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*THE FIRST ISRAEL FUND, INC.*

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ANNUAL REPORT  
DECEMBER 31, 2008



ISL-AR-1208



February 12, 2009

*Dear Shareholder:*

For the annual period ended December 31, 2008, The First Israel Fund, Inc. (the "Fund") had a loss of 45.71% based on net asset value, vs. a loss of 50.6% for the Tel Aviv 100 Index\* (the "TA-100"). Based on market price, the Fund had a decrease of 57.01% for the year.

**Market Review:**

The year ended December 31, 2008, was a difficult one for all emerging markets. The Tel Aviv 100 Index of Israeli equities, the Fund's benchmark, fell 50.6%, while the MSCI Emerging Market Index fell 54.5% and the MSCI Israel Index fell 31.6% (all price returns in U.S. dollar terms). The dominance of telecoms and health care in the MSCI Israel Index were the key sources of its out-performance of the TA 100 Index.

The Israeli market was affected by the same types of issues as the global equity markets. For example, Israeli banks took notable write-downs on overseas investments in toxic assets, there were liquidity concerns on real estate and holding companies, tighter domestic credit conditions, and sizeable redemptions in the equity market among retail investors.

The first half of 2008 saw diverging performance such as strength in the chemicals sector and weakness in real estate developers. Another feature during the first half of the year was the performance difference between the larger capitalized stocks and mid/small cap stocks. The TA-25 Index of blue chip companies, for example, returned 2.5% over the first half of the year, while the TA-75 Index of second tier stocks returned -18.6%. Investors were staying with tradable stocks and avoiding less liquid names irrespective of comparable valuations.

The second half of 2008 saw a broad based rout in the Israeli stock market in line with events globally. The global cyclical sectors such as chemicals and fertilizers suffered the worst after the first half strength, however, banking, insurance and real estate stocks were again hard hit. The traditionally defensive areas of healthcare/pharmaceuticals and telecommunications did hold up better than the overall market.

**Strategic Review and Outlook:**

For the 12-months ended December 31, 2008, the Fund outperformed the benchmark on an NAV basis. Positive contributions to relative performance came from underweight positions in the cyclically exposed businesses of The Israel Corporation (a holding company with a large holding in Israel Chemicals, 1.6% of the Fund as of 12/31/08, -76% return) and Makhteshim-Agan Industries (agricultural chemicals, 2.1% of the Fund as of 12/31/08, -59% return). Additionally, over the year, the Fund was underweight in Israel Chemicals (5.5% of the Fund as of 12/31/08, -41% return). Being underweight in this stock during its strong performance in the first half of 2008 hindered Fund performance, but this was offset to a large degree by the stock's weak performance in the second half of the year. The Fund also benefited from an overweight position in Bezeq Israeli Telecommunication Corporation (8.8% of the Fund as of 12/31/08, -3% return).

Significant investments that detracted from relative performance were overweight positions in Harel Insurance (7.1% of the Fund as of 12/31/08, -56% return) and Housing & Construction Holdings (1.9% of the Fund as of 12/31/08, -68% return). There were also a number of holdings that outperformed, like Teva Pharmaceutical (9.3% of the Fund as of 12/31/08, -8% return) and Perrigo (4.0% of the Fund, -9% return). But, as the Fund held small underweights in these stocks, the relative performance benefit to the Fund was slightly negative.

With regard to the Fund's private equity holdings, the twelve months ended December 2008 have been a volatile period for Israel's technology sector. The values of the Fund's underlying investments have decreased as a result of writedowns of investment values as well as lower public security prices. We also saw a slowdown in both capital call and distribution activities. For the period of January through December 2008, the Fund received distributions from limited partnerships totaling \$676,150, compared to a total of \$939,097 during the same period of 2007. The largest distribution in 2008 came from Emerging Markets Ventures in the amount of \$469,672, composed of its uninvested escrow funds and distribution proceeds of its underlying investments. We do not expect to see recovery in distribution levels in 2009 as the economic downturn creates a more difficult environment for investment exits. Indeed, portfolio companies are focused on conserving as much cash as possible in this difficult environment. The investment pace of the funds slowed, with only \$197,500 of capital calls made during this period compared to \$212,500 during the same period of the prior year. The unfunded commitments of the Fund have decreased to \$1,111,432 at December 31, 2008, compared with \$1,308,933 at the end of 2007.

In our opinion, the Israeli market will continue to be affected by the broader backdrop for both developed and emerging markets. On the negative side, since the beginning of the fourth quarter of 2008, economic momentum has been decelerating rapidly across emerging markets and the full impact of the growth downturn has yet to be seen in developed markets. As a small and open economy, Israel is very much tied to the global economy (the United States and Europe account for 70% of exports) and expects to see a contraction in economic activity in 2009. While the Bank of Israel has already embarked on interest rate cuts, and fiscal expenditure is to be stepped up post elections, the risks to growth and earnings will most likely remain high.

On the positive side, some abatement of the panic selling and volatility seen in the second half of 2008 may provide a more stable basis for markets going forward. While we would expect investor sentiment to remain cautious, we are hopeful that the bulk of the de-leveraging may be behind us. Nevertheless, retail investor participation in the equity market, which has been a key engine of market performance in recent years, is likely to remain more muted in 2009.

We expect that politics and geopolitics will continue to be a point of focus given the upcoming Knesset elections in February 2009 and the ongoing conflict in Gaza. While the political environment remains challenging, historically elections in Israel have only had a minor or very short-term impact on market performance. To date, the conflict in Gaza has not had any meaningful impact on the equity market.

We believe it is likely that in the short term the defensive sectors, such as pharmaceuticals and telecommunications will outperform. Small cap stocks may also start to attract investor interest, as there are a number of stocks with market capitalization at net cash levels. We expect the banking and insurance sectors will see further downgrades and may require some capital. In our opinion, the technology sector will continue to depend on the United States and the state of its technology exports. Similarly, those Israeli real estate companies which have internationalized will be dependant on some

recovery in the North American and Central/Eastern European commercial and residential property sectors where the near term developments are likely to be negative but with stock valuations at depressed levels. In the global cyclical, while the short term demand outlook remains very weak, we see attractive long term value in specific areas such as fertilizer related products.



Neil Gregson  
Chief Investment Officer\*\*



George Hornig  
Chief Executive Officer and President\*\*\*

*International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. There are also risks associated with investing in Israel, including the risk of investing in a single-country fund as well as risks associated with investing in private equities.*

*In addition to historical information, this report contains forward-looking statements, which may concern, among other things, domestic and foreign markets, industry and economic trends and developments and government regulation and their potential impact on the Fund's investments. These statements are subject to risks and uncertainties and actual trends, developments and regulations in the future and their impact on the Fund could be materially different from those projected, anticipated or implied. The Fund has no obligation to update or revise forward-looking statements.*

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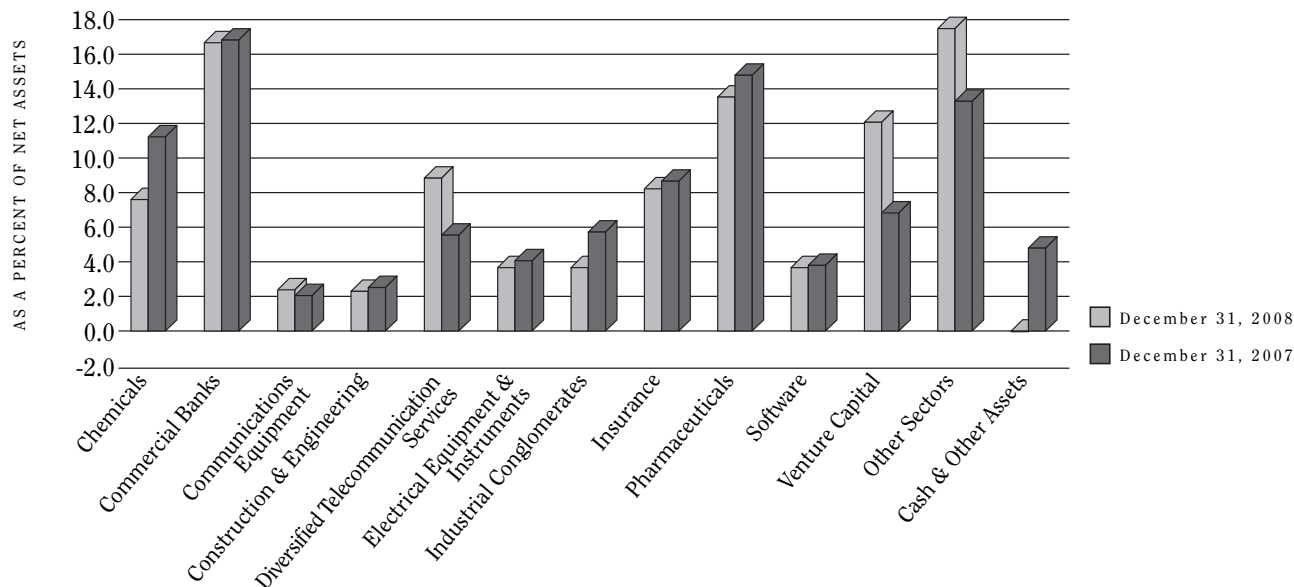
\* The Tel Aviv 100 Index is an index of the 100 largest companies (i.e., in terms of market capitalization) listed on the Tel Aviv Stock Exchange. Investors cannot invest directly in an index.

\*\* Neil Gregson, who is a Managing Director of Credit Suisse Asset Management Limited ("Credit Suisse Ltd."), is head of emerging market equities, based in London. Prior to assuming this role in 2003, he was chief investment officer for equities in Emerging Europe, the Middle East and Africa. Mr. Gregson joined Credit Suisse Ltd. in 1990 after working as an investment analyst in Johannesburg. Previously, he was a mining engineer with Anglo American Corporation in South Africa. Mr. Gregson holds a BSc (Hons.) in mining engineering from Nottingham University.

\*\*\*George Hornig is a Managing Director of Credit Suisse. He is the Co-Chief Operating Officer of Asset Management and Head of Asset Management Americas. Mr. Hornig has been associated with Credit Suisse since 1999.

**THE FIRST ISRAEL FUND, INC.**  
**PORTFOLIO SUMMARY**  
**DECEMBER 31, 2008 (UNAUDITED)**

**SECTOR ALLOCATION**



**TOP 10 HOLDINGS, BY ISSUER**

| Holdings  | Sector                                 | Percent of Net Assets |
|---|--|-----------------------|
| 1. Teva Pharmaceutical Industries Ltd.                | Pharmaceuticals                        | 9.3                   |
| 2. Bezeq Israeli Telecommunication Corporation Ltd.   | Diversified Telecommunication Services | 8.8                   |
| 3. Harel Insurance Investments Ltd.                   | Insurance                              | 7.1                   |
| 4. Bank Leumi Le-Israel Ltd.                          | Commercial Banks                       | 6.4                   |
| 5. Bank Hapoalim Ltd.                                 | Commercial Banks                       | 6.1                   |
| 6. Israel Chemicals Ltd.                              | Chemicals                              | 5.5                   |
| 7. Perrigo Co.  | Pharmaceuticals                        | 4.0                   |
| 8. Walden-Israel Ventures III, L.P.                   | Venture Capital                        | 2.8                   |
| 9. SVE Star Ventures Enterprises GmbH & Co. No. IX KG | Venture Capital                        | 2.5                   |
| 10. BPA Israel Ventures LLC                           | Venture Capital                        | 2.4                   |

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**THE FIRST ISRAEL FUND, INC.**  
**AVERAGE ANNUAL RETURNS**  
**DECEMBER 31, 2008 (UNAUDITED)**

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|                       | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|-----------------------|---------------|----------------|----------------|-----------------|
| Net Asset Value (NAV) | (45.71)%      | (8.39)%        | 0.19%          | 3.94%           |
| Market Value          | (57.01)%      | (8.60)%        | 1.28%          | 5.14%           |

*Credit Suisse currently waives fees and/or reimburse 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. 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 800-293-1232.*

*The annualized gross expense ratio is 2.02%. The annualized net expense ratio after fee waivers and/or expense reimbursements is 1.73%.*

**THE FIRST ISRAEL FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**DECEMBER 31, 2008**

| Description   | No. of Shares | Value            |
|---|---------------|------------------|
| <b>EQUITY OR EQUITY-LINKED SECURITIES-100.10%</b>                         |               |                  |
| <b>ISRAEL-99.23%</b>  |               |                  |
| <b>AEROSPACE &amp; DEFENSE-2.15%</b>                                      |               |                  |
| Azimuth Technologies Ltd. ....  | 75,000        | \$ 16,520        |
| Elbit Systems Ltd. ....   | 10,500        | 481,476          |
| FMS Enterprises Migun Ltd. ...  | 19,498        | 265,186          |
| Rabintex Industries Ltd. † ....   | 86,800        | 63,522           |
|   |               | <u>826,704</u>   |
| <b>AIRLINES-0.13%</b>   |               |                  |
| EL AL Israel Airlines .....   | 275,000       | 49,013           |
| <b>BEVERAGES-0.08%</b>  |               |                  |
| Mayanot Eden Ltd. † .....   | 40,000        | 30,009           |
| <b>CAPITAL MARKETS-1.08%</b>  |               |                  |
| IBI Investment House Ltd. ....  | 100,000       | 294,717          |
| Poalim IBI Management .....   | 112,600       | 118,669          |
|   |               | <u>413,386</u>   |
| <b>CHEMICALS-7.60%</b>  |               |                  |
| Israel Chemicals Ltd. ....  | 302,000       | 2,112,651        |
| Makhteshim-Agan Industries Ltd. ....                                      | 247,500       | 807,793          |
|   |               | <u>2,920,444</u> |
| <b>COMMERCIAL BANKS-16.71%</b>  |               |                  |
| Bank Hapoalim Ltd. † .....  | 1,080,000     | 2,327,017        |
| Bank Leumi Le-Israel Ltd. ....  | 1,175,000     | 2,469,668        |
| F.I.B.I. Holdings Ltd. † .....  | 32,273        | 234,570          |
| First International Bank of Israel Ltd. † .....                           | 100,000       | 137,758          |
| Israel Discount Bank Ltd., Class A .....                                  | 950,000       | 857,911          |
| United Mizrahi Bank Ltd. ....   | 74,900        | 386,973          |
|   |               | <u>6,413,897</u> |
| <b>COMMERCIAL SERVICES &amp; SUPPLIES-0.29%</b>                           |               |                  |
| Leadcom Integrated Solutions Ltd. ....                                    | 250,000       | 16,338           |
| Tefen Industrial Engineering & Management & Systems Analysis Ltd. † ..... | 86,250        | 96,670           |
|   |               | <u>113,008</u>   |

| Description   | No. of Shares | Value            |
|---|---------------|------------------|
| <b>COMMUNICATIONS EQUIPMENT-2.34%</b>                 |               |                  |
| AudioCodes Ltd. † .....                               | 73,822        | \$ 126,233       |
| Internet Gold-Golden Lines Ltd. † .....               | 23,750        | 54,890           |
| NICE Systems Ltd., ADR † ....                         | 20,000        | 449,400          |
| RADWARE Ltd. † .....                                  | 49,300        | 267,453          |
|   |               | <u>897,976</u>   |
| <b>CONSTRUCTION &amp; ENGINEERING-2.27%</b>           |               |                  |
| Housing & Construction Holdings Ltd. † .....          | 1,212,500     | 726,520          |
| Maman Cargo Terminal & Handling Ltd. ....             | 47,756        | 32,868           |
| Minrav Holdings Ltd. † .....                          | 7,290         | 111,869          |
|   |               | <u>871,257</u>   |
| <b>DIVERSIFIED FINANCIAL SERVICES-2.68%</b>           |               |                  |
| Ampal-American Israel Corp., Class A † .....          | 126,800       | 73,544           |
| Habas † .....   | 76,578        | 74,913           |
| Kardan Israel Ltd. † .....                            | 14,334        | 9,500            |
| Kardan NV .....                                       | 56,250        | 128,436          |
| The Israel Corp., Ltd. ....                           | 2,705         | 617,769          |
| Marathon Investments Ltd. † ...                       | 100,000       | 18,859           |
| Polar Investments Ltd. † .....                        | 31,000        | 106,981          |
|   |               | <u>1,030,002</u> |
| <b>DIVERSIFIED TELECOMMUNICATION SERVICES-8.83%</b>   |               |                  |
| Bezeq Israeli Telecommunication Corporation Ltd. .... | 2,062,500     | 3,390,754        |
| <b>ELECTRICAL EQUIPMENT &amp; INSTRUMENTS-3.65%</b>   |               |                  |
| Electra (Israel) Ltd. ....                            | 3,750         | 173,909          |
| Elron Electronic Industries Ltd. † .....              | 69,505        | 92,644           |
| Melta Inter Industry Ltd. ....                        | 162,500       | 161,236          |
| Nisko Industries (1992) Ltd. † ..                     | 50,000        | 55,600           |
| Orbotech, Ltd. † .....                                | 79,255        | 318,605          |
| PCB Technologies Ltd. ....                            | 30,000        | 8,741            |
| Priortech Ltd. † .....                                | 112,500       | 103,909          |
| Rapac Electronics Ltd. ....                           | 107,500       | 185,577          |
| Starlims Technologies Ltd. ....                       | 42,500        | 175,295          |
| Telsys Ltd. † .....                                   | 42,500        | 124,060          |
|   |               | <u>1,399,576</u> |

**THE FIRST ISRAEL FUND, INC.**  
**SCHEDULE OF INVESTMENTS (CONTINUED)**  
**DECEMBER 31, 2008**

| Description                                       | No. of Shares | Value            |
|---|---------------|------------------|
| <b>FOOD &amp; STAPLES RETAILING-0.13%</b>         |               |                  |
| Gan Shmuel Food Industries ..                     | 16,940        | \$ 49,452        |
| <b>HEALTH CARE EQUIPMENT &amp; SUPPLIES-0.51%</b> |               |                  |
| Medtechnica Ltd. ....                             | 39,860        | 148,074          |
| Shamir Optical Industry Ltd. ..                   | 15,082        | 46,935           |
|   |               | <u>195,009</u>   |
| <b>HEALTH CARE TECHNOLOGY-0.07%</b>               |               |                  |
| Procognia (Israel) Ltd.† .....                    | 600,000       | 27,077           |
| <b>HOUSEHOLD DURABLES-1.41%</b>                   |               |                  |
| Africa Israel Investments Ltd. (Shares 0.1) ..    | 15,000        | 119,779          |
| Elco Holdings Ltd. ....                           | 115,000       | 422,693          |
|   |               | <u>542,472</u>   |
| <b>HOUSEHOLD PRODUCTS-0.75%</b>                   |               |                  |
| Albaad Massuot Yitzhak Ltd. ...                   | 43,582        | 286,670          |
| <b>INDUSTRIAL CONGLOMERATES-3.63%</b>             |               |                  |
| Clal Industries Ltd. ....                         | 177,500       | 386,040          |
| Delek Group Ltd. ....                             | 3,875         | 127,868          |
| Discount Investment Corporation .....             | 21,500        | 165,775          |
| Granite Hacarmel Investments Ltd.† .....          | 100,000       | 159,379          |
| IDB Development Corporation Ltd. ....             | 12,333        | 101,058          |
| IDB Holding Corporation Ltd. ..                   | 21,037        | 347,344          |
| Koor Industries Ltd.† .....                       | 10,000        | 106,709          |
|   |               | <u>1,394,173</u> |
| <b>INSURANCE-8.21%</b>                            |               |                  |
| Clal Insurance Enterprise Holdings Ltd. ....      | 50,000        | 271,663          |
| Harel Insurance Investments Ltd. ....             | 107,721       | 2,737,058        |
| Menorah Mivtachim Holdings Ltd.† .....            | 15,000        | 77,397           |
| Migdal Insurance & Financial Hodling Ltd. ....    | 62,500        | 66,042           |
|   |               | <u>3,152,160</u> |

| Description   | No. of Shares | Value            |
|---|---------------|------------------|
| <b>INVESTMENT &amp; HOLDING COMPANIES-0.39%</b>       |               |                  |
| Kaman Holdings Mendelson Group Ltd. ....              | 72,178        | \$ 70,520        |
| Molodan Ltd.† .....                                   | 102,500       | 76,227           |
| The Renaissance Fund LDC†^ ..                         | 60            | 3,332            |
|   |               | <u>150,079</u>   |
| <b>MACHINERY-0.19%</b>                                |               |                  |
| Plasson Ltd. ....                                     | 7,000         | 70,830           |
| <b>METALS &amp; MINING-0.73%</b>                      |               |                  |
| Africa Israel Industries Ltd. ....                    | 6,500         | 206,748          |
| Scope Metals Group Ltd. ....                          | 17,500        | 72,529           |
|   |               | <u>279,277</u>   |
| <b>OIL, GAS &amp; CONSUMABLE FUELS-0.47%</b>          |               |                  |
| Jerusalem Oil Exploration Ltd.† .                     | 21,250        | 104,370          |
| Oil Refineries Ltd. ....                              | 300,000       | 75,682           |
|   |               | <u>180,052</u>   |
| <b>PAPER &amp; FOREST PRODUCTS-0.50%</b>              |               |                  |
| Hadera Paper Ltd.† .....                              | 6,602         | 191,575          |
| <b>PHARMACEUTICALS-13.57%</b>                         |               |                  |
| Bioline RX Ltd.† .....                                | 540,357       | 121,480          |
| DeveloGen AG†^^ .....                                 | 50            | 33               |
| Perrigo Co. ....                                      | 46,750        | 1,517,682        |
| Teva Pharmaceutical Industries Ltd., ADR .....        | 83,820        | 3,568,217        |
|   |               | <u>5,207,412</u> |
| <b>REAL ESTATE MANAGEMENT &amp; DEVELOPMENT-2.74%</b> |               |                  |
| Africa Israel Properties Ltd.† ...                    | 8,500         | 52,245           |
| Elbit Imaging Ltd. ....                               | 16,750        | 145,458          |
| Gazit Globe (1982) Ltd. ....                          | 85,000        | 390,947          |
| Industrial Buildings Corporation Ltd. ....            | 276,839       | 337,562          |
| Jerusalem Economic Corporation Ltd.† .....            | 47,250        | 84,337           |
| Mishorim Development Group† .                         | 35,000        | 39,327           |
|   |               | <u>1,049,876</u> |

See accompanying notes to financial statements.

**THE FIRST ISRAEL FUND, INC.**  
**SCHEDULE OF INVESTMENTS (CONTINUED)**  
**DECEMBER 31, 2008**

| Description  | No. of Shares | Value            |
|--|---------------|------------------|
| <b>ROAD &amp; RAIL-0.63%</b>                             |               |                  |
| Dan Vehicle & Transportation . .                         | 97,500        | \$ 217,398       |
| Raval ACS Ltd. . . . .                                   | 42,011        | 24,678           |
|  |               | <u>242,076</u>   |
| <b>SEMICONDUCTOR &amp; SEMICONDUCTOR EQUIPMENT-1.00%</b> |               |                  |
| Camtek Ltd.† . . . . .                                   | 29,400        | 10,143           |
| DSP Group Inc.† . . . . .                                | 46,781        | 375,184          |
|  |               | <u>385,327</u>   |
| <b>SOFTWARE-3.65%</b>                                    |               |                  |
| Aladdin Knowledge Systems Ltd.† . . . . .                | 21,300        | 131,208          |
| Aladdin Knowledge Systems Ltd.† . . . . .                | 4,656         | 27,268           |
| Babylon Ltd.† . . . . .                                  | 50,000        | 54,400           |
| Check Point Software Technologies Ltd.† . . . . .        | 17,653        | 335,230          |
| ECTel Ltd.† . . . . .                                    | 899           | 503              |
| Formula Systems (1985) Ltd. . .                          | 83,713        | 530,653          |
| Jacada Ltd.† . . . . .                                   | 12,500        | 37,500           |
| MIND C.T.I. Ltd. . . . .                                 | 72,200        | 59,197           |
| ORT Technologies Ltd. . . . .                            | 56,250        | 224,298          |
|  |               | <u>1,400,257</u> |
| <b>SPECIALTY RETAIL-0.40%</b>                            |               |                  |
| Dor Alon Energy in Israel (1988) Ltd. . . . .            | 14,996        | 60,173           |
| Golf & Co., Ltd. . . . .                                 | 27,500        | 92,312           |
|  |               | <u>152,485</u>   |
| <b>TEXTILES, APPAREL &amp; LUXURY GOODS-0.36%</b>        |               |                  |
| Fox Wizel Ltd . . . . .                                  | 75,000        | 112,729          |
| Tefron Ltd. . . . .                                      | 59,720        | 24,920           |
|  |               | <u>137,649</u>   |
| <b>VENTURE CAPITAL-12.08%</b>                            |               |                  |
| ABS GE Capital Giza Fund, L.P.†^ . . . . .               | 1,250,001*    | 140,563          |
| Advent Israel (Bermuda) L.P.†^ .                         | 1,682,293*    | 40,503           |
| BPA Israel Ventures LLC†^# . . .                         | 1,674,588*    | 930,131          |

| Description   | No. of Shares | Value             |
|---|---------------|-------------------|
| <b>VENTURE CAPITAL (CONTINUED)</b>  |               |                   |
| Concord Ventures II Fund L.P.†^ . . . . .                                     | 2,000,000*    | \$ 491,736        |
| Delta Fund I, L.P.†^ . . . . .  | 250,440*      | 140,256           |
| Giza GE Venture Fund III L.P.†^ . . . . .                                     | 1,250,000*    | 358,400           |
| K.T. Concord Venture Fund L.P.†^ . . . . .                                    | 1,000,000*    | 111,195           |
| Neurone Ventures II, L.P.†^# . .  | 663,684*      | 165,484           |
| Pitango Fund II LLC†^ . . . . .   | 1,000,000*    | 199,221           |
| SVE Star Ventures Enterprises GmbH & Co. No. IX KG†^ . . . .                  | 2,001,470*    | 977,198           |
| Walden-Israel Ventures III, L.P.†^# . . . . .                                 | 1,249,188*    | 1,081,047         |
|   |               | <u>4,635,734</u>  |
| <b>TOTAL ISRAEL</b><br>(Cost \$54,589,627) . . . . .                          |               | <u>38,085,668</u> |
| <b>GLOBAL-0.87%</b>   |               |                   |
| <b>VENTURE CAPITAL-0.87%</b>  |               |                   |
| Emerging Markets Ventures I, L.P.<br>(Cost \$842,778)†^# . . . . .            | 2,237,292*    | 334,587           |
| <b>TOTAL EQUITY OR EQUITY-LINKED SECURITIES</b> (Cost \$55,432,405) . . . . . |               | <u>38,420,255</u> |

**THE FIRST ISRAEL FUND, INC.**  
**SCHEDULE OF INVESTMENTS (CONTINUED)**  
**DECEMBER 31, 2008**

|  | Principal<br>Amount (000's) | Value               |
|--|-----------------------------|---------------------|
| <b>SHORT-TERM INVESTMENT-21.32%</b>  |                             |                     |
| <b>UNITED STATES-21.32%</b>  |                             |                     |
| Citibank N.A., overnight deposit,<br>0.06%, 1/1/09<br>(Cost \$8,182,000) ..... | \$8,182                     | \$ 8,182,000        |
| <b>TOTAL INVESTMENTS-121.42%</b><br>(Cost \$63,614,405) .....                  |                             | <u>46,602,255</u>   |
| <b>LIABILITIES IN EXCESS OF CASH AND<br/>OTHER ASSETS-(21.42)% .....</b>       |                             | <u>(8,220,309)</u>  |
| <b>NET ASSETS-100.00% .....</b>  |                             | <u>\$38,381,946</u> |

- † Non-income producing security.  
^ Restricted security, not readily marketable; 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 Notes B and H).  
^^ Not readily marketable security; 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).  
# As of December 31, 2008, the aggregate amount of open commitments for the Fund is \$1,111,432. (See Note H).  
\* Represents contributed capital.  
ADR American Depositary Receipts.

**THE FIRST ISRAEL FUND, INC.**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2008**

| <b>ASSETS</b>  |                      |
|--|----------------------|
| Investments, at value (Cost \$63,614,405) (Notes B, E, G) .....  | \$ 46,602,255        |
| Foreign currencies (Cost \$339,840) .....  | 343,868              |
| Receivables:   |                      |
| Dividends .....  | 1,483                |
| Israeli tax refunds (Note B) .....   | 212,475              |
| Prepaid expenses .....   | 1,426                |
| Total Assets .....   | <u>47,161,507</u>    |
| <b>LIABILITIES</b>   |                      |
| Due to custodian .....   | 1,312                |
| Payables:  |                      |
| Dividends and distributions (Note B) .....   | 8,497,170            |
| Investment advisory fees (Note C) .....  | 104,337              |
| Administration fees (Note C) .....   | 19,940               |
| Investments purchased .....  | 5,935                |
| Directors' fees .....  | 2,938                |
| Other accrued expenses .....   | 147,929              |
| Total Liabilities .....  | <u>8,779,561</u>     |
| NET ASSETS (applicable to 4,271,645 shares of common stock outstanding) (Note D) .....   | <u>\$ 38,381,946</u> |
| <b>NET ASSETS CONSIST OF</b>   |                      |
| Capital stock, \$0.001 par value; 4,271,645 shares issued and outstanding<br>(100,000,000 shares authorized) .....                           | \$ 4,272             |
| Paid-in capital .....  | 54,591,784           |
| Accumulated net investment loss .....  | (6,556)              |
| Accumulated net realized gain on investments and foreign currency related transactions .....   | 800,515              |
| Net unrealized depreciation in value of investments and translation of other<br>assets and liabilities denominated in foreign currency ..... | <u>(17,008,069)</u>  |
| Net assets applicable to shares outstanding .....  | <u>\$ 38,381,946</u> |
| NET ASSET VALUE PER SHARE (\$38,381,946 ÷ 4,271,645) .....   | <u>\$8.99</u>        |
| MARKET PRICE PER SHARE .....   | <u>\$8.02</u>        |

**THE FIRST ISRAEL FUND, INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**INVESTMENT INCOME**

|   |                  |
|---|------------------|
| Income (Note B):                        |                  |
| Dividends .....                         | \$ 2,543,865     |
| Interest .....                          | 53,593           |
| Securities lending .....                | 810              |
| Less: Foreign taxes withheld .....      | (435,398)        |
| Total Investment Income .....           | <u>2,162,870</u> |
| Expenses:                               |                  |
| Investment advisory fees (Note C) ..... | 957,348          |
| Custodian fees .....                    | 240,632          |
| Directors' fees .....                   | 80,900           |
| Audit and tax fees .....                | 59,497           |
| Legal fees .....                        | 43,499           |
| Printing fees (Note C) .....            | 42,699           |
| Administration fees (Note C) .....      | 38,716           |
| Accounting fees (Note C) .....          | 32,358           |
| Shareholder servicing fees .....        | 24,638           |
| Insurance fees .....                    | 2,385            |
| Stock exchange listing fees .....       | 1,490            |
| Miscellaneous .....                     | 15,072           |
| Total Expenses .....                    | <u>1,539,234</u> |
| Less: Fee waivers (Note C) .....        | (221,224)        |
| Net Expenses .....                      | <u>1,318,010</u> |
| Net Investment Income .....             | <u>844,860</u>   |

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

|   |                              |
|---|------------------------------|
| Net realized gain/(loss) from:  |                              |
| Investments .....   | 8,422,067                    |
| Foreign currency related transactions .....   | 88,666                       |
| Net change in unrealized depreciation in value of investments and translation of other assets and liabilities denominated in foreign currencies ..... | (50,516,298)                 |
| Net realized and unrealized loss on investments and foreign currency related transactions .....   | (42,005,565)                 |
| NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS .....  | <u><u>\$(41,160,705)</u></u> |

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

|  | For the Years Ended December 31, |                     |
|--|----------------------------------|---------------------|
|  | <u>2008</u>                      | <u>2007</u>         |
| <b>INCREASE/(DECREASE) IN NET ASSETS</b>   |                                  |                     |
| Operations:  |                                  |                     |
| Net investment income . . . . .  | \$ 844,860                       | \$ 1,180,339        |
| Net realized gain on investments and foreign currency related transactions . . . . .   | 8,510,733                        | 8,310,311           |
| Net change in unrealized appreciation/(depreciation) in value of investments and translation of other assets and liabilities denominated in foreign currency . . . . . | <u>(50,516,298)</u>              | <u>9,848,265</u>    |
| Net increase/(decrease) in net assets resulting from operations . . . . .  | <u>(41,160,705)</u>              | <u>19,338,915</u>   |
| Dividends and distributions to shareholders:   |                                  |                     |
| Net investment income . . . . .  | (1,280,980)                      | (1,618,929)         |
| Net realized gain on investments . . . . .   | <u>(8,240,973)</u>               | <u>(7,753,591)</u>  |
| Total dividends and distributions to shareholders . . . . .  | <u>(9,521,953)</u>               | <u>(9,372,520)</u>  |
| Capital share transactions:  |                                  |                     |
| Issuance of 8,814 and 1,045 shares, respectively from reinvestments of dividends and distributions . . . . .   | 190,852                          | 21,191              |
| Issuance of 2,491 and 0 shares through the directors compensation plan (Note C) . . . . .  | <u>29,463</u>                    | <u>—</u>            |
| Total capital share transactions . . . . .   | <u>220,315</u>                   | <u>21,191</u>       |
| Total increase/(decrease) in net assets . . . . .  | <u>(50,462,343)</u>              | <u>9,987,586</u>    |
| <b>NET ASSETS</b>  |                                  |                     |
| Beginning of year . . . . .  | <u>88,844,289</u>                | <u>78,856,703</u>   |
| End of year . . . . .  | <u>\$ 38,381,946</u>             | <u>\$88,844,289</u> |

**THE FIRST ISRAEL FUND, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                    |
|--|--------------------|
| Net decrease in net assets from operations .....   | \$(41,160,705)     |
| Adjustments to reconcile net decrease in net assets from operations to net cash provided<br>by operating activities: |                    |
| Purchase of investment securities .....  | (13,914,348)       |
| Proceeds from disposition of investment securities .....   | 18,121,534         |
| Decrease in short-term investment .....  | 2,720,000          |
| Decrease in investments sold receivable .....  | 917,537            |
| Decrease in dividend receivables .....   | 50,378             |
| Increase in Israeli tax refunds .....  | (35,075)           |
| Increase in prepaid expenses .....   | (1,023)            |
| Decrease in investment advisory fees payable .....   | (154,526)          |
| Decrease in investments purchased payable .....  | (234,904)          |
| Increase in administration fees payable .....  | 2,296              |
| Decrease in other accrued expenses .....   | (31,685)           |
| Net realized gain from investments and currencies .....  | (8,510,733)        |
| Unrealized depreciation on securities .....  | 50,483,563         |
| Net cash provided by operating activities .....  | <u>8,252,309</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                    |
| Cash distributions paid .....  | (9,269,403)        |
| Directors compensation .....   | 22,446             |
| Net cash used in financing activities .....  | <u>(9,246,957)</u> |
| Net decrease in cash .....   | (994,648)          |
| <b>CASH</b>  |                    |
| Beginning of year .....  | <u>1,337,204</u>   |
| End of year .....  | <u>\$ 342,556</u>  |

Noncash financing activities not included herein consist of reinvestment of dividends and distributions of \$190,852.

**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 Years Ended<br>December 31, |          |          | For the Three<br>Months Ended<br>December 31, |
|---|-------------------------------------|----------|----------|---|
|   | 2008                                | 2007     | 2006     | 2005  |
| <b>PER SHARE OPERATING PERFORMANCE</b>  |                                     |          |          |   |
| Net asset value, beginning of period  | \$20.85                             | \$18.51  | \$17.44  | \$18.28                                       |
| Net investment income/(loss)  | 0.20†                               | 0.28†    | 0.17     | 0.01  |
| Net realized and unrealized gain/(loss) on investments<br>and foreign currency related transactions | (9.83)                              | 4.26     | 2.25     | 0.75  |
| Net increase/(decrease) in net assets<br>resulting from operations                                  | (9.63)                              | 4.54     | 2.42     | 0.76  |
| Dividends and distributions to shareholders:  |                                     |          |          |   |
| Net investment income   | (0.30)                              | (0.38)   | (0.18)   | —   |
| Net realized gain on investments and<br>foreign currency related transactions                       | (1.93)                              | (1.82)   | (1.17)   | (1.60)  |
| Total dividends and distributions to shareholders   | (2.23)                              | (2.20)   | (1.35)   | (1.60)  |
| Anti-dilutive impact due to capital shares repurchased  | —                                   | —        | —        | —   |
| Net asset value, end of period  | \$8.99                              | \$20.85  | \$18.51  | \$17.44                                       |
| Market value, end of period   | \$8.02                              | \$23.49  | \$18.65  | \$15.67                                       |
| Total investment return (a)   | (57.01)%                            | 38.96%   | 27.77%   | 6.15%   |
| <b>RATIOS/SUPPLEMENTAL DATA</b>   |                                     |          |          |   |
| Net assets, end of period (000 omitted)   | \$38,382                            | \$88,844 | \$78,857 | \$74,273                                      |
| Ratio of expenses to average net assets (b)   | 1.73%                               | 1.71%    | 1.73%    | 1.65%(c)                                      |
| Ratio of expenses to average net assets, excluding<br>fee waivers                                   | 2.02%                               | 1.99%    | 1.97%    | 1.87%(c)                                      |
| Ratio of net investment income/(loss) to average<br>net assets (b)                                  | 1.14%                               | 1.34%    | 0.95%    | 0.16%(c)                                      |
| Portfolio turnover rate   | 19.43%                              | 9.32%    | 9.82%    | 1.53%   |

† 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.

For the Fiscal Years Ended September 30,

| <u>2005</u>    | <u>2004</u>    | <u>2003</u>    | <u>2002</u>     | <u>2001</u>     | <u>2000</u>     | <u>1999</u>     |
|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| <u>\$14.27</u> | <u>\$12.35</u> | <u>\$9.50</u>  | <u>\$11.64</u>  | <u>\$23.24</u>  | <u>\$17.18</u>  | <u>\$15.04</u>  |
| (0.07)         | (0.03)         | (0.22)†        | (0.17)†         | (0.06)†         | (0.02)†         | (0.02)†         |
| <u>4.08</u>    | <u>1.95</u>    | <u>3.42</u>    | <u>(1.80)</u>   | <u>(8.39)</u>   | <u>7.80</u>     | <u>3.21</u>     |
| <u>4.01</u>    | <u>1.92</u>    | <u>3.20</u>    | <u>(1.97)</u>   | <u>(8.45)</u>   | <u>7.78</u>     | <u>3.19</u>     |
| —              | —              | —              | —               | (0.08)          | (0.41)          | (0.21)          |
| —              | —              | (0.35)         | (0.17)          | (3.07)          | (1.46)          | (1.20)          |
| —              | —              | (0.35)         | (0.17)          | (3.15)          | (1.87)          | (1.41)          |
| —              | —              | —              | —               | —               | 0.15            | 0.36            |
| <u>\$18.28</u> | <u>\$14.27</u> | <u>\$12.35</u> | <u>\$9.50</u>   | <u>\$11.64</u>  | <u>\$23.24</u>  | <u>\$17.18</u>  |
| <u>\$16.21</u> | <u>\$12.09</u> | <u>\$10.10</u> | <u>\$7.41</u>   | <u>\$9.60</u>   | <u>\$18.563</u> | <u>\$14.000</u> |
| <u>34.08%</u>  | <u>19.70%</u>  | <u>40.57%</u>  | <u>(21.24)%</u> | <u>(38.21)%</u> | <u>47.61%</u>   | <u>32.61%</u>   |
| \$77,875       | \$60,773       | \$52,604       | \$40,457        | \$49,565        | \$98,979        | \$76,683        |
| 2.10%          | 1.92%          | 2.31%          | 2.08%           | 1.88%           | 2.05%           | 2.05%           |
| 2.33%          | 2.13%          | 2.54%          | 2.30%           | 2.09%           | 2.28%           | 2.30%           |
| (0.39)%        | (0.19)%        | (2.01)%        | (1.44)%         | (0.39)%         | (0.08)%         | (0.12)%         |
| 10.65%         | 8.53%          | 2.94%          | 11.26%          | 21.11%          | 27.06%          | 18.65%          |

**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”). 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. At December 31, 2008, the Fund held 12.96% of its net assets in securities valued at fair value as determined in good faith under procedures established by the Board of Directors with an aggregate cost of \$10,796,268 and fair value of \$4,973,686. 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.

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“FAS 157”), effective January 1, 2008. In accordance with FAS 157, 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

**THE FIRST ISRAEL FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2008**

most advantageous market of the investment. FAS 157 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 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)

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, 2008 in valuing the Fund's investments carried at value:

| <u>Valuation Inputs</u>                        | <u>Investments<br/>in Securities</u> | <u>Other<br/>Financial<br/>Instruments*</u> |
|--|--------------------------------------|---|
| Level 1—Quoted Prices                          | \$ 5,711,684                         | \$ —  |
| Level 2—Other Significant<br>Observable Inputs | 35,916,885                           | —   |
| Level 3—Significant<br>Unobservable<br>Inputs  | 4,973,686                            | —   |
| Total  | <u>\$46,602,255</u>                  | <u>\$ —</u>                                 |

\* Other financial instruments include futures, forwards and swap contracts.

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

|   | <u>Investments<br/>in Securities</u> | <u>Other<br/>Financial<br/>Instruments*</u> |
|---|--------------------------------------|---|
| Balance as of 12/31/07  | \$ 6,084,747                         | \$ —  |
| Accrued discounts/<br>premiums  | —                                    | —   |
| Realized gain/loss and<br>change in unrealized<br>depreciation                            | (1,012,721)                          | —   |
| Net purchases/sales   | (98,340)                             | —   |
| Net transfers in and/or<br>out of Level 3   | —                                    | —   |
| Balance as of 12/31/08  | <u>\$ 4,973,686</u>                  | <u>\$ —</u>                                 |
| Net change in unrealized<br>depreciation from<br>investments still held<br>as of 12/31/08 | \$ (701,216)                         | \$ —  |

\* Other financial instruments include futures, forwards and swap contracts.

**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, 2008, 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.

During June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48 or the "Interpretation"), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB statement 109*. 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 three fiscal years remain subject to examination by the Internal Revenue Service.

**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.

**Securities Lending:** In connection with its security lending activities, the Fund received cash as collateral for any securities out on loan to brokers. Such cash collateral was reinvested into either an overnight repurchase agreement or a securities lending fund available through Brown Brothers Harriman & Co. Security loans are required at all times to have collateral at least equal to 100% of the market value of the securities on loan; however, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. During the year ended December 31, 2008, total earnings from the investment

of cash collateral received by the Fund in a securities lending arrangement was \$810.

**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.

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 that 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**

Credit Suisse Asset Management, LLC ("Credit Suisse") serves as the Fund's investment adviser with respect to all investments. Credit Suisse is 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 is 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 may not exceed an annual rate of 1.40% of the Fund's average weekly market value or net assets (whichever is lower). Credit Suisse has agreed to waive the advisory fee previously payable to the Fund's former investment sub-adviser. For the year ended December 31, 2008, Credit Suisse earned \$957,348 for advisory services, of which Credit Suisse waived \$221,224. Credit Suisse also provides certain administrative services to the Fund and is reimbursed by the Fund for costs incurred on behalf of the Fund (up to \$20,000 per annum). For the year ended December 31, 2008, Credit Suisse was reimbursed \$3,333 for administrative services rendered to the Fund.

Credit Suisse Asset Management Limited ("Credit Suisse Ltd.") an affiliate of Credit Suisse, is a sub-investment adviser to the Fund. Credit Suisse Ltd.'s sub-investment advisory fees are paid by Credit Suisse out of Credit Suisse's net investment advisory fee and not paid by the Fund.

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**THE FIRST ISRAEL FUND, INC.****NOTES TO FINANCIAL STATEMENTS (CONTINUED)****DECEMBER 31, 2008**

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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 payable to Credit Suisse, calculated weekly and paid quarterly at an annual rate of 0.30% of the Fund’s average weekly market value or net assets (whichever is lower). In addition, Credit Suisse pays Analyst I.M.S., out of its advisory fee, a reimbursement 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, 2008, Analyst I.M.S. earned \$270,601 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, 2008, such commissions amounted to approximately \$7,900.

Bear Stearns Funds Management Inc. (“BSFM”) served as the Fund’s administrator until July 31, 2008. The Fund paid BSFM a monthly fee that was calculated weekly based on the Fund’s average weekly net assets. For the period ended July 31, 2008, BSFM earned \$35,368 for administrative services.

Brown Brothers Harriman & Co. (“BBH & Co.”) serves as the Fund’s administrator. For the period August 1, 2008 to December 31, 2008, BBH & Co. earned \$14,242 for administrative and fund accounting services.

Merrill Corporation (“Merrill”), an affiliate of Credit Suisse, has been engaged by the Fund to provide certain financial printing services. For the year ended December 31, 2008, Merrill was paid \$28,923 for its services to the Fund.

The Independent Directors receive fifty percent (50%) of their annual retainer in the form of shares. Beginning in 2008, the Independent Directors can

elect to receive up to 100% of their annual retainer in shares of the Fund. During the fiscal year end December 31, 2008, 2,491 shares were issued through 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. Of the 4,271,645 shares outstanding at December 31, 2008, Credit Suisse owned 7,169 shares.

**NOTE E. INVESTMENT IN SECURITIES**

For the year ended December 31, 2008, purchases and sales of securities, other than short-term investments, were \$13,914,348 and \$16,017,260, respectively.

**NOTE F. CREDIT FACILITY**

The Fund, together with other funds/portfolios advised by Credit Suisse (collectively, the “Participating Funds”), participates 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 pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At December 31, 2008, and during the fiscal year ended December 31, 2008, 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.

**THE FIRST ISRAEL FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2008**

The tax character of dividends and distributions paid during the years ended December 31, 2008 and 2007, respectively, by the Fund were as follows:

| Ordinary Income |             | Long-Term Capital Gains |             |
|-----------------|-------------|-------------------------|-------------|
| 2008            | 2007        | 2008                    | 2007        |
| \$899,423       | \$1,423,697 | \$8,622,530             | \$7,948,823 |

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, investments in partnerships and deferral of post-October losses.

At December 31, 2008, the components of distributable earnings on a tax basis, for the Fund were as follows:

|  |                        |
|--|------------------------|
| Undistributed long-term capital gain     | \$ 486,828             |
| Deferral of post-October currency losses | (6,556)                |
| Unrealized appreciation                  | (16,694,382)           |
| Total distributable earnings             | <u>\$ (16,214,110)</u> |

At December 31, 2008, the Fund did not have a capital loss carryforward for U.S. federal income tax purposes.

At December 31, 2008, the identified cost for federal income tax purposes, as well as the gross unrealized 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 depreciation from investments were \$63,300,718, \$11,048,748, \$(27,747,211) and \$(16,698,463), respectively.

At December 31, 2008, the Fund reclassified \$429,564 from accumulated net realized gain on investments and foreign currency related transactions to accumulated net investment loss. These permanent differences are due to differing book/tax treatments of foreign currency transactions, investments in partnerships, and distribution reclassifications. 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.

| Security                                  | Acquisition Date(s) | Cost       | Fair Value At 12/31/08 | Value per Share | Percent of Net Assets | Distributions Received | Open Commitments |
|---|---------------------|------------|------------------------|-----------------|-----------------------|------------------------|------------------|
| ABS GE Capital Giza Fund, L.P. . . . .    | 02/03/98 – 02/13/02 | \$ 985,303 | \$ 140,563             | \$ 0.11         | 0.37                  | \$ 1,660,765           | —                |
| Advent Israel (Bermuda) L.P. . . . .      | 06/16/93 – 01/16/98 | 1,436,643  | 40,503                 | 0.02            | 0.11                  | 3,851,769              | —                |
| BPA Israel Ventures LLC . . . . .         | 10/05/00 – 12/09/05 | 1,187,968  | 930,131                | 0.56            | 2.42                  | —                      | \$ 625,412       |
| Concord Ventures Fund II, L.P. . . . .    | 09/29/00 – 12/15/06 | 1,316,619  | 491,736                | 0.25            | 1.28                  | 129,290                | —                |
| Delta Fund I, L.P. . . . .                | 11/15/00 – 03/28/07 | 167,473    | 140,256                | 0.56            | 0.37                  | 57,937                 | —                |
| Emerging Markets Ventures I, L.P. . . . . | 01/22/98 – 01/10/96 | 842,778    | 334,587                | 0.15            | 0.87                  | 2,431,185              | 262,708          |
| Giza GE Venture Fund III, L.P. . . . .    | 01/31/00 – 11/23/06 | 828,929    | 358,400                | 0.29            | 0.93                  | 329,171                | —                |
| K.T. Concord Venture Fund L.P. . . . .    | 12/08/97 – 09/29/00 | 595,042    | 111,195                | 0.11            | 0.29                  | 660,194                | —                |
| Neurone Ventures II, L.P. . . . .         | 11/24/00 – 07/08/08 | 164,718    | 165,484                | 0.25            | 0.43                  | 297,649                | 97,500           |

**THE FIRST ISRAEL FUND, INC.****NOTES TO FINANCIAL STATEMENTS (CONTINUED)****DECEMBER 31, 2008**

| <u>Security</u>  | <u>Acquisition Date(s)</u> | <u>Cost</u>         | <u>Fair Value At 12/31/08</u> | <u>Value per Share</u> | <u>Percent of Net Assets</u> | <u>Distributions Received</u> | <u>Open Commitments</u> |
|--|----------------------------|---------------------|-------------------------------|------------------------|------------------------------|-------------------------------|-------------------------|
| Pitango Fund II LLC .....                                | 10/31/96 – 08/01/01        | \$ 388,547          | \$ 199,221                    | \$ 0.20                | 0.52                         | \$ 1,175,618                  | —                       |
| SVE Star Ventures Enterprises GmbH & Co. No. IX KG. .... | 12/21/00 – 08/08/08        | 1,536,590           | 977,198                       | 0.49                   | 2.55                         | 380,279                       | —                       |
| The Renaissance Fund LDC. ....                           | 03/30/94 – 03/21/97        | 193,756             | 3,332                         | 55.53                  | 0.01                         | 586,059                       | —                       |
| Walden-Israel Ventures III, L.P. ....                    | 02/23/01 – 11/02/06        | 759,901             | 1,081,047                     | 0.87                   | 2.81                         | 942,976                       | \$ 125,812              |
| Total .....  |                            | <u>\$10,404,267</u> | <u>\$4,973,653</u>            |                        | <u>12.96</u>                 | <u>\$12,502,892</u>           | <u>\$1,111,432</u>      |

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 March 2008, FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161"), an amendment of FASB Statement No. 133. FAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and hedging activities are accounted for, and (c) how derivative instruments and related hedging activities affect a fund's financial position, financial performance, and cash flows. Management of the Funds does not believe the adoption of FAS 161 will materially impact the financial statement amounts, but will require additional disclosures. This will include qualitative and quantitative disclosures on derivative positions existing at period end and the effect of using derivatives during the reporting period. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

**NOTE K. OTHER MATTERS**

On December 31, 2008, Credit Suisse, the corporate parent of the Funds' investment adviser, announced it had signed an agreement to sell part of its Global Investors traditional asset management business to Aberdeen Asset Management ("Aberdeen"), an international investment management group, managing assets for both institutions and private individuals from offices around the world. Credit Suisse has stated that the transaction is subject to customary closing conditions, including regulatory approvals in various jurisdictions and approval by Aberdeen shareholders, and is expected to close in the second quarter of 2009.

Pending the closing of the transaction, Credit Suisse Asset Management, LLC ("CSAM"), Credit Suisse Asset Management Limited (U.K.) ("CSAM UK") and Credit Suisse Asset Management Limited (Australia) ("CSAM Australia") are expected to continue to operate in the ordinary course of business as the investment adviser or sub-adviser of the Funds.

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**THE FIRST ISRAEL FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2008**

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If completed, acquisition of the Credit Suisse business by Aberdeen would constitute an “assignment” of the Funds’ Advisory and Sub-Advisory Agreements with CSAM, CSAM UK and CSAM Australia and, by law, would automatically terminate those agreements. Accordingly, each Fund’s Board of Directors is considering various options in connection with the transaction, including possibly entering into new investment advisory and sub-advisory agreements with Aberdeen. If approved by a Fund’s Board of Directors, including the Directors who are not “interested persons” of the investment manager and its affiliates or the Fund, any new investment advisory and sub-advisory agreements will require the approval of the Fund’s shareholders.

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 of cash flows and the financial highlights present fairly, in all material respects, the financial position of The First Israel Fund, Inc. (the “Fund”) at December 31, 2008, the results of its operations for the year then ended and the changes in its net assets and 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 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 audit, which included confirmation of securities at December 31, 2008 by correspondence with the custodian, brokers and private equity issuers, provides a reasonable basis for our opinion.

As explained in Note B, the financial statements include securities valued at \$4,973,686 (12.96% of net assets), whose fair values have been determined in good faith under procedures established by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures established by the Board of Directors to value such securities and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, these values may differ significantly from the values that would have been used had a ready market for the securities existed, and the difference could be material.

PricewaterhouseCoopers LLP  
Baltimore, Maryland  
February 26, 2009

## RESULTS OF ANNUAL MEETING OF SHAREHOLDERS (UNAUDITED)

On April 10, 2008, the Annual Meeting of Shareholders of the Fund (the "Meeting") was held and the following matter was voted upon:

- (1) To re-elect two directors to the Board of Directors of the Fund:

| <u>Name of Director</u>        | <u>For</u> | <u>Withheld</u> |
|--------------------------------|------------|-----------------|
| James J. Cattano (Class II)    | 3,573,752  | 153,718         |
| Steven N. Rappaport (Class II) | 3,573,731  | 153,739         |

In addition to the directors elected at the Meeting, Enrique R. Arzac and Lawrence J. Fox continued as directors of the Fund. Subsequent to the Meeting, Lawrence D. Haber resigned as a director of the Fund.

## TAX INFORMATION (UNAUDITED)

For the fiscal year ended December 31, 2008, the Fund designates approximately \$1,847,570, or up to the maximum amount of such dividends allowable pursuant to the Internal Revenue Code, as qualified dividend income eligible for reduced tax rates. These lower rates range from 5% to 15% depending on an individual's tax bracket. If the Fund pays a distribution during calendar year 2008, complete information will be reported in conjunction with Form 1099-DIV.

During the year ended December 31, 2008, the Fund declared \$8,622,530 in dividends that were designated as long-term capital gains dividends.

The Fund has made an election under Section 853 to pass through foreign taxes paid by the Fund to its shareholders. The amount of foreign taxes that were passed through to shareholders for the year ended December 31, 2008, was \$481,191. The amount of foreign source income was \$2,158,253. Shareholders should refer to their Form 1099-DIV to determine the amount includable on their respective tax returns for 2008.

Shareholders are advised to consult their own tax advisers with respect to the tax consequences of their investment in the Fund.

**INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED)**

| Name, Address<br>(Year of Birth)   | Position(s)<br>Held with<br>Fund   | Term<br>of Office<br>and<br>Length<br>of Time<br>Served  | Principal<br>Occupation(s) During<br>Past Five Years  | Number of<br>Portfolios in<br>Fund<br>Complex<br>Overseen by<br>Director | Other<br>Directorships<br>Held by Director   |
|--|--|--|---|--|--|
| <p><b>Independent Directors</b><br/>                     Enrique R. Arzac<br/>                     c/o Credit Suisse Asset<br/>                     Management, LLC<br/>                     Attn: General Counsel<br/>                     Eleven Madison Avenue<br/>                     New York, New York<br/>                     10010<br/>                     (1941)</p> | <p>Chairman of the<br/>                     Board of<br/>                     Directors;<br/>                     Nominating<br/>                     Committee<br/>                     Chairman and<br/>                     Audit Committee<br/>                     Member</p> | <p>Director<br/>                     since 1996;<br/>                     Chairman<br/>                     since 2005;<br/>                     current term<br/>                     ends at the<br/>                     2009 annual<br/>                     meeting</p> | <p>Professor of Finance and<br/>                     Economics, Graduate<br/>                     School of Business,<br/>                     Columbia University<br/>                     since 1971</p>  | <p>33</p>  | <p>Director of Epoch<br/>                     Holding<br/>                     Corporation (an<br/>                     Investment<br/>                     management and<br/>                     investment advisory<br/>                     services company);<br/>                     Director of The<br/>                     Adams Express<br/>                     Company (a closed-<br/>                     end investment<br/>                     company); Director<br/>                     of Petroleum and<br/>                     Resources<br/>                     Corporation (a<br/>                     closed-end<br/>                     investment<br/>                     company)</p> |
| <p>James J. Cattano<br/>                     c/o Primary Resources, Inc.<br/>                     5100 Tamiami Trail N.<br/>                     Naples, FL 34103<br/>                     (1943)</p>  | <p>Director;<br/>                     Nominating<br/>                     Committee<br/>                     Member and<br/>                     Audit Committee<br/>                     Chairman</p>   | <p>Since 2005;<br/>                     current term<br/>                     ends at the<br/>                     2011 annual<br/>                     meeting</p>  | <p>President, Primary<br/>                     Resources Inc. (an<br/>                     international trading and<br/>                     manufacturing company<br/>                     specializing in the sale of<br/>                     agricultural commodities<br/>                     throughout Latin American<br/>                     markets) since<br/>                     October 1996</p> | <p>7</p>   | <p>None</p>  |
| <p>Lawrence J. Fox<br/>                     One Logan Square<br/>                     18th &amp; Cherry Streets<br/>                     Philadelphia,<br/>                     Pennsylvania 19103<br/>                     (1943)</p>   | <p>Director;<br/>                     Nominating and<br/>                     Audit Committee<br/>                     Member</p>  | <p>Since 2006;<br/>                     Current term<br/>                     ends at the<br/>                     2010 annual<br/>                     meeting</p>  | <p>Partner, Drinker Biddle &amp;<br/>                     Reath (law firm) since 1972</p>   | <p>6</p>   | <p>None</p>  |

**INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED) (CONTINUED)**

| Name, Address<br>(Year of Birth)  | Position(s)<br>Held with<br>Fund                                   | Term<br>of Office<br>and<br>Length<br>of Time<br>Served                         | Principal<br>Occupation(s) During<br>Past Five Years  | Number of<br>Portfolios in<br>Fund<br>Complex<br>Overseen by<br>Director | Other<br>Directorships<br>Held by Director   |
|---|--|---|---|--|--|
| <p>Independent Directors—(continued)</p> <p>Steven N. Rappaport<br/>Lehigh Court, LLC<br/>555 Madison Ave., 29th Floor<br/>New York, New York<br/>10022</p> <p>(1948)</p> | <p>Director;<br/>Nominating and<br/>Audit Committee<br/>Member</p> | <p>Since 1992;<br/>current term<br/>ends at the<br/>2011 annual<br/>meeting</p> | <p>Partner of Lehigh Court,<br/>LLC and RZ Capital (private<br/>investment firms) since<br/>July 2002</p> | <p>33</p>  | <p>Director of iCAD,<br/>Inc. (Surgical &amp;<br/>Medical<br/>Instruments &amp;<br/>Apparatus); Director<br/>of Presstek, Inc.<br/>(digital imaging<br/>technologies<br/>company); Director<br/>of Wood Resources,<br/>LLC (a plywood<br/>manufacturing<br/>company)</p> |

**INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED) (CONTINUED)**

| Name, Address<br>(Year of Birth)   | Position(s)<br>Held with<br>Fund  | Length<br>of Time<br>Served | Principal Occupation(s) During Past Five Years  |
|--|---|-----------------------------|---|
| <b>Officers</b>  |   |                             |   |
| George R. Hornig<br>Credit Suisse Asset<br>Management, LLC<br>Eleven Madison Avenue<br>New York, New York<br>10010     | Chief Executive<br>Officer and<br>President   | Since 2008                  | Managing Director of Credit Suisse; Co-Chief Operating Officer of Asset Management and Head of Asset Management Americas; Associated with Credit Suisse since 1999; Officer of other Credit Suisse Funds.                               |
| (1954)   |   |                             |   |
| Neil Gregson<br>c/o Credit Suisse Asset<br>Management, LLC<br>Eleven Madison Avenue<br>New York, New York<br>10010     | Chief Investment<br>Officer   | Since 2004                  | Managing Director of Credit Suisse Asset Management Limited (“Credit Suisse Ltd”); Associated with Credit Suisse Ltd. since 1990.   |
| (1962)   |   |                             |   |
| Michael A. Pignataro<br>Credit Suisse Asset<br>Management, LLC<br>Eleven Madison Avenue<br>New York, New York<br>10010 | Chief Financial<br>Officer  | Since 1993                  | Director and Director of Fund Administration of Credit Suisse; Associated with Credit Suisse or its predecessor since 1984; Officer of other Credit Suisse Funds.   |
| (1959)   |   |                             |   |
| Emidio Morizio<br>Credit Suisse Asset<br>Management, LLC<br>Eleven Madison Avenue<br>New York, New York<br>10010       | Chief<br>Compliance<br>Officer  | Since 2004                  | Director and Global Head of Compliance of Credit Suisse; Associated with Credit Suisse since July 2000; Officer of other Credit Suisse Funds.   |
| (1966)   |   |                             |   |
| J. Kevin Gao<br>Credit Suisse Asset<br>Management, LLC<br>Eleven Madison Avenue<br>New York, New York<br>10010         | Chief Legal<br>Officer since<br>2006; Senior Vice<br>President And<br>Secretary since<br>2004 | Since 2004                  | Director and Legal Counsel of Credit Suisse; Associated with Credit Suisse since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.                       |
| (1967)   |   |                             |   |
| Cecilia Chau<br>Credit Suisse Asset<br>Management, LLC<br>Eleven Madison Avenue<br>New York, New York<br>10010         | Treasurer   | Since 2008                  | Assistant Vice President of Credit Suisse since June 2007; Associated with Alliance Bernstein LP. From January 2007 to May 2007; Associated with Credit Suisse from August 2000 to December 2006; Officer of other Credit Suisse Funds. |
| (1973)   |   |                             |   |

## Board Consideration and Re-Approval of Investment Advisory and Sub-Advisory Agreements

The Board of Directors (the “Board”) of The First Israel Fund, Inc. (the “Fund”), including a majority of the Directors who have no direct or indirect interest in the investment advisory and sub-advisory agreements and are not “interested persons” of the Fund, as defined in the Investment Company Act of 1940 (the “Independent Directors”), is required annually to review and re-approve the terms of the Fund’s investment advisory and sub-advisory agreements. During the most recent six months covered by this report, the Board reviewed and re-approved (i) an investment advisory agreement with Credit Suisse Asset Management, LLC (“Credit Suisse”), (ii) a sub-advisory agreement with Analyst Exchange Trading Services Ltd. (“Analyst”) for the Fund, and (iii) a sub-advisory agreement with Credit Suisse Asset Management Limited (“Credit Suisse U.K.”). These agreements are collectively referred to as the “Advisory Agreements.”

More specifically, at a meeting held on November 19-20, 2008, the Board, including the Independent Directors advised by their independent legal counsel, considered the factors and reached the conclusions described below relating to the selection of Credit Suisse, Credit Suisse U.K. and Analyst and the re-approval of the Advisory Agreements.

### *Nature, Extent and Quality of Services*

The Board received and considered various data and information regarding the nature, extent and quality of services provided to the Fund by Credit Suisse and the Sub-Advisers under the Advisory Agreements. The most recent investment adviser registration forms for Credit Suisse and the Sub-Advisers were provided to the Board, as were responses of Credit Suisse and the Sub-Advisers to a detailed series of requests submitted by the Independent Directors’ independent legal counsel on their behalf. The Board reviewed and analyzed these materials, which included, among other things, information about the background and experience of senior management and investment personnel of Credit Suisse and Credit Suisse U.K. In this regard, the Board specifically reviewed the qualifications, backgrounds and responsibilities of the individuals primarily responsible for day-to-day portfolio management services for the Fund.

In addition, the Board considered the investment and legal compliance programs of Credit Suisse and the Sub-Advisers including their compliance policies and procedures and reports of the Fund’s Chief Compliance Officer.

The Board also evaluated the ability of Credit Suisse and the Sub-Advisers, including their respective resources, reputations and other attributes, to attract and retain qualified investment professionals, including research, advisory, and supervisory personnel.

Finally, the Board considered preliminary information from Credit Suisse’s corporate parent about its search for a strategic partner for part of its asset management business. In reaching its determination to continue the agreements and arrangements, the Board relied upon Credit Suisse’s undertaking and assurances to continue providing quality management, personnel and other resources necessary to continue providing advisory services of a nature, extent and quality at least comparable to those currently provided to the Funds.

Based on the above factors, together with those referenced below, the Board concluded that it was satisfied with the nature, extent and quality of the investment advisory services provided to the Fund by Credit Suisse and the Sub-Advisers.

#### *Fund Performance and Expenses*

The Board considered the performance results of the Fund in comparison to the Fund's benchmark index, the Tel Aviv 100 Index. The Board noted that the Fund's NAV and market price returns had underperformed the Fund's benchmark index in 2008, but the Fund's market price return had outperformed the benchmark index in 2007.

The Board also considered information regarding the Fund's total expense ratio and its various components in comparison to expense information for a group of funds that was determined to be the most similar to the Fund (the "Peer Group") and a broader universe of relevant funds (the "Expense Universe"). Lipper Inc. ("Lipper"), an independent provider of investment company data, determined the Peer Group and Expense Universe for the Fund and provided the comparative data. The Board noted that the overall expense ratio of the Fund was higher than the median overall expense ratios of its Peer Group and Expense Universe, both including and excluding investment-related expenses and taxes.

Based on the above-referenced considerations and other factors, the Board concluded that the overall performance results and expense comparisons supported the re-approval of the Advisory Agreements.

#### *Investment Advisory and Sub-Advisory Fee Rates*

The Board reviewed the contractual investment advisory fee rate (the "Advisory Agreement Rate") payable by the Fund to Credit Suisse for investment advisory services. The Board noted that Credit Suisse had contractually agreed to base its current investment advisory fee upon the lower of the average weekly stock price or its average weekly net assets. The Board also reviewed and considered the fee waiver/cap arrangements applicable to the Advisory Agreement Rate and considered the Advisory Agreement Rate after taking the waivers into account (the "Net Advisory Rate"). The Board also reviewed and considered the contractual investment sub-advisory fee rates (the "Sub-Advisory Agreement Rates") payable by Credit Suisse to the Sub-Advisers for investment sub-advisory services.

Additionally, the Board considered information comparing the Net Advisory Rate (both on a stand-alone basis and on a combined basis with the Fund's administration fee rate) with that of the other funds in its Peer Group. The Board noted that the Net Advisory Rate for the Fund was not appreciably higher than the median rate of the Fund's Peer Group. The Board also noted that the Fund's administrator is not affiliated with Credit Suisse and that the Fund's administration agreement and corresponding fees were negotiated at arm's length. The Board concluded that the combined rates of investment advisory and administration fees for the Fund, considering the effective voluntary fee waivers, were consistent with the combined median rates of its Peer Group and lower than the combined median rates of its Expense Universe. The Board concluded that these factors supported the Advisory Agreement Rate and the Net Advisory Rate.

The Board also reviewed the Sub-Advisory Agreement Rates charged by Credit Suisse U.K. and Analyst, which are payable by Credit Suisse and not by the Fund, and concluded that they were not excessive.

### Profitability

The Board received and considered an estimated profitability analysis of Credit Suisse based on the Advisory Agreement Rate and the Net Advisory Rate and on revenues earned from other relationships between the Fund and Credit Suisse and its affiliates, including Credit Suisse U.K. The Board concluded that, in light of the costs of providing investment management and other services to the Fund, the profits and other ancillary benefits that Credit Suisse and its affiliates derived from providing these services to the Fund were not excessive.

The Board received and considered a profit statement from Analyst for the Fund based on its Sub-Advisory Agreement Rate. The Board observed the costs of providing portfolio management and other services to the Fund. The Board also noted that the sub-advisory fees are paid to Analyst by Credit Suisse and not directly by the Fund, and were negotiated at arm's length. Based on these factors, the Board concluded that the profits and other ancillary benefits that Analyst and its affiliates received with regard to providing these services to the Fund were not excessive.

### Economies of Scale

The Board received and considered information regarding whether there have been economies of scale with respect to the management of the Fund, whether the Fund has appropriately benefited from any economies of scale, and whether there is potential for realization of any further economies of scale.

The Board observed that the Advisory Agreements do not offer breakpoints, but considered the diminished opportunity to achieve economies of scale in the context of closed-end funds.

### Information about Services to Other Clients

The Board considered information about the nature and extent of services and fee rates offered by Credit Suisse to other clients, including other registered investment companies, separate accounts and institutional investors and investment companies to which Credit Suisse serves as an unaffiliated sub-adviser. The Board also received and considered information about the nature and extent of services offered, and general information about the fees charged, by Credit Suisse U.K. to other clients. The Board concluded that the Advisory Agreement Rate and Sub-Advisory Agreement Rate for Credit Suisse U.K. were not excessive given the nature and extent of services offered and comparison with rates charged to other clients. The Board did not receive comparative fee rate materials for Analyst, but concluded that the Sub-Advisory Agreement Rate for Analyst was not excessive based on other considerations, including the performance of the Fund as sub-advised by Analyst. The Board also considered that sub-advisory fees are paid to Analyst by Credit Suisse and not the Fund, and such fees were negotiated at arm's length.

*Other Benefits to Credit Suisse and the Sub-Advisers*

The Board also considered information regarding potential “fall-out” or ancillary benefits received by Credit Suisse, the Sub-Advisers and their respective affiliates as a result of their relationship with the Fund. In particular, the Board considered that Credit Suisse and the Sub-Advisers may gain certain reputational benefits from managing the Fund.

*Other Factors and Broader Review*

As discussed above, the Board reviews detailed materials received from Credit Suisse and the Sub-Advisers as part of the annual re-approval process. The Board also reviews and assesses the quality of the services that the Fund receives throughout the year. In this regard, the Board reviews reports of Credit Suisse and the Sub-Advisers at least quarterly, which include, among other things, detailed portfolio and market reviews and detailed fund performance reports.

After considering the above-described factors and based on the deliberations and its evaluation of the information provided to it, the Board concluded that re-approval of the Advisory Agreements for the Fund was in the best interest of the Fund and its shareholders. Accordingly, the Board members unanimously re-approved the Advisory Agreements.

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 1-800-293-1232;
- On the Fund's website, [www.credit-suisse.com/us](http://www.credit-suisse.com/us)
- On the website of the Securities and Exchange Commission, [www.sec.gov](http://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](http://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 1-202-551-8090.

The First Israel Fund, Inc. (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](http://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 \$100,000 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 for each sale and brokerage commissions of \$0.03 per share (as of October 2006).

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](http://www.computershare.com)

By phone: (800) 730-6001 (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.

## CLOSED-END FUNDS

### Single Country

The Chile Fund, Inc. (AMEX: CH)

The First Israel Fund, Inc. (AMEX: ISL)

The Indonesia Fund, Inc. (AMEX: IF)

### Multiple Country

The Emerging Markets Telecommunications Fund, Inc. (AMEX: ETF)

The Latin America Equity Fund, Inc. (AMEX: LAQ)

### Fixed Income

Credit Suisse Asset Management Income Fund, Inc. (AMEX: CIK)

Credit Suisse High Yield Bond Fund (AMEX: DHY)

**Literature Request**—Call today for free descriptive information on the closed-end funds listed above at 800-293-1232 or visit our website at [www.credit-suisse.com/us](http://www.credit-suisse.com/us).

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## OPEN-END FUNDS

Credit Suisse Commodity Return Strategy Fund

Credit Suisse Global Fixed Income Fund

Credit Suisse Global Small Cap Fund

Credit Suisse High Income Fund

Credit Suisse International Focus Fund

Credit Suisse Large Cap Blend Fund

Credit Suisse Large Cap Growth Fund

Credit Suisse Large Cap Value Fund

Credit Suisse Mid-Cap Core Fund

Credit Suisse Small Cap Core Fund

Fund shares are not deposits or other obligations of Credit Suisse Asset Management, LLC or any affiliate, are not FDIC-insured and are not guaranteed by Credit Suisse Asset Management, LLC or any affiliate. Fund investments are subject to investment risks, including loss of your investment. There are special risk considerations associated with international, global, emerging-market, small-company, private equity, high-yield debt, single-industry, single-country and other special, aggressive or concentrated investment strategies. Past performance cannot guarantee future results.

More complete information about a fund, including charges and expenses, is provided in the Prospectus, which should be read carefully before investing. You may obtain copies by calling Credit Suisse Funds at 800-927-2874. Performance information current to the most recent month-end is available at [www.credit-suisse.com/us](http://www.credit-suisse.com/us).

Credit Suisse Asset Management Securities, Inc., Distributor.

**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   |
| George R. Hornig     | Chief Executive Officer and President                    |
| Neil Gregson         | Chief Investment Officer                                 |
| J. Kevin Gao         | Chief Legal Officer, Senior Vice President and Secretary |
| Emidio Morizio       | Chief Compliance Officer                                 |
| Michael A. Pignataro | Chief Financial Officer                                  |
| Cecilia Chau         | Treasurer  |

**INVESTMENT ADVISER**

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New York, NY 10010

**INVESTMENT SUB-ADVISER**

Credit Suisse Asset Management Limited  
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**INVESTMENT SUB-ADVISER**

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Boston, MA 02109

**SHAREHOLDER SERVICING AGENT**

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P.O. Box 43078  
Providence, RI 02940

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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100 East Pratt Street  
Baltimore, MD 21202

**LEGAL COUNSEL**

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787 Seventh Avenue  
New York, NY 10019

This report, including the financial statements herein, is sent to the shareholders of the Fund for their information. 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.

