100-\$150 million, 1.15% on amounts from \$150-\$200 million and 1.05% for amounts above \$200 million. AAMISL has agreed to waive a portion of its advisory fee. For the period July 1, 2009 to December 31, 2009, AAMISL earned \$375,126 for advisory services, of which AAMISL waived \$73,559.

Prior to July 1, 2009, Credit Suisse Asset Management, LLC ("Credit Suisse LLC") served as the Fund's investment adviser with respect to all investments. Credit Suisse LLC was contractually entitled to receive as compensation for its advisory services from the Fund an annual fee, calculated weekly and paid quarterly, equal to 1.30% of the Fund's average weekly market value or net assets (whichever was lower) invested in listed securities (including securities traded over-the-counter in the United States) and 2.00% of the Fund's average weekly market value or net assets (whichever is lower) invested in unlisted securities. The aggregate fee could not exceed an annual rate of 1.40% of the Fund's average weekly market value or net assets (whichever is lower). Credit Suisse LLC had agreed to waive the advisory fee previously payable to the Fund's former investment sub-adviser. For the six months ended June 30, 2009, Credit Suisse LLC earned \$256,284 for advisory services, of which Credit Suisse LLC waived \$74,314. Credit Suisse LLC also provided certain administrative services to the Fund and was reimbursed by the Fund for costs incurred on behalf of the Fund (up to \$20,000 per annum). For the six months ended June 30, 2009, Credit Suisse LLC was not reimbursed for administrative services rendered to the Fund.

Credit Suisse Asset Management Limited ("Credit Suisse Ltd.") an affiliate of Credit Suisse LLC, was a sub-investment adviser to the Fund prior to July 1, 2009. Credit Suisse Ltd.'s sub-investment advisory fees were

paid by Credit Suisse LLC out of Credit Suisse LLC's net investment advisory fee and not paid by the Fund.

Analyst Exchange and Trading Services Ltd. ("Analyst I.M.S.") is also a sub-investment adviser to the Fund. Analyst I.M.S. is paid a fee, out of the advisory fee, calculated weekly and paid quarterly at an annual rate of 0.30% of the Fund's average weekly market value or net assets (whichever was lower). In addition, Analyst I.M.S. is paid a reimbursement by the Investment Advisor for any Israeli Value Added taxes (currently 15.5%) and \$25,000 annually to cover expenses incurred in the execution of sub-advisory services. For the year ended December 31, 2009, Analyst I.M.S. earned \$190,504 for sub-advisory services.

Analyst I.M.S. has certain commercial arrangements with banks and brokers in Israel from which Analyst I.M.S. receives a portion of the commissions on the Fund's trades executed in Israel. For the year ended December 31, 2009, no such commissions were received.

Brown Brothers Harriman & Co. ("BBH & Co.") serves as the Fund's U.S. administrator. For the year ended December 31, 2009, BBH & Co. earned \$33,006 for administrative and fund accounting services.

Merrill Corporation ("Merrill"), an affiliate of Credit Suisse LLC, the previous investment adviser, has been engaged by the Fund to provide certain financial printing services. For the year ended December 31, 2009, Merrill was paid \$38,121 for its services to the Fund.

Fifty percent (50%) of the annual retainer of the Independent Directors is invested in Fund shares and, at the option of each Independent Director, 100% of the annual retainer can be invested in shares. During the year ended December 31, 2009, 1,046 shares were issued and an additional 954 shares were purchased pursuant

THE FIRST ISRAEL FUND, INC.
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DECEMBER 31, 2009

to the directors compensation plan. Directors as a group own less than 1% of the Fund's outstanding shares.

NOTE D. CAPITAL STOCK

The authorized capital stock of the Fund is 100,000,000 shares of common stock, \$0.001 par value. As of December 31, 2009 the Fund had 4,272,691 shares outstanding.

NOTE E. INVESTMENT IN SECURITIES

For the year ended December 31, 2009, purchases and sales of securities, other than short-term investments, were \$25,762,946 and \$26,863,596, respectively.

NOTE F. CREDIT FACILITY

Prior to July 1, 2009, the Fund, together with other funds/portfolios advised by Credit Suisse (collectively, the "Participating Funds"), participated in a \$50 million committed, unsecured, line of credit facility ("Credit Facility") with State Street Bank and Trust Company for temporary or emergency purposes. Under the terms of the Credit Facility, the Participating Funds paid an aggregate commitment fee on the average unused amount of the Credit Facility, which was allocated among the Participating Funds in such manner as was determined by the governing Boards of the Participating Funds. In addition, the Participating Funds paid interest on borrowings at either the Overnight Federal Funds rate or the Overnight LIBOR rate plus a spread. This arrangement ceased effective July 1, 2009.

On November 13, 2009, the Fund entered into a credit facility along with other Funds advised by Aberdeen (The Chile Fund, The Indonesia Fund, The Emerging Markets Telecommunications Fund, and The Latin America Equity Fund, collectively, the "Funds"). The Funds agreed to a \$10 million committed revolving credit facility with Brown Brothers Harriman & Co. for temporary or emergency purposes. Under the terms of the credit facility, the Funds will pay an aggregate

commitment fee on the average unused amount of the credit facility. In addition, the Funds will pay interest on borrowings at the Overnight LIBOR rate plus a spread. For the year ended December 31, 2009, the Fund had no borrowings under the Credit Facility.

NOTE G. FEDERAL INCOME TAXES

Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP.

For the year ended December 31, 2009 the Fund did not pay a distribution. For the year ended December 31, 2008 the Fund paid \$899,423 in distributions, classified as ordinary income and \$8,622,530 in distributions classified as long-term capital gains.

The tax basis of components of distributable earnings differ from the amounts reflected in the Statement of Assets and Liabilities by temporary book/tax differences. These differences are primarily due to losses deferred on wash sales, timing differences due to partnership investments, passive foreign investment companies and post October loss deferrals. At December 31, 2009, the components of distributable earnings on a tax basis, for the Fund were as follows:

| | |
|---------------------------------|---------------------|
| Deferral of post October losses | \$ (1,226,426) |
| Accumulated net realized loss | (2,485,901) |
| Unrealized appreciation | <u>19,650,434</u> |
| Total distributable earnings | <u>\$15,938,107</u> |

At December 31, 2009, the Fund had a capital loss carry forward for U.S. federal income tax purposes of \$2,485,901 that will expire in 2017. It is uncertain whether the Fund will be able to realize the benefits before they expire.

At December 31, 2009, the identified cost for federal income tax purposes, as well as the gross unrealized

THE FIRST ISRAEL FUND, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were \$50,406,511, \$27,042,927, \$(7,392,951) and \$19,649,976, respectively.

At December 31, 2009, the Fund reclassified \$181,716 from accumulated net investment loss and \$302,621

from paid in capital to accumulated net realized loss on investments and foreign currency related transactions. These permanent differences are due to differing book/tax treatments of foreign currency transactions, investments in passive foreign investment companies, distribution reclasses and partnership investments. Net assets were not affected by these reclassifications.

NOTE H. RESTRICTED SECURITIES

Certain of the Fund's investments are restricted as to resale and are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors under procedures established by the Board of Directors in the absence of readily ascertainable market values.

| <u>Security</u> | <u>Acquisition Date(s)</u> | <u>Cost</u> | <u>Fair Value At 12/31/09</u> | <u>Percent of Net Assets</u> | <u>Distributions Received</u> | <u>Open Commitments</u> |
|---|----------------------------|-------------|-----------------------------------|----------------------------------|-----------------------------------|-----------------------------|
| ABS GE Capital Giza Fund, L.P. | 02/03/98 – 02/13/02 | \$ 985,303 | \$ 84,200 | 0.12 | \$1,660,765 | \$ — |
| BPA Israel Ventures LLC | 10/05/00 – 12/09/05 | 1,160,529 | 525,842 | 0.75 | 97,293 | 625,412 |
| Concord Ventures II Fund L.P. | 09/29/00 – 12/15/06 | 1,316,619 | 343,926 | 0.49 | 129,290 | |
| Delta Fund I, L.P. | 11/15/00 – 03/28/07 | 167,473 | 102,216 | 0.15 | 57,937 | |
| Emerging Markets Ventures I, L.P. | 01/22/98 – 01/10/06 | 860,088 | 242,097 | 0.34 | 2,443,399 | 262,708 |
| Giza GE Venture Fund III L.P. | 01/31/00 – 11/23/06 | 834,089 | 268,825 | 0.38 | 329,171 | |
| K.T. Concord Venture Fund L.P. | 12/08/97 – 09/29/00 | 595,042 | 47,326 | 0.07 | 660,194 | |
| Neurone Ventures II, L.P. | 11/24/00 – 03/20/09 | 187,218 | 193,386 | 0.28 | 297,649 | 75,000 |
| Pitango Fund II LLC | 10/31/96 – 08/01/01 | 388,547 | 101,295 | 0.14 | 1,175,618 | |
| SVE Star Ventures Enterprises GmbH & Co. No. IX KG | 12/21/00 – 08/08/08 | 1,536,591 | 631,504 | 0.90 | 380,279 | |
| Walden-Israel Ventures III, L.P. | 02/23/01 – 11/02/06 | 856,151 | 749,395 | 1.07 | 942,976 | 29,562 |
| Total | | \$8,887,650 | \$3,290,012 | 4.69 | \$8,174,571 | \$992,682 |

The Fund may incur certain costs in connection with the disposition of the above securities.

NOTE I. CONTINGENCIES

In the normal course of business, the Fund may provide general indemnifications pursuant to certain contracts and organizational documents. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

NOTE J. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued Accounting Standard Codification 105-10, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("ASC 105- 10, formerly "SFAS 168"). ASC 105-10 replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" and establishes the "FASB Accounting Standards Codification" ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. All guidance contained in the Codification carries an equal level of authority. On the effective date of ASC 105-10, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Management has evaluated this new statement and the financial statements and notes to financial statements have been updated to reflect how the Funds' reference GAAP.

NOTE K. SUBSEQUENT EVENTS

In accordance with the provisions set forth in ASC 855 "Subsequent Events", management has evaluated the possibility of subsequent events existing in the Fund's financial statements through March 1, 2010.

To the Board of Directors and Shareholders
of The First Israel Fund, Inc.:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The First Israel Fund, Inc. (the "Fund") at December 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2009 by correspondence with the custodian and private equity issuers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
March 1, 2010

TAX INFORMATION (UNAUDITED)

For the year ended December 31, 2009, the Fund did not pay a distribution and therefore no amount was designated as qualified dividend income eligible for reduced tax rates.

PORTFOLIO MANAGER INFORMATION (UNAUDITED)

Effective July 1, 2009, the Fund is managed by the Global Emerging Markets Team. The Global Emerging Markets Team works in a truly collaborative fashion; all team members have both portfolio construction and research responsibilities. The Team is jointly and primarily responsible for the day-to-day management of the Fund, with the following members having the most significant responsibility for the day-to-day management of the Fund:

Devan Kaloo, Head of Emerging Markets

Devan joined Aberdeen in 2000 when the investment adviser for which he worked, Murray Johnstone International Ltd., was acquired by Aberdeen. Devan initially worked with the Asian equity team and was promoted to senior investment manager in 2003. In May 2005, he was appointed to his current position. Devan began his career at Martin Currie Ltd. in Edinburgh, initially working on the North American team before transferring to the global asset allocation desk. He has an MA (Hons) from St Andrews University and a postgraduate degree in Investment Analysis from Stirling University, also in Scotland.

Fiona Manning, CFA®, Investment Manager

Fiona is an investment manager on the emerging markets ex Asia team. She joined Aberdeen as part of a team acquired from Deutsche Asset Management' London in October 2005. Prior to joining Aberdeen, Fiona was an analyst with Deutsche since 2001. She graduated from the University of Durham with a BA Honours in History with French.

Andy Brown, CFA®, Investment Manager

Andrew Brown is an investment manager on the Global Emerging Markets Team. Andrew joined the Global Emerging Markets team at Aberdeen in 2005 after graduating from the University of St Andrews with a BSc in Geography. Andrew works within the Global Emerging Markets equity team which is responsible for research of companies and portfolio construction across Emerging Markets mandates. He is a CFA Charterholder.

Stephen Parr, Investment Manager

Stephen Parr is an investment manager on the Global Emerging Markets Team. Stephen joined Aberdeen in July 2009 following the acquisition of certain asset management businesses from Credit Suisse Asset Management. Stephen joined Credit Suisse Asset Management in March 2001 and was a Director of Credit Suisse Asset Management Limited ("Credit Suisse Ltd. U.K."). Previously, Stephen worked for Energis Communications as Head of Strategy (1998 to 2001). Prior to that, Stephen worked for Ernst & Young Management Consultants as a Managing Consultant (1996-1998) specialising in the telecommunications sector and prior to that for Energis Communications (1994-1996), Northern Telecom (1989-1994), and CASE Communications (1987-1989) where he worked in strategic planning and marketing management. Stephen graduated with an Upper second class honours degree in Geography from the University of Manchester, a Ph.D in Geography from the University of Keele and an MBA from Warwick Business School.

PORTFOLIO MANAGER INFORMATION (UNAUDITED) (CONTINUED)

Nick Robinson, CFA®, Investment Manager

Nick Robinson is an investment manager on the Global Emerging Markets Team and is director of Aberdeen's operations in São Paulo. Nick joined Aberdeen in 2000 and spent eight years on the North American Equities Team, including three years based in Aberdeen's US offices. In 2008 he returned to London to join the global emerging markets equities team. Nick relocated to São Paulo in 2009. Nick graduated with a MA in Chemistry from Lincoln College, Oxford and is a CFA Charterholder.

PROXY VOTING AND PORTFOLIO HOLDINGS INFORMATION (UNAUDITED)

Information regarding how the Fund voted proxies related to its portfolio securities during the 12-month period ended June 30, of each year, as well as the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities are available:

- By calling 1-866-839-5205;
- On the website of the Securities and Exchange Commission, www.sec.gov.

The Fund files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN (UNAUDITED)

The Fund offers a Dividend Reinvestment and Cash Purchase Plan (the "Plan") to its common stockholders. The Plan offers common stockholders a prompt and simple way to reinvest net investment income dividends and capital gains and other periodic distributions in shares of the Fund's common stock. Computershare Trust Company, N.A. ("Computershare") acts as Plan Agent for stockholders in administering the Plan.

Participation in the Plan is voluntary. In order to participate in the Plan, you must be a registered holder of at least one share of stock of the Fund. If you are a beneficial owner of the Fund having your shares registered in the name of a bank, broker or other nominee, you must first make arrangements with the organization in whose name your shares are registered to have the shares transferred into your own name. Registered shareholders can join the Plan via the Internet by going to www.computershare.com, authenticating your online account, agreeing to the Terms and Conditions of online "Account Access" and completing an online Plan Enrollment Form. Alternatively, you can complete the Plan Enrollment Form and return it to Computershare at the address below.

By participating in the Plan, your dividends and distributions will be promptly paid to you in additional shares of common stock of the Fund. The number of shares to be issued to you will be determined by dividing the total amount of the distribution payable to you by the greater of (i) the net asset value per share ("NAV") of the Fund's common stock on the payment date, or (ii) 95% of the market price per share of the Fund's common stock on the payment date. If the NAV of the Fund's common stock is greater than the market price (plus estimated brokerage commissions) on the payment date, then Computershare (or a broker-dealer selected by Computershare) shall

endeavor to apply the amount of such distribution on your shares to purchase shares of Fund common stock in the open market.

You should be aware that all net investment income dividends and capital gain distributions are taxable to you as ordinary income and capital gain, respectively, whether received in cash or reinvested in additional shares of the Fund's common stock.

The Plan also permits participants to purchase shares of the Fund through Computershare. You may invest \$100 or more monthly, with a maximum of \$120,000 in any annual period. Computershare will purchase shares for you on the open market on the 25th of each month or the next trading day if the 25th is not a trading day.

There is no service fee payable by Plan participants for dividend reinvestment. For voluntary cash payments, Plan participants must pay a service fee of \$5.00 per transaction. Plan participants will also be charged a pro rata share of the brokerage commissions for all open market purchases (\$0.03 per share as of October 2006). Participants will also be charged a service fee of \$5.00 (subject to change) for each sale and brokerage commissions of \$0.03 per share.

You may terminate your participation in the Plan at any time by requesting a certificate or a sale of your shares held in the Plan. Your withdrawal will be effective immediately if your notice is received by Computershare prior to any dividend or distribution record date; otherwise, such termination will be effective only with respect to any subsequent dividend or distribution. Your dividend participation option will remain the same unless you withdraw all of your whole and fractional Plan shares, in which case your participation in the Plan will be terminated and you will receive subsequent dividends and capital gains distributions in cash instead of shares.

If you want further information about the Plan, including a brochure describing the Plan in greater detail, please contact Computershare as follows:

By Internet: www.computershare.com

By phone: (800) 647-0584 (U.S. and Canada)

(781) 575-3100 (Outside U.S. and Canada)

Customer service associates are available from 9:00 a.m. to 5:00 p.m. Eastern time, Monday through Friday

By mail: The First Israel Fund, Inc.
 c/o Computershare
 P.O. Box 43078
 Providence, Rhode Island 02940-3078
 All notices, correspondence, questions or other communications sent by mail should be sent by registered or certified mail, return receipt requested.

The Plan may be terminated by the Fund or Computershare upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend or distribution.

INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED)

| Name, Address (Year of Birth) | Position(s) Held with Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Portfolios in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|--|---|---|--|---|---|
| Independent Directors | | | | | |
| Enrique R. Arzac c/o Aberdeen Asset Management Att: US Legal 1735 Market Street, 32nd Fl Philadelphia, PA 19103 (1941) | Chairman of the Board of Directors, Nominating Committee Chairman and Audit Committee Member | Since 1996; Chairman since 2005; current term ends at the 2012 annual meeting | Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971 | 5 | Director of Epoch Holding Corporation (an investment management and advisory services company); Director of The Adams Express Company (a closed-end investment company); Director of Petroleum and Resources Corporation (a closed-end investment company); Director of Starcomms PLC; Director of Credit Suisse Funds; Director of Credit Suisse Asset Management Income Fund, Inc. and Credit Suisse High Bond Yield Fund |
| James J. Cattano 999 Vanderbilt Road - Suite 200 Naples, FL 34108 (1943) | Director; Nominating Committee Member and Audit Committee Chairman | Since 2005; current term ends at the 2011 annual meeting | President, Primary Resources Inc. (an international trading and manufacturing company specializing in the sale of agricultural commodities throughout Latin American markets) since October 1996 | 5 | Director of Credit Suisse Asset Management Income Fund, Inc. and Director of Credit Suisse High Yield Bond Fund |
| Lawrence J. Fox One Logan Square 18th & Cherry Streets Philadelphia, PA 19103 (1943) | Director, Nominating and Audit Committee Member | Since 2006; current term ends at the 2010 annual meeting | Partner, Drinker Biddle & Reath (law firm) since 1976; Lecturer at Yale Law School (2009-Present) and Harvard Law School (2007 to Present); Adjunct Professor at University of Pennsylvania School of Law (1990-Present) | 4 | Director of Credit Suisse Asset Management Income Fund, Inc. and Director of Credit Suisse High Yield Bond Fund |

INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED) (CONTINUED)

| Name, Address (Year of Birth) | Position(s) Held with Fund | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years | Number of Portfolios in Fund Complex* Overseen by Director | Other Directorships Held by Director |
|---|--|--|--|---|---|
| Independent Directors—(continued) | | | | | |
| Steven N. Rappaport c/o Aberdeen Asset Management Att: US Legal 1735 Market Street, 32nd Fl Philadelphia, PA 19103 (1948) | Director; Nominating and Audit Committee Member | Since 1992; current term ends at the 2011 annual meeting | Partner of Lehigh Court, LLC and RZ Capital (private investment firms) from July 2002 to present. | 5 | Director of iCAD, Inc. (a surgical and medical instruments and apparatus company); Director of Presstek, Inc. (a digital imaging technologies company); Director of Credit Suisse Funds; Director of Credit Suisse Asset Management Income Fund, Inc. and Credit Suisse High Yield Bond Fund |

* Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Australia Equity Fund, Inc., Aberdeen Global Income Fund, Inc., The Chile Fund, Inc., The Indonesia Fund, Inc., The Latin America Equity Fund, Inc., The Emerging Markets Telecommunications Fund, Inc. and the Aberdeen Funds have a common Investment Manager and/or Investment Adviser with the Fund, or an investment adviser that is affiliated with the Investment Manager and Investment Adviser with the Fund, and may thus be deemed to be part of the same "Fund Complex" as the Fund.

INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED) (CONTINUED)

| Name, Address (Year of Birth) | Position(s) Held with Fund | Length of Time Served | Principal Occupation(s) During Past Five Years |
|---|---|-----------------------------|--|
| Officers | | | |
| Christian Pittard Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 (1973) | President | Since July 2009 | Currently, Group Head of Product Development, Collective Funds for Aberdeen Asset Management Investment Services Limited. Previously, Director and Vice President (2006-2008), Chief Executive Officer (from October 2005 to September 2006) and employee (from June 2005 to December 2008) of Aberdeen Asset Management Inc.; Member of Executive Management Committee of Aberdeen Asset Management PLC (from August 2005 to August 2006); Managing Director of Aberdeen Asset Management (C.I.) Limited (from 2000 to June 2005); Managing Director of Aberdeen Private Wealth Management Limited (from 2000 to May 2005). |
| Vincent McDevitt Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 (1966) | Chief Compliance Officer | Since July 2009 | Currently, CCO-Registered Funds for Aberdeen Asset Management Inc. Mr. McDevitt joined Aberdeen Asset Management Inc. in January 2008. He has ten years experience in the investment securities industry. Formerly with ING Clarion Real Estate Securities LP, Turner Investment Partners, Inc., and the Vanguard Group. |
| Megan Kennedy Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 (1974) | Vice President and Secretary | Since July 2009 | Currently, Head of Product Management for Aberdeen Asset Management Inc. Ms. Kennedy joined Aberdeen Asset Management Inc. in 2005 as a Senior Fund Administrator. Ms. Kennedy was promoted to Assistant Treasurer Collective Funds/North American Mutual Funds in February 2008 and promoted to Treasurer Collective Funds/North American Mutual Funds in July 2008. Prior to joining Aberdeen Asset Management Inc., Ms. Kennedy was a Private Equity Manager with PFPC (2002-2005). |
| Andrea Melia Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 (1969) | Treasurer and Chief Financial Officer | Since July 2009 | Currently, Head of Fund Accounting for Aberdeen Asset Management Inc. Ms. Melia joined Aberdeen Asset Management Inc. in September 2009. Prior to joining Aberdeen, Ms. Melia was Director of fund administration and accounting oversight for Princeton Administrators LLC, a division of BlackRock Inc. and had worked with Princeton Administrators since 1992. |
| William Baltrus Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 (1967) | Vice President | Since July 2009 | Currently, Head of Fund Operations for Aberdeen Asset Management Inc. Prior to joining Aberdeen Asset Management Inc. in November 2007, he was Vice President of Administration for Nationwide Funds Group from 2000-2007. |
| Alan Goodson Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 (1974) | Vice President | Since July 2009 | Currently, Head of US Collective Funds and Vice President of Aberdeen Asset Management Inc. Head of Finance (from 2000 to May 2005) and Company Secretary (from 2001 to May 2005) of Aberdeen Private Wealth Management Limited; Finance Director and Company Secretary of Aberdeen Asset Managers Jersey Limited (from 2002 to November 2005); Company Secretary of Aberdeen Asset Managers (C.I.) Limited (from 2001 to June 2005). |

INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED) (CONTINUED)

| Name, Address (Year of Birth) | Position(s) Held with Fund | Length of Time Served | Principal Occupation(s) During Past Five Years |
|--|----------------------------------|-----------------------------|--|
| Officers—(continued) | | | |
| Joanne Irvine Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 | Vice President | Since July 2009 | Currently, Head of Emerging Markets Ex. Asia on the global emerging markets equities team in London. Ms. Irvine joined Aberdeen in 1996 in a group development role. |
| (1968) | | | |
| Devan Kaloo Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 | Vice President | Since July 2009 | Currently, serves as Head of Global Emerging Markets. Mr. Kaloo joined Aberdeen in 2000 on the Asian portfolio team before becoming responsible for the Asian ex Japan region as well as regional portfolios within emerging market mandates and technology stocks. |
| (1972) | | | |
| Jennifer Nichols Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 | Vice President | Since July 2009 | Currently, Head of Legal—US, Vice President and Director of Aberdeen Asset Management Inc. Ms. Nichols joined Aberdeen Asset Management Inc. in October 2006. Prior to that, Ms. Nichols was an associate attorney in the Financial Services Group of Pepper Hamilton LLP (law firm) (2003-2006). Ms. Nichols graduated in 2003 with a J.D. from the University of Virginia School of Law. |
| (1978) | | | |
| Lucia Sitar Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 | Vice President | Since July 2009 | Currently, U.S. Counsel for Aberdeen Asset Management Inc. Ms. Sitar joined Aberdeen Asset Management Inc. in July 2007. Prior to that, Ms. Sitar was an associate attorney in the Investment Management Group of Stradley Ronan Stevens & Young LIP (law firm) (2000-2007). |
| (1971) | | | |
| Tim Sullivan Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 | Vice President | Since July 2009 | Currently, Head of Product Development Collective Funds/North American Mutual Funds and Vice President of Aberdeen Asset Management Inc. Mr. Sullivan joined Aberdeen Asset Management Inc. in 2000. |
| (1961) | | | |
| Hugh Young Aberdeen Asset Management Inc. 1735 Market Street, 32nd Floor Philadelphia, PA 19103 | Vice President | Since July 2009 | Currently, a member of the Executive Management Committee of Aberdeen Asset Management PLC. He has been Managing Director of Aberdeen Asset Management Asia Limited since 1991. Mr. Young also served as Director of Aberdeen Asset Managers (C.I.) Limited from 2000 to June 2005 and Director of Aberdeen Asset Management Asia Limited since 2000. |
| (1958) | | | |

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DIRECTORS AND CORPORATE OFFICERS

| | |
|---------------------|---------------------------------------|
| Enrique R. Arzac | Chairman of the Board of Directors |
| James J. Cattano | Director |
| Lawrence J. Fox | Director |
| Steven N. Rappaport | Director |
| Christian Pittard | President |
| Vincent McDevitt | Chief Compliance Officer |
| Megan Kennedy | Vice President and Secretary |
| Andrea Melia | Treasurer and Chief Financial Officer |
| William Baltrus | Vice President |
| Alan Goodson | Vice President |
| Joanne Irvine | Vice President |
| Devan Kaloo | Vice President |
| Jennifer Nichols | Vice President |
| Lucia Sitar | Vice President |
| Tim Sullivan | Vice President |
| Hugh Young | Vice President |

INVESTMENT ADVISER

Aberdeen Asset Management Investment Services Limited
Bow Bells House
1 Bread Street
London, United Kingdom
EC4M 9HH

INVESTMENT SUB-ADVISER

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46 Rothchild Boulevard
Tel Aviv, 66883 Israel

ADMINISTRATOR AND CUSTODIAN

Brown Brothers Harriman & Co.
40 Water Street
Boston, MA 02109

SHAREHOLDER SERVICING AGENT

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
125 High Street
Boston, MA 02110

LEGAL COUNSEL

Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019

The common shares of The First Israel Fund, Inc. are traded on the NYSE Amex Equities exchange, under the symbol "ISL". Information about the Fund's net asset value and market price is available at www.aberdeenisl.com.

This report, including the financial statements herein, is sent to the shareholders of the Fund for their information. The financial information included herein is taken from the records of the Fund without examination by independent registered public accountants who do not express an opinion thereon. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.