

Aberdeen Israel Fund, Inc.

Annual Report
December 31, 2012

2012



In the world of investment, there's always more to discover.

So at Aberdeen, our investment managers do their own exploration.



Aberdeen Closed-End Funds.

We believe it's better to discover opportunities for ourselves, rather than to take someone else's word for it.

At Aberdeen, we only invest in companies after we've met the management and gained an in-depth understanding of their business. As a result, we meet thousands of senior managers from companies around the globe every year, in a constant search for quality and value. It's time well spent, because only a very small number meet our exacting investment standards.

We hope you find this process of constant discovery reassuring because, with every decision based on first-hand experience, we believe our investments represent a fine blend of information and perspective.

For more information, contact our Investor Relations Team at 866-839-5205 or e-mail InvestorRelations@aberdeen-asset.com.

Aberdeen's Asia-Pacific, global and emerging markets closed-end funds listed in the U.S. are:

- Aberdeen Asia-Pacific Income Fund, Inc. (FAX)
- Aberdeen Australia Equity Fund, Inc. (IAF)
- Aberdeen Chile Fund, Inc. (CH)
- Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc. (ETF)
- Aberdeen Global Income Fund, Inc. (FCO)
- Aberdeen Indonesia Fund, Inc. (IF)
- Aberdeen Israel Fund, Inc. (ISL)
- Aberdeen Latin America Equity Fund, Inc. (LAQ)
- The Asia Tigers Fund, Inc. (GRR)
- The India Fund, Inc. (IFN)
- The Singapore Fund, Inc. (SGF)

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Closed-end funds have a one-time initial public offering and then are subsequently traded on the secondary market through one of the stock exchanges. The investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio. Past performance does not guarantee future results. Foreign securities are more volatile, harder to price and less liquid than U.S. securities. These risks may be enhanced in emerging market countries. Concentrating investments in a single country, region or industry may subject a fund to greater price volatility and risk of loss than more diverse funds. Investors should consider a fund's investment objectives, risks, charges and expenses carefully before investing. A copy of the prospectus for Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Chile Fund, Inc. and Aberdeen Global Income Fund, Inc. that contains this and other information about the fund may be obtained by calling 866-839-5205. Please read the prospectus carefully before investing. Investing in funds involves risk, including possible loss of principal. Aberdeen Asset Management Inc., 1735 Market Street, 32nd Floor, Philadelphia, PA 19103. NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Letter to Shareholders (unaudited)

Dear Shareholder,

We present this Annual Report which covers the activities of Aberdeen Israel Fund, Inc. (the "Fund") for the twelve-month period ended December 31, 2012. The Fund's principal investment objective is to seek long-term capital appreciation by investing primarily in equity securities of Israeli companies.

Total Return Performance

For the year ended December 31, 2012, the total return to shareholders of the Fund, based on the net asset value ("NAV") of the Fund, was 9.3%, assuming reinvestment of dividends and distributions, versus a return of 9.9% for the Fund's benchmark, the Tel Aviv-100 Index ("TA-100 Index").

Share Price and NAV

For the year ended December 31, 2012, based on market price, the Fund's total return was 5.8%, assuming reinvestment of dividends and distributions. The Fund's share price increased 2.7% over the twelve months, from \$12.75 on December 31, 2011 to \$13.10 on December 31, 2012. The Fund's share price on December 31, 2012 represented a discount of 15.4% to the NAV per share of \$15.49 on that date, compared with a discount of 12.7% to the NAV per share of \$14.60 on December 31, 2011.

Open Market Repurchase Program

The Fund's policy is generally to buy back Fund shares on the open market when the Fund trades at certain discounts to NAV. During the fiscal year ended December 31, 2012, the Fund repurchased and retired 5,501 shares through the program. During the fiscal year ended December 31, 2011, the Fund did not repurchase any shares.

Portfolio Holdings Disclosure

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The information on Form N-Q is also available to shareholders on the Fund's website or upon request and without charge by calling Investor Relations toll-free at 1-866-839-5205.

Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve months ended June 30 is available by August 30 of the relevant year: (i) upon request and

without charge by calling Investor Relations toll-free at 1-866-839-5205; and (ii) on the SEC's website at <http://www.sec.gov>.

Investor Relations Information

As part of our ongoing commitment to provide information to our shareholders, I invite you to visit the Fund on the web at www.aberdeenis.com. From this page, you can view monthly fact sheets, portfolio manager commentary, distribution and performance information, updated daily fact sheets courtesy of Morningstar®, conduct portfolio charting and other timely data.

Please take a look at Aberdeen's Closed-End Fund Talk Channel, where you can watch fund manager web casts and view our latest short films. For replays of recent broadcasts or to register for upcoming events, please visit Aberdeen's Closed-End Fund Talk Channel at www.aberdeenis.com.

Please ensure that you are enrolled in our email services, which feature timely news from our portfolio managers around the world. Enroll today at www.aberdeenis.com and be among the first to receive the latest closed-end fund news, announcements of upcoming fund manager web casts, films and other information. Please note that Aberdeen does not share our shareholder information with any other organizations.

Included within this report is a reply card with postage paid envelope. Please complete and mail the card if you would like to be added to our enhanced email service and receive future communications from Aberdeen.

Please contact Aberdeen Asset Management Inc. by:

- Calling toll free at 1-866-839-5205 in the United States;
- Emailing InvestorRelations@aberdeen-asset.com;
- Visiting Aberdeen Closed-End Fund Center at <http://www.aberdeenis.com>;
- Visiting www.aberdeenis.com.

Yours sincerely,



Christian Pittard
President

Report of the Investment Adviser (unaudited)

Market Review

Israeli equities rebounded during the year, with the benchmark TA-100 Index rising by 9.9% in US dollar terms. Sentiment was boosted by major central banks' monetary policy easing, better-than-expected domestic growth, and expectations that global interest rates will remain low.

The economy expanded by 3.3% in 2012, the slowest pace in three years, but outperformed many other developed economies. Despite weaker global growth, Israeli domestic consumption and exports rose. The Israeli central bank lowered rates four times to support the economy and set limits on mortgage spending to cool the housing market. Standard & Poor's reiterated the Israel's credit rating with a stable outlook.

On a more positive note, the Israeli government introduced a platform of austerity measures, which included higher taxes for top earners, new levies on cigarettes and beer, and higher sales tax. Separately, in April, Egypt unilaterally terminated its 20-year natural gas export contract with Israel due to a payment dispute. The trade agreement, which was a pillar of economic cooperation between the two countries, had been approved by former Egyptian president Hosni Mubarak in 2005. The action exacerbated the growing political tensions between the two nations following the ouster of Mubarak in February 2011.

With regard to the Fund's private equity holdings, the twelve months ended December 2012 have been a stable period for Israel's technology sector. The value of the Fund's portfolio has increased as a result of higher exit values received for the holdings as they reach maturity and write-ups of investment values. Some valuation

appreciations were the result of financings done at higher valuations or markups driven by valuation criteria. We also saw a slight increase in capital call and a decrease in distribution activities compared to last year. For the period of January through December 2012, the Fund received distributions from limited partnerships totaling \$626,748, compared to a total of \$699,264 during the same period of 2011. The largest distribution activities in 2012 came from Star Ventures IX in the amount of \$243,679. There was one capital call in the twelve months ended December 2012 that amounted to \$33,750. As of December 31, 2012, ISL had 5.8% of its total capital commitment still unfunded. It is unlikely to be called.

Portfolio Review and Performance

Considerable uncertainty in the external environment persists. In Europe, structural flaws in key economies remain, while the U.S. faces political impasse over budget negotiations. The resulting impact on demand will continue to weigh on Israel's exports. Additionally, to counter its rising budget deficit, the implementation of austerity measures is expected after the general elections in January. Nevertheless, the longer-term prospects for the economy remain positive. Unemployment remains low, while easing inflation enables flexible policymaking. The commencement of its natural gas production will also improve fiscal balances and boost growth. In view of this, the finance ministry raised its 2013 growth forecast by 0.5% to 3.5%. The economy has also proven its resilience in emerging from security crises. At the corporate level, we remain confident in our holdings, which we believe are backed by competitive business models, sound finances and proven management. In our view, this positions our portfolio to overcome any headwinds in the months ahead.

Aberdeen Asset Managers Limited

Dividend Reinvestment and Cash Purchase Plan (unaudited)

Computershare Trust Company, N.A., the Fund's transfer agent, sponsors and administers a Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan"), which is available to shareholders.

The Plan allows registered shareholders and first time investors to buy and sell shares and automatically reinvest dividends and capital gains through the transfer agent. This is a cost-effective way to invest in the Fund.

Please note that for both purchases and reinvestment purposes, shares will be purchased in the open market at the current share price and cannot be issued directly by the Fund.

For more information about the Plan and a brochure that includes the terms and conditions of the Plan, please call Computershare at 1-800-647-0584 or visit www.computershare.com/buyaberdeem.

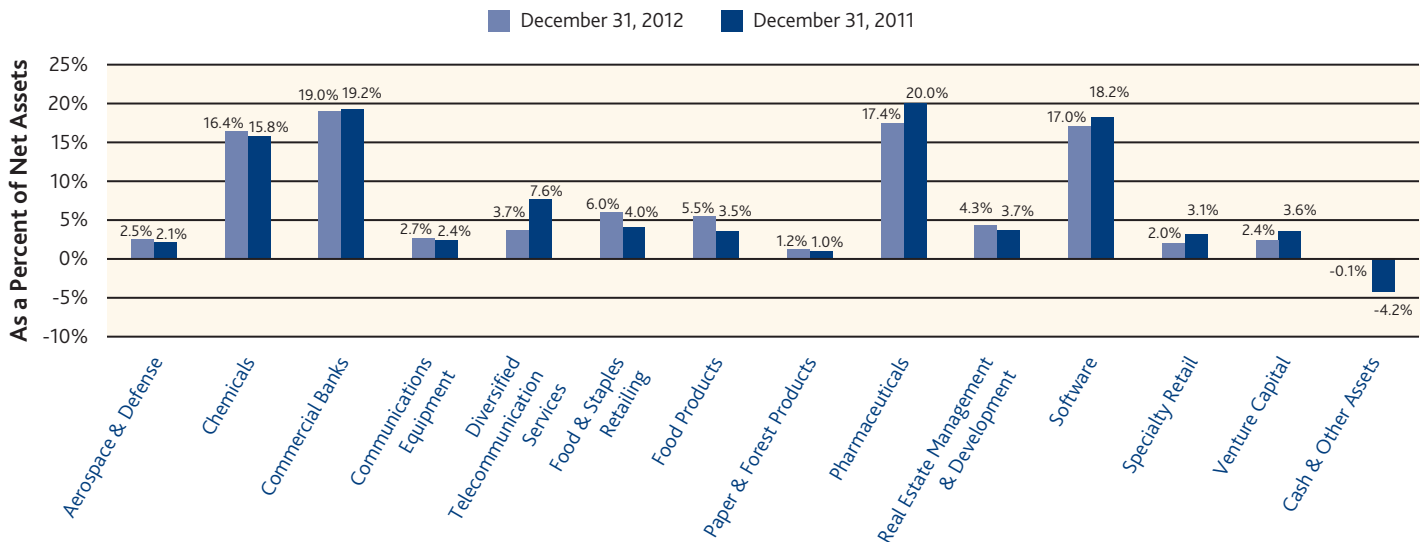
Portfolio Summary (unaudited)

December 31, 2012

The following chart summarizes the composition of the Fund's portfolio, in industry classification standard sectors, expressed as a percentage of net assets. An industry classification standard sector can include more than one industry group. As of December 31, 2012, the Fund did not have more than 25% of its assets invested in any industry group. The sectors, as classified by S&P's Global Industry Classification Standard Sectors, are comprised of several industry groups.

The following chart summarizes the composition of the Fund's portfolio, in sector allocation, expressed as a percentage of net assets.

Sector Allocation



Top 10 Holdings, by Issuer (unaudited)

December 31, 2012

Holding	Sector	Percent of Net Assets
1. Check Point Software Technologies Limited	Software	10.3%
2. Israel Chemicals Limited	Chemicals	9.6%
3. Teva Pharmaceutical Industries Limited, ADR	Pharmaceuticals	9.1%
4. Perrigo Co.	Pharmaceuticals	8.3%
5. Mizrahi Tefahot Bank Limited	Commercial Banks	7.4%
6. Osem Investments Limited	Food Products	5.5%
7. Frutarom Industries Limited	Chemicals	5.3%
8. Azrieli Group	Real Estate Management & Development	4.3%
9. Bank Leumi Le-Israel	Commercial Banks	4.1%
10. Bank Hapoalim Limited	Commercial Banks	3.8%

Average Annual Returns (unaudited)

December 31, 2012

The following table summarizes Fund performance compared to the TA-100 Index, the Fund's benchmark, for the 1-year, 3-year, 5-year and 10-year periods ended December 31, 2012.

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	9.28%	2.15%	1.15%	11.82%
Market Value	5.82%	(0.71)%	(4.48)%	12.58%
TA-100 Index	9.87%	0.00%	(1.29)%	14.92%

*Aberdeen Asset Managers Limited (and its predecessor Aberdeen Asset Management Investment Services Limited) has voluntarily waived fees and/or reimbursed expenses, without which 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, at prices pursuant to the Fund's dividend reinvestment program. Total investment return at market value is based on changes in the market price at which the Fund's shares traded on the NYSE MKT during the period and assumes reinvestment of dividends and distributions, if any, at prices pursuant to the dividend reinvestment program administered by Computershare Trust Company, N.A., the Fund's transfer agent. 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 both market price and NAV. **Past performance is no guarantee of future results.** The performance information provided does not reflect the deduction of taxes that a shareholder would pay on distributions received from the Fund. The current performance of the Fund may be lower or higher than the figures shown. The Fund's yield, return, 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 1.86%. The annualized net expense ratio after fee waivers and/or expense reimbursements is 1.62%.

Portfolio of Investments

December 31, 2012

No. of Shares	Description	Value
LONG-TERM EQUITY SECURITIES—100.3%		
ISRAEL—100.1%		
AEROSPACE & DEFENSE—2.5%		
42,000	Elbit Systems Limited ^(a)	\$ 1,685,282
CHEMICALS—16.4%		
280,000	Frutarom Industries Limited ^(a)	3,507,468
526,500	Israel Chemicals Limited ^(a)	6,340,715
1,505	The Israel Corp. Limited ^(a)	989,961
		10,838,144
COMMERCIAL BANKS—19.0%		
584,000	Bank Hapoalim Limited ^{(a)(b)}	2,505,617
796,000	Bank Leumi Le-Israel ^{(a)(b)}	2,709,447
168,000	First International Bank of Israel Limited ^{(a)(b)}	2,477,848
468,900	Mizrahi Tefahot Bank Limited ^{(a)(b)}	4,862,843
		12,555,755
COMMUNICATIONS EQUIPMENT—2.7%		
133,000	Ituran Location & Control Limited ^(a)	1,792,486
DIVERSIFIED TELECOMMUNICATION SERVICES—3.7%		
2,101,000	Bezeq Israeli Telecommunication Corp. Limited ^(a)	2,433,606
FOOD & STAPLES RETAILING—6.0%		
59,000	Rami Levi Chain Stores Hashikma Marketing 2006 Limited ^(a)	2,015,929
703,143	Shufersal Limited ^(a)	1,984,499
		4,000,428
FOOD PRODUCTS—5.5%		
211,220	Osem Investments Limited ^(a)	3,634,791
PAPER & FOREST PRODUCTS—1.2%		
15,637	Hadera Paper Limited ^(b)	766,936
PHARMACEUTICALS—17.4%		
53,000	Perrigo Co. ^(a)	5,486,033
160,820	Teva Pharmaceutical Industries Limited, ADR	6,005,019
		11,491,052
REAL ESTATE MANAGEMENT & DEVELOPMENT—4.3%		
109,000	Azrieli Group ^(a)	2,812,295
SOFTWARE—17.0%		
142,353	Check Point Software Technologies Limited ^(b)	6,781,697
59,000	NICE Systems Limited, ADR ^(b)	1,975,320
83,000	Retalix Limited ^(b)	2,464,279
		11,221,296
SPECIALTY RETAIL—2.0%		
525,500	Golf & Co., Limited ^(a)	1,341,298
VENTURE CAPITAL—2.4%		
1,250,001 ^(c)	ABS GE Capital Giza Fund, L.P. ^{(a)(b)(d)(e)}	71,600
1,674,588 ^(c)	BPA Israel Ventures, LLC ^{(a)(b)(d)(e)(f)}	383,067

Portfolio of Investments (concluded)

December 31, 2012

No. of Shares	Description	Value
LONG-TERM EQUITY SECURITIES (continued)		
ISRAEL (continued)		
VENTURE CAPITAL (continued)		
1,000,000 ^(c)	Concord Fund I Liquidating Main Trust ^{(a)(b)(d)(e)}	\$ 51,351
2,000,000 ^(c)	Concord Ventures Fund II, L.P. ^{(a)(b)(d)(e)}	34,676
250,440 ^(c)	Delta Fund I, L.P. ^{(a)(b)(d)(e)}	166,354
1,250,000 ^(c)	Giza GE Venture Fund III, L.P. ^{(a)(b)(d)(e)}	186,263
742,434 ^(c)	Neurone Ventures II, L.P. ^{(a)(b)(d)(e)(f)}	162,474
1,200,000 ^(c)	Pitango Fund II, LLC ^{(a)(b)(d)(e)}	71,381
2,001,470 ^(c)	SVE Star Ventures Enterprises GmbH & Co. No. IX KG ^{(a)(b)(d)(e)}	320,275
1,375,001 ^(c)	Walden-Israel Ventures III, L.P. ^{(a)(b)(d)(e)}	155,746
		1,603,187
	Total Israel (cost \$56,377,704)	66,176,556
GLOBAL—0.2%		
VENTURE CAPITAL—0.2%		
2,237,292 ^(c)	Emerging Markets Ventures I, L.P. (cost \$795,180) ^{(a)(b)(d)(e)(f)}	109,068
	Total Long-Term Equity Securities (cost \$57,172,884)	66,285,624
Principal Amount (000's)		
SHORT-TERM INVESTMENT—2.4%		
GRAND CAYMAN—2.4%		
\$1,578	Wells Fargo, overnight deposit, 0.03%, 01/02/13 (cost \$1,578,000)	1,578,000
	Total Investments—102.7% (cost \$58,750,884)	67,863,624
	Liabilities in Excess of Cash and Other Assets—(2.7)%	(1,778,779)
	Net Assets—100.0%	\$66,084,845

(a) Security was fair valued as of December 31, 2012. Security is valued at fair value as determined in good faith by, or under the direction of, the Board of Directors (the "Board") under procedures established by the Board. (See Note 2).

(b) Non-income producing security.

(c) Represents contributed capital.

(d) Restricted security, not readily marketable. (See Note 7).

(e) Illiquid Security.

(f) As of December 31, 2012, the aggregate amount of open commitments for the Fund is \$906,870. (See Note 7).

ADR American Depositary Receipts.

See Notes to Financial Statements.

Statement of Assets and Liabilities

As of December 31, 2012

Assets	
Investments, at value (Cost \$58,750,884)	\$ 67,863,624
Cash (including \$128,530 of foreign currencies with a cost of \$127,909)	129,468
Distribution receivable	108,166
Israeli tax refunds receivable (Note 2)	53,263
Dividends receivable	17,321
Prepaid expenses	7,088
Total assets	68,178,930
Liabilities	
Dividends and distributions (Note 2)	1,765,621
Investment advisory fees payable (Note 3)	141,662
Investor relations fees payable (Note 3)	28,301
Directors' fees payable	14,386
Shares redeemed payable	13,140
Administration fees payable (Note 3)	5,001
Accrued expenses and other liabilities	125,974
Total liabilities	2,094,085
Net Assets	\$66,084,845
Net Assets consist of	
Capital stock, \$0.001 par value (Note 5)	\$ 4,267
Paid-in capital	53,647,000
Distributions in excess of net investment income	(228,087)
Accumulated net realized gain on investments and foreign currency related transactions	3,548,291
Net unrealized appreciation on investments and foreign currency translation	9,113,374
Net Assets applicable to shares outstanding	\$66,084,845
Net asset value per share, based on 4,267,190 shares issued and outstanding	\$ 15.49

See Notes to Financial Statements.

Statement of Operations

For the Year Ended December 31, 2012

Investment Income

Income:

Dividends and other income	\$ 2,127,846
Less: Foreign taxes withheld	(356,166)
Total investment income	1,771,680

Expenses:

Investment advisory fees (Note 3)	711,833
Directors' fees and expenses	103,435
Independent auditor's fees and expenses	67,800
Reports to shareholders and proxy solicitation	62,992
Investor relations fees and expenses (Note 3)	56,971
Custodian's fees and expenses	53,993
Legal fees and expenses	35,873
Administration fees (Note 3)	30,001
Transfer agent's fees and expenses	28,010
Insurance expense	12,576
Miscellaneous	18,021
Total expenses	1,181,505
Less: Fee waivers (Note 3)	(155,785)
Net expenses	1,025,720

Net investment income	745,960
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Net Realized and Unrealized Gain/(Loss) on Investments and Foreign Currency Related Transactions

Net realized gain/(loss) on:

Investment transactions*	1,416,780
Foreign currency transactions	35,187
Net change in unrealized appreciation of investments and foreign currency translation	3,339,733
Net realized and unrealized gain on investments and foreign currency transactions	4,791,700
Net Increase in Net Assets Resulting from Operations	\$ 5,537,660

* Includes realized gain portion of distributions from underlying venture capital investments of \$176,795.

See Notes to Financial Statements.

Statements of Changes in Net Assets

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Increase/(Decrease) in Net Assets		
Operations:		
Net investment income	\$ 745,960	\$ 1,350,860
Net realized gain on investments and foreign currency related transactions	1,451,967	5,284,126
Net change in unrealized appreciation/(depreciation) on investments and foreign currency translations	3,339,733	(23,528,465)
Net increase/(decrease) in net assets resulting from operations	5,537,660	(16,893,479)
Dividends and distributions to shareholders from:		
Net investment income	(744,671)	(1,304,837)
Net realized gain on investments	(1,020,951)	(3,240,623)
Total dividends and distributions to shareholders	(1,765,622)	(4,545,460)
Capital share transactions:		
Redemption of shares	(73,882)	-
Total increase/(decrease) in net assets resulting from operations	3,698,156	(21,438,939)
Net Assets		
Beginning of year	62,386,689	83,825,628
End of year*	\$66,084,845	\$62,386,689

* Includes distributions in excess of net investment income and undistributed net investment income of \$(228,087) and \$0, respectively.

See Notes to Financial Statements.

Financial Highlights

	For the Fiscal Years Ended December 31,				
	2012	2011	2010	2009	2008
PER SHARE OPERATING PERFORMANCE(a)					
Net asset value, beginning of year	\$14.60	\$19.62	\$16.44	\$8.99	\$20.85
Net investment income	0.18	0.32	0.33	0.03	0.20
Net realized and unrealized gain/(loss) on investments and foreign currency related transactions	1.12	(4.27)	3.15	7.42	(9.83)
Net increase/(decrease) in net assets resulting from operations	1.30	(3.95)	3.48	7.45	(9.63)
Dividends and distributions to shareholders from:					
Net investment income	(0.17)	(0.31)	(0.30)	–	(0.30)
Net realized gain	(0.24)	(0.76)	–	–	(1.93)
Total dividends and distributions to shareholders	(0.41)	(1.07)	(0.30)	–	(2.23)
Net asset value, end of year	\$15.49	\$14.60	\$19.62	\$16.44	\$8.99
Market value, end of year	\$13.10	\$12.75	\$17.40	\$15.14	\$8.02
Total Investment Return Based on:(b)					
Market value	5.82%	(20.88%)	16.88%	88.78%	(57.01%)
Net asset value	9.28%	(19.65%)	21.37%	82.87%	(45.71%)
Ratio/Supplementary Data					
Net assets, end of year (000 omitted)	\$66,085	\$62,387	\$83,826	\$70,246	\$38,382
Average net assets (000 omitted)	\$63,372	\$77,324	\$73,076	\$53,545	\$76,165
Ratio of expenses to average net assets, net of fee waivers	1.62%	1.60%	1.67%	1.85%	1.73%
Ratio of expenses to average net assets, excluding fee waivers	1.86%	1.83%	1.91%	2.12%	2.02%
Ratio of net investment income to average net assets	1.18%	1.75%	1.94%	0.24%	1.14%
Portfolio turnover rate	11.44%	21.89%	11.59%	49.51%	19.43%

(a) Based on average shares outstanding.

(b) Total investment return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each reporting period. Dividends and distributions, if any, are assumed, for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

See Notes to Financial Statements.

Notes to Financial Statements

December 31, 2012

1. Organization

Aberdeen 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 ("the 1940 Act"), as a closed-end, non-diversified management investment company. The Fund trades on the NYSE MKT under the ticker symbol "ISL".

The Fund seeks long-term capital appreciation by investing primarily in equity securities of Israeli companies.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The financial statements of the Fund are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses for the period. Actual results could differ from those estimates. The U.S. Dollar is used as both the functional and reporting currency.

(a) Security Valuation:

The Fund is required to value its securities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Equity securities that are traded on an exchange are valued at the last quoted sale price on the principal exchange on which the security is traded at the "Valuation Time." The Valuation Time is as of the close of regular trading on the New York Stock Exchange (usually 4:00 p.m. Eastern Time). In the absence of a sale price, the security is valued at the mean of the bid/ask price quoted at the close on the principal exchange on which the security is traded. Securities traded on NASDAQ are valued at the NASDAQ official closing price. Closed-end funds and exchange traded funds are valued at the market price of the security at the Valuation Time. A security using any of these pricing methodologies is determined as a Level 1 investment.

Foreign equity securities that are traded on foreign exchanges that close prior to the Valuation Time are valued by applying fair valuation factors to the last sale price. Fair valuation factors are provided by an independent pricing service provider. When the fair value factors are utilized, the value assigned to the foreign securities may not be the same as quoted or published prices of the securities on their primary

markets. These factors are based on inputs such as, depositary receipts, S&P 500 Index/S&P 500 Futures, Nikkei 225 Futures, sector indices/ETFs, exchange rates, and historical opening and closing prices of each security. If the pricing service is unable to provide a valuation factor, or if the valuation factor falls below a predetermined threshold, the security is valued at the last sale price. A security that applies a fair valuation factor is determined as a Level 2 investment. When no fair valuation factor is applied, the security is determined as a Level 1 investment.

In the event that a security's market quotation is not readily available or is deemed unreliable, the fair value of a security is determined by the Fund's Pricing Committee (which is appointed by the Board of Directors), taking into account the relevant factors and surrounding circumstances. A security that has been fair valued may be classified as Level 2 or 3 depending on the nature of the inputs.

The Fund also invests in venture capital private placement securities, which are deemed to be restricted securities. In the absence of readily ascertainable market values these securities are valued at fair value as determined in good faith by, or under the direction of the Board, under procedures established by the Board. The Fund's estimate of fair value assumes a willing buyer and a willing seller neither of whom are 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. These securities are categorized as Level 3 investments. Level 3 investments have significant unobservable inputs, as they trade infrequently. In determining the fair value of these investments, management uses the market approach which includes as the primary input the capital balance reported; however, adjustments to the reported capital balance may be made based on various factors, including, but not limited to, the attributes of the interest held, including the rights and obligations, and any restrictions or illiquidity of such interests, and the fair value of these venture capital investments.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Fund discloses the fair value of its investments in a hierarchy that classifies the inputs to valuation techniques used to measure the fair value. The hierarchy assigns Level 1 measurements to valuations based upon unadjusted quoted prices in active markets for identical assets, Level 2 measurements to valuations based upon adjusted quoted prices in active markets for identical assets and Level 3 measurements to valuations based upon unobservable inputs that are significant to the valuation. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability, which

Notes to Financial Statements (continued)

December 31, 2012

are 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 below:

Level 1 – quoted prices in active markets for identical investments;
Level 2 – other significant observable inputs (including quoted prices

for similar securities, interest rates, prepayment speeds, credit risk, etc); or

Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement.

The following is a summary of the inputs used as of December 31, 2012 in valuing the Fund's investments carried at fair value. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Refer to the Portfolio of Investments for a detailed breakout of the security types:

Investments, at value	Level 1	Level 2	Level 3	Balance as of 12/31/2012
Long-Term Investments				
Paper & Forest Products	\$766,936	\$–	\$–	\$766,936
Pharmaceuticals	6,005,019	5,486,033	–	11,491,052
Software	11,221,296	–	–	11,221,296
Venture Capital	–	–	1,712,255	1,712,255
Other	–	41,094,085	–	41,094,085
Short-Term Investments	–	1,578,000	–	1,578,000
Total	\$17,993,251	\$48,158,118	\$1,712,255	\$67,863,624

Amounts listed as "-" are \$0 or round to \$0.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing transfers at the end of each period. As described above, certain foreign securities are fair valued utilizing an independent pricing service to reflect any significant market movements between the time the Fund values such foreign securities and the earlier closing of foreign markets. For some securities, the pricing service is unable to provide a valuation factor. The utilization of these procedures results in transfers between Level 1 and Level 2. During the year ended December 31, 2012, the securities issued by Retalix Limited and Hadera Paper Limited, in the amounts of \$2,464,279 and \$766,936, respectively, transferred from Level 2 to Level 1 because there was not a fair value factor applied at December 31, 2012. For the year ended December 31, 2012, there have been no significant changes to the fair valuation methodologies.

The significant unobservable inputs used in the fair value measurement of the Fund's venture capital holdings are audited financial statements, expenses incurred from the partnerships, interim financial statements, capital calls, and distributions. These unobservable inputs are used by taking the most recent quarterly valuation statements and adjusting the value using the unobservable inputs mentioned above. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

	Fair Value at 12/31/12	Valuation Technique	Unobservable Inputs	Range
Venture Capital	\$1,712,255	Partner Capital Value/Net Asset Value	Expenses Capital Calls & Distributions	\$0 – (\$22,329) \$33,750 – (\$134,441)

Notes to Financial Statements (continued)

December 31, 2012

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

Investments, at value	Balance as of 12/31/2011	Accrued discounts/ premiums	Realized gain/(loss)	Change in unrealized appreciation/ (depreciation)	Capital Contributed	Distributions/ Sales	Transfers into Level 3	Transfers out of Level 3	Balance as of 12/31/2012
Venture Capital	\$2,214,284	\$-	\$-	\$(85,857)	\$33,750	\$(449,922)	\$-	\$-	\$1,712,255
Total	\$2,214,284	\$-	\$-	\$(85,857)	\$33,750	\$(449,922)	\$-	\$-	\$1,712,255

Change in unrealized appreciation/depreciation relating to Level 3 investments still held at December 31, 2012 is \$(85,857).

(b) Short-Term Investment:

The Fund sweeps available cash into a short-term time deposit available through Brown Brothers Harriman & Co. ("BBH & Co."), the Fund's custodian. The short-term time deposit is a variable rate account classified as a short-term investment.

(c) Foreign Currency Transactions:

Foreign currency amounts are translated into U.S. Dollars on the following basis:

- (I) market value of investment securities, other assets and liabilities at the rate of exchange at the Valuation Time; 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. federal 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 currency transactions 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.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin, including unanticipated movements in the value of the foreign currency relative to the U.S. Dollar. When the U.S. Dollar rises in value against foreign currency, the Fund's investments denominated in that currency will lose value because its currency is worth fewer U.S. Dollars; the opposite effect occurs if the U.S. Dollar falls in relative value.

(d) Security Transactions and Investment Income:

Securities transactions are recorded on the trade date. Realized and unrealized gains/(losses) from security and currency transactions are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date except for certain dividends on foreign securities, which are recorded as soon as the Fund is informed after the ex-dividend date. Interest income is recorded on an accrual basis. Expenses are recorded on an accrual basis.

(e) Distributions:

On an annual basis, the Fund intends to distribute its net realized capital gains, if any, by way of a final distribution to be declared during the calendar quarter ending December 31. Dividends and distributions to shareholders are recorded on the ex-dividend date.

Dividends and distributions to shareholders are determined in accordance with federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing treatments for foreign currencies.

(f) Federal Income Taxes and Foreign Taxes:

The Fund intends to qualify or continue to qualify as a "regulated investment company" by complying with the provisions available to certain investment companies, as defined in Subchapter M of the Internal Revenue Code of 1986, as amended ("IRC"), and to make distributions of net investment income and net realized capital gains

Notes to Financial Statements (continued)

December 31, 2012

sufficient to relieve the Fund from all, or substantially all, federal income taxes. Therefore, no federal income tax provision is required.

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 supports 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, 2012, 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. For the year ended December 31, 2012, the Fund will file the necessary returns with the Israel tax authority to reclaim a portion of the withholding taxes as previously paid in the amount \$53,263, as noted in the Statement of Assets and Liabilities.

The Fund recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Since tax authorities can examine previously filed tax returns, the Fund's U.S. federal tax returns for each of the prior four years up to the year ended December 31, 2012 are subject to such review.

(g) 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.

3. Agreements and Transactions With Affiliates

(a) Investment Adviser and Former Sub-Adviser:

Aberdeen Asset Managers Limited ("AAML" or "Adviser") serves as the Fund's investment adviser with respect to all investments. AAML is a

direct wholly-owned subsidiary of Aberdeen Asset Management PLC. On March 1, 2012, the previous investment adviser, Aberdeen Asset Management Investment Services Limited ("AAMISL"), merged into AAML, which assumed the investment advisory responsibility for the Fund. There was no change to the portfolio management team or the level or nature of the services provided to the Fund as a result of the merger, and the same resources available to AAMISL for the management and compliance oversight of the Fund are available to AAML. AAML 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% on amounts above \$200 million. AAML has voluntarily agreed to waive a portion of its advisory fee. For the year ended December 31, 2012, AAML earned \$711,833 for advisory services, of which AAML waived \$155,785. Amounts shown as paid to AAML include amounts paid to AAMISL prior to March 1, 2012.

On December 6, 2011, the Board, including a majority of the Directors that are not deemed "interested persons" (as that term is defined in Section 2(a)(19) of the 1940 Act) of the Fund or the Fund's investment adviser, voted to terminate the Fund's sub-advisory agreement with Analyst Exchange and Trading Services Ltd. ("Analyst Exchange"), effective February 4, 2012. Prior to that Analyst Exchange was paid a fee, out of the advisory fee payable to AAML, 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 Exchange was paid a reimbursement by AAML 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 period from January 1, 2012 to February 4, 2012, Analyst Exchange earned \$20,350 for sub-advisory services to the Fund.

Analyst Exchange had certain commercial arrangements with banks and brokers in Israel from which Analyst Exchange, prior to its termination as sub-adviser, received a portion of the commissions on the Fund's trades executed in Israel. For the period from January 1, 2012 to February 4, 2012, no such commissions were received.

(b) Fund Administration:

BBH & Co. is the Administrator for the Fund and certain other funds advised by AAML and its affiliates (collectively the "Funds"). The Funds pay BBH & Co. a monthly administration and fund accounting service fee at an annual rate of 0.02% of the Funds' aggregate assets up to

Notes to Financial Statements (continued)

December 31, 2012

\$250 million, 0.015% for the next \$250 million and 0.01% in excess of \$500 million.

Each Fund pays its pro rata portion of the fee based on its level of assets with a monthly minimum of \$2,500. For the year ended December 31, 2012, BBH & Co. earned \$30,001 from the Fund for administrative and fund accounting services.

(c) Investor Relations:

Under the terms of an Investor Relations Services Agreement, Aberdeen Asset Management Inc. ("AAMI"), an affiliate of AAML, provides investor relations services to the Fund and certain other funds advised by AAML or its affiliates.

Pursuant to the terms of the Investor Relations Services Agreement, AAMI, among other things, provides objective and timely information to shareholders based on publicly-available information; provides information efficiently through the use of technology while offering shareholders immediate access to knowledgeable investor relations representatives; develops and maintains effective communications with investment professionals from a wide variety of firms; creates and maintains investor relations communication materials such as fund manager interviews, films and webcasts, published white papers, magazine and articles and other relevant materials discussing the Fund's investment results, portfolio positioning and outlook; develops and maintains of effective communications with large institutional shareholders; responds to specific shareholder questions; and reports activities and results to the Board and management detailing insight into general shareholder sentiment.

For the year ended December 31, 2012, the Fund paid fees of approximately \$56,303 for investor relations services. Investor relations fees and expenses in the Statement of Operations include certain out-of-pocket expenses.

(d) Director Purchase Plan:

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 of the Fund. During the year ended December 31, 2012, 2,988 shares were purchased pursuant to the Directors compensation plan. As of December 31, 2012, the Directors as a group owned less than 1% of the Fund's outstanding shares.

4. Investment Transactions

For the year ended December 31, 2012, Fund purchases and sales of securities, other than short-term investments, were \$7,153,408 and \$9,982,803, respectively.

5. Capital

The authorized capital stock of the Fund is 100,000,000 shares of common stock, \$0.001 par value. During the year ended December 31, 2012, the Fund repurchased 5,501 shares pursuant to its Share Repurchase Program. Please see Note 8 for more information. As of December 31, 2012, the Fund had 4,267,190 shares issued and outstanding.

6. Credit Facility

The Fund was a party to a joint credit facility along with certain other funds advised by AAML and its affiliates (collectively the "Funds"). The Funds agreed to a \$10 million committed revolving joint credit facility with BBH & Co. for temporary or emergency purposes. Under the terms of the joint credit facility, the Funds paid an aggregate commitment fee on the average unused amount of the credit facility. In addition, the Funds paid interest on borrowings at the Overnight LIBOR rate plus a spread. For the year ended December 31, 2012, the Fund had no borrowings under the joint credit facility. The Board determined the renewal of the credit facility was not necessary and therefore the facility expired on November 9, 2012.

Notes to Financial Statements (continued)

December 31, 2012

7. 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 under procedures established by the Board in the absence of readily ascertainable market values.

Security	Acquisition Date(s)	Cost	Fair Value At 12/31/12	Percent of Net Assets	Distributions Received	Open Commitments
ABS GE Capital Giza Fund, L.P.	02/03/98 – 02/13/02	\$985,303	\$71,600	0.11	\$1,660,765	\$–
BPA Israel Ventures, LLC	10/05/00 – 12/09/05	1,073,956	383,067	0.58	183,866	625,412
Concord Fund I Liquidating Main Trust	12/08/97 – 09/29/00	561,990	51,351	0.08	693,246	–
Concord Ventures Fund II, L.P.	09/29/00 – 12/15/06	1,151,047	34,676	0.05	497,693	–
Delta Fund I, L.P.	11/15/00 – 03/28/07	113,567	166,354	0.25	197,461	–
Emerging Markets Ventures I, L.P.	01/22/98 – 01/10/06	795,180	109,068	0.16	2,541,115	262,708
Giza GE Venture Fund III, L.P.	01/31/00 – 11/23/06	812,887	186,263	0.28	350,373	–
Neurone Ventures II, L.P.	11/24/00 – 02/14/12	199,278	162,474	0.25	401,834	18,750
Pitango Fund II, LLC	10/31/96 – 08/01/01	371,350	71,381	0.11	1,215,237	–
SVE Star Ventures Enterprises GmbH & Co. No. IX KG	12/21/00 – 08/08/08	1,365,921	320,275	0.48	704,017	–
Walden-Israel Ventures III, L.P.	02/23/01 – 10/20/10	784,490	155,746	0.24	1,218,384	–
Total		\$8,214,969	\$1,712,255	2.59	\$9,663,991	\$906,870

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

8. Open Market Repurchase Program

The Board authorized, but does not require, management to make open market purchases from time to time in an amount up to 10% of the Fund's outstanding shares, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and other applicable federal securities laws. Such purchases may be made when, in the reasonable judgment of management, such repurchases may enhance shareholder value and when each such Fund's shares are trading at a discount to net asset value of 12% or more, subject to intraday fluctuations that may result in repurchases at discounts below 12%. The Board has instructed management to report repurchase activity to it regularly, and to post the number of shares repurchased on the Fund's website on a monthly basis. For the year ended December 31, 2012, the Fund repurchased 5,501 shares through this program.

9. Portfolio Investment Risks

(a) Risks Associated with Foreign Securities and Currencies:

Investments in securities of foreign issuers carry certain risks not ordinarily associated with investments in securities of U.S. issuers. Such risks include, among others, currency risk, information risk and political risk. Currency risk results from securities denominated in currencies other than U.S. Dollars that are subject to changes in value due to fluctuations in exchange rates. Information risk arises with respect to

foreign securities when key information about foreign issuers may be inaccurate or unavailable. Political risk includes future political and economic developments, and the possible imposition of exchange controls or other foreign governmental laws and restrictions. In addition, with respect to certain countries, there is the possibility of expropriation of assets, confiscatory taxation, political or social instability or diplomatic developments, which could adversely affect investments in those countries. Other risks of investing in foreign securities include liquidity and valuation risks.

Certain countries also may impose substantial restrictions on investments in their capital markets by foreign entities, including restrictions on investments in issuers of industries deemed sensitive to relevant national interests. These factors may limit the investment opportunities available and result in a lack of liquidity and high price volatility with respect to securities of issuers from developing countries.

Some countries require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if there is deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad. Amounts repatriated prior to the end of specified periods may be subject to taxes as imposed by a foreign country.

Notes to Financial Statements (continued)

December 31, 2012

(b) Risks Associated with Israeli Markets:

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.

(c) Risks Associated with Restricted Securities:

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 venture capital 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 that underlying 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 venture capital funds may take longer to liquidate 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 disclosures and other investor protection requirements applicable to companies whose securities are publicly traded.

(d) Risks Associated with European Markets:

A number of countries in Europe have experienced severe economic and financial difficulties. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts; many other issuers have faced difficulties obtaining credit or refinancing existing obligations; financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit; and financial markets in Europe and elsewhere have experienced extreme volatility and declines in asset values and liquidity. These difficulties may continue, worsen or spread within and without Europe whether or not the Fund invests in securities of issuers located in Europe or with significant exposure to European issuers or countries, these events could negatively affect the value and liquidity of the Fund's investments.

10. 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.

11. Tax Information

The U.S. federal income tax basis of the Fund's investments and the net unrealized appreciation as of December 31, 2012 were as follows:

Tax Basis of Investments	Appreciation	Depreciation	Net Unrealized Appreciation
\$55,488,108	\$23,605,230	\$(11,229,714)	\$12,375,516

Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. The tax character of distributions paid during the fiscal years ended December 31, 2012 and December 31, 2011 was as follows:

	December 31, 2012	December 31, 2011
Distributions paid from:		
Ordinary Income	\$744,671	\$1,296,737
Long Term Capital Gains	1,020,951	3,248,723
Total tax character of distributions	\$1,765,622	\$4,545,460

Notes to Financial Statements (concluded)

December 31, 2012

At December 31, 2012, the components of accumulated earnings on a tax basis, for the Fund were as follows:

Undistributed Ordinary Income	\$23,228
Undistributed Long-Term Capital Gains	285,516
Other Book/Tax temporary Differences	3,011,460
Unrealized Appreciation	9,113,374
Total accumulated earnings	\$12,433,578

As of December 31, 2012, the Fund has no capital loss carryforward. Under the recently enacted Regulated Investment Company Modernization Act of 2010 ("RIC-Mod"), the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year, \$229,374 has been reclassified from distributions in excess of net investment income to accumulated net realized gain on investments and foreign currency related transactions and \$2 has been reclassified from distributions in excess of net investment income to paid in capital as a result of permanent differences primarily attributable to partnership investments and foreign currency transactions. These reclassifications have no effect on net assets or net asset values per share.

12. Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"). No. 2011-11, Balance Sheet (Topic 210): "Disclosures about Offsetting Assets and Liabilities". The amendments in the ASU enhance disclosures about offsetting of financial assets and liabilities to enable investors to understand the effect of these arrangements on a fund's financial position. In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in ASU No. 2013-01 clarify the intended scope of disclosures required by ASU No. 2011-11. These ASU's are effective for interim and annual reporting periods beginning on or after January 1, 2013. The Fund believes the adoption of these ASU's will not have a material impact on its financial statements.

13. Subsequent Events

Management has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financials statements were issued. Based on this evaluation, no adjustments were required to the financial statements as of December 31, 2012.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Aberdeen Israel Fund, Inc. (the "Fund") at December 31, 2012, 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 each of the five years in the period then ended, 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 audits. We conducted our audits 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 audits, which included confirmation of securities at December 31, 2012 by correspondence with the custodian and venture capital issuers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, NY
February 26, 2013

Tax Information (unaudited)

The following information is provided with respect to the distributions paid by the Aberdeen Israel Fund, Inc. during the fiscal year ended December 31, 2012:

Payable Date	Total Cash Distribution	Long-Term Capital Gain	Net Ordinary Dividends	Foreign Taxes Paid ⁽¹⁾	Gross Ordinary Dividend	Qualified Dividends ⁽²⁾	Foreign Source Income
01/11/13	0.413670	0.239200	0.174470	0.099827	0.274297	0.274297	0.272727

- (1) The foreign taxes paid represent taxes incurred by the Fund on interest received from foreign sources. Foreign taxes paid may be included in taxable income with an offsetting deduction from gross income or may be taken as a credit for taxes paid to foreign governments. You should consult your tax advisor regarding the appropriate treatment of foreign taxes paid.
- (2) The Fund hereby designates the amount indicated above or the maximum amount allowable by law.

Supplemental Information (unaudited)

Board Approval of Investment Advisory Agreement

The Investment Company Act of 1940 (the "Investment Company Act") and the terms of the investment advisory agreement (the "Advisory Agreement") between the Aberdeen Israel Fund, Inc. (the "Fund") and Aberdeen Asset Managers Limited (the "Adviser"), require that the Advisory Agreement be approved annually at an in-person meeting by the Board of Directors (the "Board"), including a majority of the Directors who have no direct or indirect interest in the Advisory Agreement and are not "interested persons" of the Fund, as defined in the Investment Company Act (the "Independent Directors").

At its meeting on December 4, 2012, the Board voted unanimously to renew the Advisory Agreement between the Fund and the Adviser. In connection with its evaluation of the Advisory Agreement, the Board reviewed a broad range of information requested for this purpose and considered a variety of factors, including the following:

- (i) The nature, extent and quality of the services provided by the Adviser;
- (ii) The performance of the Fund;
- (iii) The management fee rate, which includes the advisory fee charged by the Adviser and the administration fees charged by the Fund's administrators, and the total net expense ratio of the Fund, both on an absolute basis and as compared both to a relevant peer group of funds and to fees charged by the Adviser to others;
- (iv) The extent to which economies of scale could be realized by the Adviser and shared with the Fund's shareholders;
- (v) The costs of services provided and profits realized by the Adviser;

(vi) Other benefits realized by the Adviser or its affiliates from its relationship with the Fund; and

(vii) Any other factors that the Board deemed relevant to its consideration.

In addition to its review of information presented to the Board during the contract renewal process, the Board considered knowledge gained from presentations by and discussions with management at regular and special meetings throughout the year. The Independent Directors were represented by independent counsel throughout the review process and convened executive sessions without management present. In its deliberations, the Board did not identify any single factor that was all-important or controlling and each Director may have attributed different weights to the various factors.

Certain of the Board considerations outlined above are discussed in more detail below.

Nature, Extent and Quality of Services. The Board received and considered various data and information regarding the nature, extent and quality of services provided under the Advisory Agreement. The Board considered the reorganization of the Fund's previous investment adviser, Aberdeen Asset Management Investment Services Limited ("AAMISL"), into the Adviser, which occurred on March 1, 2012. As a result of this reorganization, the Adviser continues to conduct AAMISL's businesses and represented that there has been no change to the portfolio management team or the level or nature of services provided to the Fund, and the same resources that were available to AAMISL for the management of the Fund are available to the Adviser. The Board also considered the Adviser's representation that it continues to

Supplemental Information (unaudited) (continued)

(i) provide the same level and quality of advisory services to the Fund as was provided under an investment sub-advisory agreement with Analyst Exchange and Trading Services Ltd. ("Analyst"), which terminated on February 4, 2012, and (ii) dedicate appropriate internal resources to the Fund so that the service level does not decrease.

Additionally, the Board considered, among other things, information about the background and experience of senior management and investment personnel who were responsible for managing the Fund. The Board also received presentations from and participated in information sessions with senior investment personnel of the Adviser. The Board considered information provided regarding the portfolio managers and other resources dedicated to the Fund and the investment philosophy and process followed by those individuals responsible for managing the Fund. The Board, in particular, received information from the Adviser about its resources, including personnel, devoted to focusing on the geographic area in which the Fund invests. The Board was satisfied that the Adviser had appropriate resources to cover the geographic area to manage the Fund in a manner consistent with its investment objective.

The Board also evaluated the ability of the Adviser, based on its resources, reputation and other attributes, to attract and retain qualified investment professionals. In this regard, the Board considered information regarding the general nature of the compensation structure applicable to portfolio managers and other key personnel.

In addition, the Board considered and evaluated materials and information received regarding the Adviser's investment and legal compliance program and record with respect to the U.S. registered closed-end funds managed by the Adviser. The Board met in-person with and received quarterly reports from the Fund's Chief Compliance Officer.

Furthermore, the Board received and considered information about the financial viability of the Adviser to satisfy itself that the Adviser had adequate resources to perform the services required under the Advisory Agreement.

Based on the foregoing and other relevant information reviewed, the Board concluded that, overall, the nature, extent and quality of the services provided to the Fund supported renewal of the Advisory Agreement.

Investment Performance. In addition to reports received at its regular quarterly meetings, the Board received and considered information on the investment performance history of the Fund, including comparison to the Fund's broad-based benchmark index returns over various calendar years. The Board was provided with reports, independently prepared by Strategic Insight Mutual Fund Research and Consulting,

LLC ("Strategic Insight"), which included a comprehensive analysis of the Fund's performance.

The Board recognized that the Fund outperformed its benchmark index, the Tel Aviv 100 Index (the "Index"), in certain calendar years under review and underperformed in other calendar years. The Board focused primarily on the Fund's performance since 2009, which has been higher than or in line with the Index. The Fund was not compared to the Fund's Morningstar Category average because the Fund is the only unleveraged fund in the Morningstar Foreign Small/Mid Value Category. Although the Adviser believed that there were no funds directly comparable to the Fund, the Board considered the investment performance of funds that invest primarily in Israeli-based securities. The Adviser provided information about factors that contributed to the Fund's recent performance results. The Board concluded that it was generally satisfied with the Fund's performance and that the Adviser was taking appropriate actions with respect to investment performance.

Fees and Economies of Scale. The Board considered the management fee rate, which combines the advisory fee charged by the Adviser and the administration fee charged by the Fund's administrator and potential economies of scale. The Board received an analysis from Strategic Insight that compared the Fund's management fee rate to the management fee rate of a peer group of funds on a gross basis and on a net basis after taking into consideration any fee waivers or expense reimbursements. The Board noted that the gross management fee rate for the Fund was in-line with the average and median gross management fee rates of its peer group. The Board also noted that the net management fee rate for the Fund was lower than the average and median net management fee rates of its peer group. Furthermore, the Board concluded that the contractual breakpoints utilized by the Fund adequately took into account potential economies of scale.

The Board also reviewed information prepared by Strategic Insight that showed that the Fund's 2011 total net expense ratio was higher than the average and median ratios of its peer group. The Board considered the differences between the Fund and the funds in the peer group and noted that the Fund was the only fund in the peer group that invested primarily in Israeli equity and debt securities. The Board also noted that the average net asset size of all of the funds in the Fund's peer group was greater than the Fund's average net asset size. The Board noted that the most significant factor contributing to the Fund's expense results were "Other Operating Expenses" (i.e. expenses other than the management fee), in particular non-U.S. custody fees.

Costs of Services Provided and Profitability. The Board considered, among other things, the Adviser's estimates of its costs in providing advisory services to the Fund, and the Adviser's resulting profitability.

Supplemental Information (unaudited) (concluded)

The Board noted instances of reduced expenses for the twelve months ended August 31, 2012 in comparison to the Adviser's expenses for the twelve months ended September 30, 2011, and the twelve months ended September 30, 2010 and the reasons for the reductions, including the termination of the investment sub-advisory agreement with Analyst. Based on its review of the estimated cost and profit information provided by the Adviser, and in light of the nature, extent and quality of services provided to the Fund, the Board did not deem the Adviser's profitability to be excessive.

Information about Services to Other Clients. The Board considered information about the nature and extent of services and fee rates offered by the Adviser to other clients, including other registered investment companies and institutional funds or accounts. The Adviser advised the Board that, due to the unique strategy of the Fund, the Adviser did not manage any other closed-end funds that were directly comparable. The Board considered that the Adviser was subject to a broader and more extensive regulatory regime in connection with management of the Fund compared to the Adviser's management of institutional funds or accounts. The Board did not deem the fee rate under the Advisory Agreement to be excessive relative to these other fee rates, given its understanding of similarities and differences in the nature and extent of services offered and other factors.

Fall-Out Benefits and Other Factors. The Board also considered information regarding potential "fall-out" or ancillary benefits that

could be realized by the Adviser or its affiliates as a result of its relationship with the Fund. In this regard, the Board was advised that the Adviser and its affiliates may derive reputational benefits from their association with the Fund. The Board also noted, however, that such benefits were difficult to quantify with certainty.

Additionally, the Board considered that the Adviser has the authority to receive research and brokerage services from a broker that may be useful to various clients in exchange for conducting portfolio brokerage transactions through such broker. The Board noted that the Adviser also may enter into commission sharing arrangements with certain brokers for the receipt of goods or services that relate to the execution of trades or the provision of research. The Board considered the Adviser's representations that it evaluates any soft-dollar or commission sharing arrangements for compliance with applicable US or UK regulations, particularly with respect to the safe harbor contained in Section 28(e) of the Securities Exchange Act of 1934, and for compliance with its duty to seek best execution.

* * * * *

After an evaluation of the above-described factors and based on its deliberations and analysis of the information provided and alternatives considered, the Board, including all of the Independent Directors, unanimously approved the Advisory Agreement and the compensation payable thereunder.

Management of the Fund (unaudited)

The names of the Directors and Officers of the Fund, their addresses, year of birth, and principal occupations during the past five years are provided in the tables below. Directors that are deemed “interested persons” (as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended) of the Fund or the Fund’s investment adviser are included in the table below under the heading “Interested Directors.” Directors who are not interested persons, as described above, are referred to in the table below under the heading “Independent Directors.”

Board of Directors Information

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex* Overseen by Director	Other Directorships Held by Director
Independent Directors					
Enrique R. Arzac c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1941	Chairman of the Board of Directors, Nominating Committee Chairman and Audit and Valuation Committee Member	Since 1996; Chairman since 2005; current term ends at the 2015 annual meeting	Dr. Arzac is a Professor of Finance and Economics at the Columbia University Graduate School of Business. He is a director of The Adams Express Company, Petroleum & Resources Corporation, Credit Suisse closed-end funds, Credit Suisse U.S. Institutional funds, Aberdeen Asset Management U.S. registered closed-end emerging markets funds (Chair), Epoch Holding Corp. and Mirae Discovering Funds. Dr. Arzac has served as a financial consultant to the United Nations Conference on Trade and Development, the State of New Jersey and several U.S. and foreign corporations and financial institutions. He holds a CPN from the University of Buenos Aires and an M.B.A., M.A., and Ph.D. from Columbia University.	5	Director of Epoch Holding Corporation; Director of The Adams Express Company; Director of Petroleum and Resources Corporation; Director of Mirae Asset Management (5); Director of Credit Suisse Funds (3); Director of Credit Suisse Asset Management Income Fund Inc. and Credit Suisse High Bond Yield Fund
James Cattano 1366 Wood Duck Trail Naples, FL 34108 Year of Birth: 1943	Director, Audit and Valuation Committee Chairman and Nominating and Cost Review Committee Member	Since 1989; current term ends at the 2014 annual Meeting	Mr. Cattano is the President of Costal Trade Corporation (international commodity trade) October 2011. Previously, he was the President of Primary Resources Inc. (agricultural and raw materials) from 1996 to 2011.	5	Director of Credit Suisse Asset Management Income Fund, Inc. since 2006 and Director of Credit Suisse High Yield Bond Fund since 2006
Lawrence J. Fox c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1943	Director, Nominating Committee Member	Since 2006; current term ends at the 2013 annual Meeting	Mr. Fox has been a Partner at Drinker Biddle & Reath LLP (law firm) since 1972. He has also been a Lecturer at Yale Law School (education) since 2009.	4	Director of Credit Suisse Asset Management Income Fund, Inc. since 1990; Director of Credit Suisse High Yield Bond Fund since 2001; and Director of Dynasil Corp of America since 2011
Steven Rappaport c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1948	Director, Audit and Valuation, Nominating, and Cost Review Committee Member	Since 2003; current term ends at the 2014 annual meeting	Mr. Rappaport has been a Partner of Lehigh Court, LLC (private investment firm) and RZ Capital LLC (private investment firm) since 2004.	5	Director of iCAD, Inc., since 2006; Director of Presstek, Inc., since 2003; Director of Credit Suisse Funds (4); Director of Credit Suisse Asset Management Income Fund Inc. since 2005 and Credit Suisse High Yield Bond Fund since 2005

* Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., Aberdeen Australia Equity Fund, Inc., Aberdeen Chile Fund, Inc., Aberdeen Israel Fund, Inc., Aberdeen Indonesia Fund, Inc., Aberdeen Latin America Equity Fund, Inc., Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc., The Singapore Fund, Inc., The Asia-Tigers Fund, Inc., The India Fund, Inc. The Greater China Fund, Inc. and Aberdeen Funds have a common investment manager and/or investment adviser, or an investment adviser that is affiliated with the Investment Adviser, and may thus be deemed to be part of the same “Fund Complex.”

Management of the Fund (unaudited) (continued)

Information Regarding Officers who are not Directors

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
Officers			
<p>Christian Pittard* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32nd Floor, Philadelphia, PA 19103</p> <p>Year of Birth: 1973</p>	President	Since July 2009	Currently, Group Head of Product Development for Aberdeen Asset Management PLC (parent company of the Investment Adviser). Previously Director and Vice President (from 2006 to 2008), Chief Executive Officer (from October 2005 to September 2006) and employee (since June 2005) of Aberdeen Asset Management Inc. ("AAMI"). He also currently serves as a Director of the Investment Adviser since 2010.
<p>Jeffrey Cotton* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32nd Floor, Philadelphia, PA 19103</p> <p>Year of Birth: 1977</p>	Chief Compliance Officer, Vice President – Compliance	Since March 2011	Currently, Vice President and Head of Compliance – U.S. for Aberdeen Asset Management Inc. Mr. Cotton joined Aberdeen in 2010. Prior to joining Aberdeen, Mr. Cotton was a Senior Compliance Officer at Old Mutual Asset Management (2009-2010) supporting its affiliated investment advisers and mutual fund platform. Mr. Cotton was also a VP, Senior Compliance Manager at Bank of America/Columbia Management (2006-2009).
<p>Andrea Melia* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32nd Floor, Philadelphia, PA 19103</p> <p>Year of Birth: 1969</p>	Treasurer	Since November 2009	Since November 2009, Ms. Melia currently serves as Vice President and Head of Fund Accounting for AAMI. 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.
<p>Megan Kennedy* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32nd Floor, Philadelphia, PA 19103</p> <p>Year of Birth: 1974</p>	Secretary and Vice President	Since July 2009	Currently, Head of Product Management for AAMI (since 2009.) Ms. Kennedy joined AAMI 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.
<p>Alan Goodson* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32nd Floor, Philadelphia, PA 19103</p> <p>Year of Birth: 1974</p>	Vice President	Since July 2009	Currently, Head of Product US, overseeing both Product Management and Product Development for Aberdeen's registered and unregistered investment companies in the US and Canada. Mr. Goodson is Vice President of Aberdeen Asset Management Inc. and joined Aberdeen in 2000.
<p>Joanne Irvine* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32nd Floor, Philadelphia, PA 19103</p> <p>Year of Birth: 1968</p>	Vice President	Since July 2009	Currently, Head of Emerging Markets Ex. Asia on the global emerging markets equities team in London (since 1997). Ms. Irvine joined Aberdeen in 1996 in a group development role.
<p>Devan Kaloo* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32nd Floor, Philadelphia, PA 19103</p> <p>Year of Birth: 1972</p>	Vice President	Since July 2009	Currently, Head of Global Emerging Markets (since 2005). 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.

Management of the Fund (unaudited) (concluded)

Name, Address and Age	Position(s) Held With the Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
Jennifer Nichols* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1978	Vice President	Since July 2009	Currently, Global Head of Legal for Aberdeen (2012). Ms. Nichols serves as a Director and Vice President for AAMI since 2010. She previously served as Head of Legal – Americas from 2010-2012. She joined AAMI in October 2006.
Nick Robinson* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1978	Vice President	Since June 2011	Currently, Director and Head of Brazilian Equities, of Aberdeen’s operations in São Paulo. Nick joined Aberdeen in 2000 and spent eight years on the North American Equities desk, including three years based in Aberdeen’s US offices. In 2008 he returned to London to join the global emerging markets equities team. Mr. Robinson relocated to São Paulo in 2009.
Lucia Sitar* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1971	Vice President	Since July 2009	Currently, U.S. Counsel for AAMI. Ms. Sitar joined AAMI in July 2007.
Hugh Young** c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1958	Vice President	Since July 2009	Mr. Young is currently a member of the Executive Management Committee of Aberdeen Asset Management PLC. He has been Managing Director of Aberdeen Asset Management Asia Limited (“AAMAL”), since 1991. Mr. Young also served as a Director of Aberdeen Asset Managers (C.I.) Limited from 2000 to June 2005 and a Director of AAMAL since 2000.
Sharon Ferrari* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1977	Assistant Treasurer	Since June 2011	Currently, Fund Accounting Manager for AAMI. She joined AAMI as a Senior Fund Administrator in 2008. Prior to joining AAMI, she was an Accounting Analyst at Delaware Investments.
Heather Hasson* c/o Aberdeen Asset Management Inc. Attn: US Legal 1735 Market Street, 32 nd Floor, Philadelphia, PA 19103 Year of Birth: 1982	Assistant Secretary	Since March 2012	Currently, Senior Product Manager for Aberdeen Asset Management Inc. Ms. Hasson joined AAMI as a Fund Administrator in November 2006.

* As of October 2012, Messrs. Pittard, Cotton, Goodson, Kaloo, and Robinson and Meses. Nichols, Irvine, Melia, Kennedy, Sitar, Ferrari and Hasson hold officer position(s) in one or more of the following: Aberdeen Asia-Pacific Income Fund, Inc., Aberdeen Global Income Fund, Inc., Aberdeen Australia Equity Fund, Inc., Aberdeen Chile Fund, Inc., Aberdeen Emerging Markets Telecommunications and Infrastructure Fund, Inc., Aberdeen Israel Fund, Inc., Aberdeen Indonesia Fund, Inc., Aberdeen Latin America Equity Fund, Inc., The Singapore Fund Inc., The India Fund Inc., The Asia-Tigers Fund Inc., The Greater China Fund, Inc. and the Aberdeen Funds each of which may also be deemed to be a part of the same “Fund Complex.”

** Mr. Young serves as an Interested Director on the Aberdeen Australia Equity Fund, Inc. and The India Fund, Inc. which has 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.

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Corporate Information

Directors

Enrique R. Arzac, *Chairman*
James J. Cattano
Lawrence J. Fox
Steven N. Rappaport

Officers

Christian Pittard, *President*
Jeffrey Cotton, *Vice President and Chief Compliance Officer*
Andrea Melia, *Treasurer and Chief Financial Officer*
Megan Kennedy, *Vice President and Secretary*
Alan Goodson, *Vice President*
Joanne Irvine, *Vice President*
Devan Kaloo, *Vice President*
Jennifer Nichols, *Vice President*
Nick Robinson, *Vice President*
Lucia Sitar, *Vice President*
Hugh Young, *Vice President*
Sharon Ferrari, *Assistant Treasurer*
Heather Hasson, *Assistant Secretary*

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Aberdeen Asset Managers Limited

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.

Shares of Aberdeen Israel Fund, Inc. are traded on the NYSE MKT 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 information herein, is transmitted to the shareholders of Aberdeen Israel Fund, Inc. for their general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person. Past performance is no guarantee of future returns.

