

HERZFELD CARIBBEAN BASIN FUND INC  
Form N-CSRS  
February 28, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-06445

The Herzfeld Caribbean Basin Fund, Inc.  
(Exact name of registrant as specified in charter)

119 WASHINGTON AVE, SUITE 504, MIAMI BEACH, FL 33139  
(Address of principal executive offices) (Zip code)

THOMAS J. HERZFELD  
119 WASHINGTON AVE, SUITE 504, MIAMI BEACH, FL 33139  
(Name and address of agent for service)

Registrant's telephone number, including area code: 305-271-1900

Date of fiscal year end: 06/30/2013

Date of reporting period: 7/01/2012 - 12/31/2012

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

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ITEM 1. SHAREHOLDER REPORT

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The Herzfeld Caribbean Basin Fund, Inc.  
119 Washington Avenue, Suite 504  
Miami Beach, FL 33139  
(305) 271-1900

Investment Advisor  
HERZFELD/CUBA  
a division of Thomas J. Herzfeld Advisors, Inc.  
119 Washington Avenue, Suite 504  
Miami Beach, FL 33139  
(305) 271-1900

Transfer Agent & Registrar  
State Street Bank and Trust  
200 Clarendon Street, 16th Floor  
Boston, MA 02116  
(617) 662-2760

Custodian  
State Street Bank and Trust  
200 Clarendon Street, 5th Floor  
Boston, MA 02116

Counsel  
Pepper Hamilton LLP  
3000 Two Logan Square  
18th and Arch Streets  
Philadelphia, PA 19103

Independent Auditors  
Rothstein Kass  
2175 North California Blvd., 10th Floor  
Walnut Creek, CA 94596

The Herzfeld Caribbean Basin Fund Inc.'s investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Advisor's view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela ("Caribbean Basin Countries"). The Fund invests at least 80% of its total assets in equity and equity-linked securities of issuers, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries.

Listed NASDAQ Capital Market  
Symbol: CUBA

Letter to Stockholders

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February 7, 2013

Dear Fellow Stockholders:

We are pleased to present our Semi-Annual Report for the six month period ended December 31, 2012. On that date the net asset value of The Herzfeld Caribbean Basin Fund, Inc. (CUBA) was \$8.71 per share, up 13.10% for the six months then ended, and adjusted for the \$0.196 per share year-end capital gains distribution paid on December 26, 2012. The Fund's share price closed the period at \$7.64 per share, a gain of 12.45% over the same semi-annual time period, also adjusted for the distribution.

For calendar year 2012, the Fund's net asset value appreciated by 24.62% while the share price advanced 22.08%; both figures are adjusted for the year-end distribution.

Investment Review

The Herzfeld Caribbean Basin Fund was created with a dual focus: to invest in companies we believe will benefit from a resumption of trade with Cuba, but also to invest in companies in the Caribbean region that we believe have good prospects, even if there is no change in U.S. policy towards Cuba.

We are gratified that the prices of many of our holdings that fall into the first category reached multi-year or all-time highs during the last quarter of 2012. These included all of our five largest holdings: Seaboard Corporation (SEB), Copa Holdings, S.A. (CPA), Coca Cola Femsa, S.A.B. de C.V. ADR (KOF), Mastec, Inc. (MTZ) and Watsco Incorporated (WSO). As the share prices of these positions rallied, we trimmed these holdings, increasing our cash position at the end of the period and into early 2013.

One strategy we employ is to seek to buy whenever bad news provides a good entry price. For instance, at the end of October, the management of Western Union

Letter to Stockholders (continued)

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(WU) reduced its forward revenue and earnings estimates following a decision to cut their prices in key corridors to increase market share. At the time, WU's decision was estimated to decrease operating revenue by 10% to 15%. The market reacted to the news with a 33% decline in share price. WU is also an example of a company with strong prospects without any change in Cuba, but which currently does business on the island through an exemption from the U.S embargo. We seized the opportunity to add to our holding at the depressed price of \$13.00 per share. From that level, the shares have rebounded by more than 12% through the date of this letter.

A somewhat unusual news item also provided an unexpected opportunity. Grupo Casa Saba S.A.B. de C.V. (formerly SAB) announced that as a result of low trading volume, it would delist its American Depository Receipt Shares (ADRs) from the New York Stock Exchange. ADRs represent a specified number of shares of a foreign corporation, sponsored by a bank and listed on a U.S. stock exchange. They provide an efficient way to buy and sell well-known foreign stocks through U.S. exchange-traded transactions.

The Fund was a shareholder of the ADRs, but also has been following the local shares of Grupo Casa Saba, which trade on the Mexican Bolsa. While the NYSE-listed ADRs traded down 65% on the delisting news, the local shares traded approximately 10% higher than the equivalent conversion price. We took the opportunity to add to our ADR holding as U.S. holders sold, then converted all our ADRs into local shares (this involved a fee to the sponsoring bank.) Shares listed on both exchanges rebounded over the following two-week period and U.S. trading has since stopped.

As always, there were some positions which declined during the period. For instance, America Movil (AMX) (of which we hold both ADRs and local shares) was hurt by corruption allegations at Telekom Austria, a company in which AMX holds a 22% stake. In addition, the Colombian government announced it would partially exclude AMX from an auction of airwaves in 2013 in order to boost competition and attract new investors. AMX lost 10.1% over the six month period ended December 31, 2012. Despite this disappointment, we remain optimistic as AMX is still the largest mobile phone operator in the Americas by subscribers and is well positioned to win market share in Cuba.

Letter to Stockholders (continued)

2013 has begun with renewed political and investor interest in the Caribbean region, especially with a view towards change in Cuba. An Op-Ed posted on the website of the Council on Foreign Relations proclaimed, “The Post-Castro Era is Today” (January 30, 2013), while Forbes recently asked, “Cuba the Next Emerging Market?” (January 29, 2013).

Our outlook remains bullish for the region. We seek to position the portfolio for any future political developments focused on Cuba, while taking a wide-angle view of the whole region.

#### Largest Allocations

The following tables present our largest investment and geographic allocations as of December 31, 2012.

Geographic Allocation	% of Net Assets	Largest Portfolio Positions	% of Net Assets
USA	56.71%	Seaboard Corporation	10.50%
Mexico	20.28%	Copa Holdings, S.A.	6.46%
Panama	9.46%	Coca Cola Femsa, S.A.B. de C.V. ADR	5.88%
Colombia	4.28%	Mastec, Inc.	5.64%
Bahamas	3.29%	Watsco Incorporated	5.12%
Cayman Island	1.88%	Royal Caribbean Cruises Ltd.	4.84%
Puerto Rico	1.26%	Carnival Corp.	4.77%
Belize	0.08%	Norfolk Southern Corporation	4.49%
Cuba	0.00%	Lennar Corp.	4.36%
Cash and Other Countries	2.76%	Bancolombia, S.A.	4.28%

Daily net asset values and press releases by the Fund are available on the Internet at [www.herzfeld.com](http://www.herzfeld.com).

We would like to thank the members of the Board of Directors for their hard work and guidance and also thank our fellow stockholders for their continued support and suggestions.

Sincerely,

Thomas J. Herzfeld  
Chairman of the Board, President  
and Portfolio Manager

Erik M. Herzfeld  
Portfolio Manager



## Schedule of Investments as of December 31, 2012 (unaudited)

Shares or Principal Amount	Description	Fair Value
Common stocks - 97.44% of net assets		
Airlines - 6.46%		
21,000	Copa Holdings, S.A.	\$ 2,088,450
Banking and finance - 8.97%		
20,780	Bancolombia, S.A.	1,383,533
45,000	Banco Latinoamericano de Exportaciones, S.A.	970,200
6,000	Popular Inc.*	124,740
3,844	W Holding Co. Inc.*	177
31,000	Western Union Company	421,910
Communications - 9.69%		
44,690	América Móvil, S.A.B. de C.V. ADR	1,034,127
71,200	América Móvil, S.A.B. de C.V. Series A	81,694
209,144	América Móvil, S.A.B. de C.V. Series L	239,808
16,198	Atlantic Tele-Network, Inc.	594,629
11,565	Fuego Enterprises Inc.*	5,204
23,666	Grupo Radio Centro, S.A.B. ADR	297,955
32,400	Grupo Televisa, S.A.B. ADR	861,192
8,030	Spanish Broadcasting System, Inc.*	19,834
Conglomerates and holding companies - 0.08%		
250,000	Admiralty Holding Company*	--
70,348	BCB Holdings Ltd.*	23,442
3,250	Shellshock Ltd. Ord.*	2,060
Construction and related - 9.72%		
57,655	Cemex S.A.B. de C.V. ADR	569,055
58,021	Cemex S.A.B. de C.V. Series CPO	56,877
20	Ceramica Carabobo Class A ADR (Note 2)*	--
3,300	Martin Marietta Materials	311,124
74,132	Mastec, Inc.*	1,823,181
7,400	Vulcan Materials	385,170

\* Non-income producing  
See accompanying notes.



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Schedule of Investments as of December 31, 2012 (unaudited)

Shares or Principal Amount	Description	Fair Value
Consumer products and related manufacturing - 5.89%		
327,290	Grupo Casa Saba, S.A.B. de C.V.	\$249,512
22,100	Watsco Incorporated	1,655,290
Food, beverages and tobacco - 10.11%		
35,000	Chiquita Brands International Inc.*	288,750
53,874	Cleanpath Resources Corp.*	307
12,760	Coca Cola Femsa, S.A.B. de C.V. ADR	1,901,750
18,900	Fomento Económico Mexicano, S.A.B. de C.V. Series UBD	188,389
5,000	Fomento Económico Mexicano S.A.B. de C.V. ADR	503,500
14,690	Fresh Del Monte Produce Inc.	387,081
Housing - 4.52%		
4,100	Homex Development Corp. ADR*	51,168
36,500	Lennar Corporation	1,411,455
Investment companies - 0.66%		
4,420	Shellproof Limited*	2,946
70,348	Waterloo Investment Holdings Ltd. (Note 2)*	--
3,000	iShares MSCI Mexico Investable Market Index Fund	211,590
Leisure - 11.92%		
42,000	Carnival Corp.	1,544,340
46,000	Royal Caribbean Cruises Ltd.	1,564,000
15,527	Steiner Leisure Ltd.*	748,246
Mining - 1.93%		
3,872	Grupo México, S.A.B. de C.V. Series B	13,903
13,000	Freeport McMoran Copper	444,600
9,000	Tahoe Resources, Inc.*	164,880
Pulp and paper - 0.15%		
18,300	Kimberly-Clark de México, S.A.B. de C.V. Series A	46,786
Railroad - 4.49%		
23,500	Norfolk Southern Corporation	1,453,240

\* Non-income producing  
See accompanying notes.



## Schedule of Investments as of December 31, 2012 (unaudited)

Shares or Principal Amount	Description	Fair Value
<b>Retail - 5.84%</b>		
1,270	Grupo Elektra, S.A.B. de C.V. Series CPO	\$53,690
15,800	Pricemart Inc.	1,217,390
190,222	Wal-Mart de México, S.A.B. de C.V. Series V	617,863
<b>Service - 0.02%</b>		
700	Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B	7,923
<b>Trucking and marine freight - 12.17%</b>		
12,280	Grupo TMM, S.A.B. ADR*	12,035
1,342	Seaboard Corporation	3,395,099
2,000	Seacor Holdings, Inc.	167,600
8,361	Teekay LNG Partners LP	315,879
28,000	Ultrapetrol Bahamas Ltd.*	46,200
<b>Utilities - 3.72%</b>		
12,000	Caribbean Utilities Ltd. Class A	112,516
66,841	Consolidated Water, Inc.	494,623
700	Cuban Electric Company (Note 2)*	--
35,500	Teco Energy Inc.	594,980
<b>Other - 1.10%</b>		
500,000	Cuba Business Development (Note 2)*	--
25,000	Geltech Solutions Inc.*	8,078
13,000	Impellam Group	64,451
55,921	Margo Caribe, Inc.*	284,079
895	Siderurgica Venezolana Sivensa, S.A. ADR (Note 2)*	--
79	Siderurgica Venezolana Sivensa, S.A. Series B (Note 2)*	--
<b>Total common stocks (cost \$25,567,130)</b>		<b>\$31,518,501</b>

\* Non-income producing  
See accompanying notes.

Schedule of Investments as of December 31, 2012 (unaudited)

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Shares or Principal Amount	Description	Fair Value
Bonds - 0% of net assets		
\$165,000	Republic of Cuba - 4.5%, 1977 - in default (Note 2)*	\$—
Total bonds (cost \$63,038)		\$—
Other assets less liabilities - 2.56% of net assets		\$827,564
Net assets - 100%		\$32,346,065

The investments are concentrated in the following geographic regions (as percentages of net assets):

United States of America	56.71%
Mexico	20.28%
Panama	9.46%
Other, individually under 5%**	13.55%
	100.00%

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\* Non-income producing  
 \*\* Amount includes other assets less liabilities of 2.56%  
 See accompanying notes.

Statement of Assets and Liabilities as of  
December 31, 2012 (unaudited)

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**ASSETS**

Investments in securities, at fair value (cost \$25,630,168) (Notes 1 and 2)	\$31,518,501
Cash and equivalents	955,010
Dividends receivable	14,204
Other assets	18,867
<b>TOTAL ASSETS</b>	<b>32,506,582</b>

**LIABILITIES**

Accrued investment advisor fee (Note 3)	\$114,672
Other payables	45,845
<b>TOTAL LIABILITIES</b>	<b>160,517</b>

<b>NET ASSETS</b> (Equivalent to \$8.71 per share based on 3,713,071* shares outstanding)	<b>\$32,346,065</b>
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Net assets consist of the following:

Common stock, \$.001 par value; 100,000,000 shares authorized; 3,713,071* shares issued and outstanding	\$3,713
Additional paid-in capital	26,103,328
Accumulated net investment loss and net realized gain on investments	350,691
Net unrealized gain on investments (Notes 4 and 5)	5,888,333

<b>NET ASSETS</b>	<b>\$32,346,065</b>
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\*213,222 shares issued through dividend reinvestment plan and 1,812,293 shares issued through rights offering (Note 6)

See accompanying notes.

Statement of Operations Six Months Ended  
December 31, 2012 (unaudited)

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INVESTMENT INCOME AND EXPENSES

Dividends and interest		\$421,732
Investment advisor fee (Note 3)	\$222,794	
Custodian fees	41,500	
Professional fees	38,796	
Insurance	21,270	
CCO salary	13,456	
Transfer agent fees	11,667	
Director fees	10,400	
Listing fees	7,500	
Printing and postage	6,170	
Proxy services	4,752	
Other	14,300	
Total investment expenses		392,605
NET INVESTMENT INCOME		29,127
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY		
Net realized gain on investments and foreign currency	1,602,944	
Net increase in unrealized appreciation (depreciation) on investments and foreign currency	2,111,533	
NET GAIN ON INVESTMENTS		3,714,477
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		\$3,743,604

See accompanying notes.

## Statements of Changes in Net Assets

	Six Months Ended 12/31/12 (unaudited)	Year-Ended 6/30/12
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS		
Net investment income (loss)	\$29,127	\$(227,400 )
Net realized gain on investments and foreign currency	1,602,944	25,955
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	2,111,533	(402,004 )
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	3,743,604	(603,449 )
NET DISTRIBUTIONS TO STOCKHOLDERS		
Net investment income	--	--
Long-term realized gains	(727,762 )	(235,409 )
NET DISTRIBUTIONS TO STOCKHOLDERS	(727,762 )	(235,409 )
TOTAL INCREASE (DECREASE) IN NET ASSETS	3,015,842	(838,858 )
NET ASSETS		
Beginning	29,330,223	30,169,081
Ending	\$32,346,065	\$29,330,223

See accompanying notes.

## Financial Highlights

	Six Months Ended 12/31/12 (unaudited)		Year Ended June 30			
	2012	2011	2010	2009		
<b>PER SHARE OPERATING PERFORMANCE</b>						
(For a share of capital stock outstanding for each time period indicated)						
Net asset value, beginning of year	\$ 7.90	\$ 8.13	\$ 6.12	\$ 5.35	\$ 7.31	
<b>Operations:</b>						
Net investment income (loss) <sup>1</sup>	0.01	(0.06 )	(0.06 )	(0.07 )	(0.05 )	
Net realized and unrealized gain (loss) on investment transactions <sup>1</sup>	1.00	(0.11 )	2.07	0.84	(1.70 )	
Total from operations	1.01	(0.17 )	2.01	0.77	(1.75 )	
<b>Distributions:</b>						
From net investment income	--	--	--	--	(0.16 )	
From net realized gains	(0.20 )	(0.06 )	--	--	(0.05 )	
Total distributions	(0.20 )	(0.06 )	--	--	(0.21 )	
Net asset value, end of year	\$ 8.71	\$ 7.90	\$ 8.13	\$ 6.12	\$ 5.35	
Per share market value, end of year	\$ 7.64	\$ 6.97	\$ 7.14	\$ 5.67	\$ 6.07	
Total investment return (loss) based on market value per share	12.45 %	(1.39 %)	25.93 %	(6.59 %)	(17.73 %)	
<b>RATIOS AND SUPPLEMENTAL DATA</b>						
Net assets, end of year (in 000's)	\$ 32,346	\$ 29,330	\$ 30,169	\$ 22,707	\$ 19,882	
Ratio of expenses to average net assets	2.57 % <sup>2</sup>	2.68 %	2.66 %	2.78 %	3.02 %	
Ratio of net investment income (loss) to average net assets	0.19 % <sup>2</sup>	(0.81 %)	(0.81 %)	(1.05 %)	(0.84 %)	
Portfolio turnover rate	15 %	15 %	22 %	27 %	17 %	



1 Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented.

2 This figure has been annualized; however, the percentage shown is not necessarily indicative of results for a full year.

See accompanying notes.

Notes to Financial Statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Related Matters

The Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland on March 10, 1992, and registered under the Investment Company Act of 1940. The Fund commenced investing activities in January 1994. The Fund is listed on the NASDAQ Capital Market and trades under the symbol “CUBA”.

The Fund’s investment objective is to obtain long-term capital appreciation. The Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin Country or (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from operations in a Caribbean Basin Country (collectively, “Caribbean Basin Companies”). Under normal conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Countries. This 80% policy may be changed without stockholder approval upon sixty days written notice to stockholders. The Fund’s investment objective is fundamental and may not be changed without the approval of a majority of the Fund’s outstanding voting securities.

At December 31, 2012, the Fund had foreign investments in companies operating principally in Mexico and Panama representing approximately 20.28% and 9.46% of the Fund’s net assets, respectively.

The Fund’s custodian and transfer agent is State Street Bank and Trust Company (“SSBT”), 200 Clarendon Street, PO Box 9130, Boston, Massachusetts 02117.

Security Valuation

In accordance with accounting principles generally accepted in the United States of America (“GAAP”), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Notes to Financial Statements

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In determining fair value, the Fund uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

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 availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Fund uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

## Notes to Financial Statements

Investments in securities traded on a national securities exchange (or reported on the NASDAQ National Market or Capital Market) are stated at the last reported sales price on the day of valuation (or at the NASDAQ official closing price); other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors.

The following table summarizes the classification of the Fund's investments by the above fair value hierarchy levels as of December 31, 2012:

LEVEL	Investments in Securities
Level 1	\$31,425,602
Level 2	\$92,899
Level 3	\$0*

\*See Note 2, non-marketable securities owned

	Investment in Securities at Value
	Level 3
Balance as of 6/30/12	\$0
Realized/Unrealized gain/(loss)	0
Net purchases	0
Transfer into Level 3	0
Transfer out of Level 3	0
Balance as of 12/31/12	\$0

All transfers are recognized by the Fund at the end of each reporting period.

Notes to Financial Statements

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Under procedures approved by the Directors, the Advisor provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Advisor convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at a fair value. The Advisor may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discount may be applied due to the nature or duration of any restrictions on the disposition of investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Advisor employs various methods for calibrating these valuation approaches including a regular view of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis and reviews of any related market activity.

#### Income Recognition

Security transactions are recorded on the trade date. Gains and losses on securities sold are determined on the basis of identified cost. Dividend income is recognized on the ex-dividend date or in the case of certain foreign securities, as soon as the Fund is notified, and interest income is recognized on an accrual basis. Pursuant to a custodian agreement, SSBT receives a fee reduced by credits which are determined based on the average daily cash balance the Fund maintains with SSBT. Credit balances used to reduce the Fund's custodian fees for the six months ended December 31, 2012 were approximately \$465. Discounts and premiums on debt securities purchased are amortized over the life of the respective securities. It is the Fund's practice to include the portion of realized and unrealized gains and losses on investments denominated in foreign currencies as components of realized and unrealized gains and losses on investments and foreign currency.

Notes to Financial Statements

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Deposits with Financial Institutions

The Fund may, during the course of its operations, maintain account balances with financial institutions in excess of federally insured limits.

Counterparty Brokers

In the normal course of business, substantially all of the Fund's money balances and security positions are custodied with the Fund's custodial broker, SSBT. The Fund executes securities transactions through other brokers. The Fund is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Fund's management monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Fund's policy is to continue to comply with the provisions of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its stockholders. Under these provisions, the Fund is not subject to federal income tax on its taxable income and no federal income tax provision is required.

The Fund has adopted a June 30 year-end for federal income tax purposes.

Distributions to Stockholders

Distributions to stockholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. For the six months ended December 31, 2012, a distribution from long-term capital gains of \$0.196 per share was declared on November 15, 2012, payable December 26, 2012 to stockholders of record December 18, 2012. The distribution was paid in cash. For stockholders enrolled in the Fund's Dividend Reinvestment Plan, the reinvestment price was \$7.585 per share. Reinvestment shares were purchased in the open market.

Notes to Financial Statements

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NOTE 2. NON-MARKETABLE AND RESTRICTED SECURITIES OWNED

Investments in securities include \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds purchased for \$63,038. The bonds were listed on the New York Stock Exchange and had been trading in default since 1960. A “regulatory halt” on trading was imposed by the New York Stock Exchange in July 1995 and trading in the bonds was suspended as of December 28, 2006. The New York Stock Exchange has stated that following the suspension of trading, application will be made to the Securities and Exchange Commission to delist the issue. As of December 31, 2012, the position was valued at \$0 by the Advisor and approved by the Board of Directors, which approximates the bonds’ fair value.

Investments in securities also include 250,000 shares of Admiralty Holding Company, 20 shares of Ceramica Carabobo Class A ADR, 700 shares of Cuban Electric Company, 895 shares of Siderurgica Venezolana Sivensa, S.A. ADR, 79 shares of Siderurgica Venezolana Sivensa S.A. Series B, 500,000 shares of Cuba Business Development and 70,348 shares of Waterloo Investment Holdings Ltd. As of December 31, 2012, the positions were valued at \$0 by the Advisor and approved by the Board of Directors, which approximates their fair value.

Two of the Fund’s holdings are currently segregated and restricted from transfer. These securities are: \$165,000 principal value 1977 Republic of Cuba bonds, 4.5% in default with a fair value of \$0, and 700 shares of Cuban Electric Company with a fair value of \$0. In addition, Cuba Business Development is current subject to a merger into Fuego Enterprises Inc. New shares of Fuego Enterprises Inc. received by the Fund pursuant to the merger are expected to be restricted from trading for a period of time following the conversion.

NOTE 3. TRANSACTIONS WITH AFFILIATES

HERZFELD / CUBA (the “Advisor”), a division of Thomas J. Herzfeld Advisors, Inc., is the Fund’s investment advisor and charges a monthly fee at the annual rate of 1.45% of the Fund’s average daily net assets. Total fees for the six months ended December 31, 2012 amounted to \$222,794, of which \$114,672 is payable as of December 31, 2012.

A director of the Fund served on the Board of Directors of Margo Caribe, Inc., a company in which the Fund has an investment. A director of the Fund is the owner of the Advisor and Thomas J. Herzfeld & Co., Inc.

The Fund reimbursed the Advisor in the amount of \$13,456 for the portion of the chief compliance officer’s (the “CCO”) salary determined to be attributable to the services provided as CCO of the Fund.

## Notes to Financial Statements

## NOTE 4. INVESTMENT TRANSACTIONS

During the six months ended December 31, 2012, purchases and sales of investment securities were \$4,271,918 and \$4,868,257, respectively.

At December 31, 2012, the Fund's investment portfolio had gross unrealized gains of \$9,008,469 and gross unrealized losses of \$3,120,136, resulting in a net unrealized gain of \$5,888,333 for financial statement purposes.

## NOTE 5. INCOME TAX INFORMATION

For financial statement purposes, the Fund's net investment loss for the year ended June 30, 2012 does not differ from the net investment loss for tax purposes. Realized gains differ for financial statement and tax purposes primarily due to differing treatments of wash sales.

As of June 30, 2012, for tax purposes the Fund's undistributed net investment loss was \$0 and its accumulated net realized gain on investments was \$79,376. Additionally, the Fund has elected to defer post October capital losses of \$56,617.

The cost basis of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by \$576,377 due to wash sale adjustments. As of June 30, 2012, gross unrealized gains were \$7,330,070 and gross unrealized losses were \$4,129,647 for income tax purposes.

Permanent differences accounted for during the year ended June 30, 2012 result from differences between book and tax accounting for the characterization of foreign currency losses and the write-off of the Fund's net investment loss for tax purposes. Such amounts have been reclassified as follows:

	Accumulated Net Investment Loss	Accumulated Net Realized Loss on Investments	Additional Paid in Capital
Year ended June 30, 2012	227,400	\$13,335	(\$240,735)



Notes to Financial Statements

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In accordance with GAAP, the Fund is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Fund files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. Generally the Fund is no longer subject to income tax examinations by major taxing authorities for years before June 30, 2009. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in the Fund recording a tax liability that reduces ending net assets. This policy has been applied to all existing tax positions upon the Fund's initial adoption for the period ended June 30, 2008. Based on its analysis, the Fund has determined that the adoption of this policy did not have a material impact on the Fund's financial statements upon adoption. However, the Fund's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, ongoing analyses of and changes to tax laws, regulations and interpretations thereof.

The Fund's policy would be to recognize accrued interest expense to unrecognized tax benefits in interest expense and penalties in operating expenses. There were none for the period ended June 30, 2012.

#### NOTE 6. CAPITAL SHARE TRANSACTIONS

##### Rights Offering

On October 26, 2007, the Fund issued 1,812,293 common shares in connection with a rights offering. Stockholders of record September 26, 2007 were issued one non-transferable right for every share owned on that date. The rights entitled the stockholders to purchase one new common share for every right held. In addition, the Fund had the discretion to increase the number of shares of common stock subject to subscription by up to 100% of the shares offered, or up to an additional 1,678,556 shares of common stock.

The subscription price was equal to 85% of the average volume-weighted sales price per share of the Fund's common stock on the NASDAQ Capital Market on October 26, 2007 and the four preceding trading days. The final subscription price was \$10.04 per share. Net proceeds to the Fund were \$18,075,138 after deducting rights offering costs of \$120,284. The net asset value of the Fund's common shares was increased by approximately \$0.09 per share as a result of the share issuance.

Notes to Financial Statements

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Year-End Distributions

On January 9, 2008, the Fund issued 213,222 common shares in connection with a year-end distribution of \$1.28 per share paid in stock. Stockholders were also given the option of receiving the payment in cash. Shares were issued at \$7.94 per share, equal to the net asset value of the Fund on the payable date of January 9, 2008. New shares were issued at net asset value per share, therefore the reinvestment of distributions had no effect on net asset value.

On January 5, 2009, the Fund paid a year-end distribution of \$0.211 per share paid in stock. Stockholders were also given the option of receiving the payment in cash. Shares were purchased in the open market to pay the distribution at a reinvestment price of \$4.9896 per share including brokerage commissions.

No distribution was declared during the fiscal years ended June 30, 2011 or 2010.

On January 9, 2012, the Fund paid a year-end distribution of \$0.0634 per share in cash.

On December 26, 2012, the Fund paid a year-end distribution of \$0.196 per share in cash.

Results of November 14, 2012 Stockholder Meeting

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The annual meeting of stockholders of the Fund was held on November 14, 2012. At the meeting one nominee for a Director post was elected as follows:

	Votes for	Votes withheld
Dr. Kay W. Tatum	2,999,712	63,525

The terms of office as directors of Ann S. Lieff, John A. Gelety, Michael A. Rubin and Thomas J. Herzfeld continued after the meeting.

## Dividend Reinvestment Plan

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Registered holders (“Stockholders”) of shares of common stock, \$0.001 par value (“Common Stock”) of Herzfeld Caribbean Basin Fund, Inc. (the “Fund”) will automatically be enrolled (“Participants”) in the Fund’s Dividend Reinvestment Plan (the “Plan”) and are advised as follows:

1. State Street Bank & Trust Company (the “Agent”) will act as agent for each Participant. The Agent will open an account for each registered shareholder as a Participant under the Plan in the same name in which such Participant’s shares of Common Stock are registered.
2. **CASH OPTION.** Pursuant to the Fund’s Plan, unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions payable in cash (“Distributions”) will be automatically reinvested by the Agent in additional Common Stock of the Fund. Stockholders who elect not to participate in the Plan will receive all cash distributions in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name then to such nominee) by the Agent, as dividend paying agent. Stockholders and Participants may elect not to participate in the Plan and to receive all cash distributions of dividends and capital gains in cash by sending written instructions to the Agent, as dividend paying agent, at the address set forth below.
3. **MARKET PREMIUM ISSUANCES.** If on the payment date for a Distribution, the net asset value per Common Stock is equal to or less than the market price per Common Stock plus estimated brokerage commissions, the Agent shall receive newly issued Common Stock (“Additional Common Stock”) from the Fund for each Participant’s account. The number of Additional Common Stock to be credited shall be determined by dividing the dollar amount of the Distribution by the greater of (i) the net asset value per Common Share on the payment date, or (ii) 95% of the market price per Common Share on the payment date.
4. **MARKET DISCOUNT PURCHASES.** If the net asset value per Common Stock exceeds the market price plus estimated brokerage commissions on the payment date for a Distribution, the Agent (or a broker-dealer selected by the Agent) shall endeavor to apply the amount of such Distribution on each Participant’s Common Stock to purchase Common Stock on the open market. In the event of a market discount on the payment date, the Agent will have 30 days after the dividend payment date (the “last purchase date”) to invest the dividend amount in shares acquired in open-market purchases. The weighted average price (including brokerage commissions) of all Common Stock purchased by the

Dividend Reinvestment Plan (continued)

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Agent as Agent shall be the price per Common Stock allocable to each Participant. If, before the Agent has completed its purchases, the market price plus estimated brokerage commissions exceeds the net asset value of the Common Stock as of the payment date, the purchase price paid by Agent may exceed the net asset value of the Common Stock, resulting in the acquisition of fewer Common Stock than if such Distribution had been paid in Common Stock issued by the Fund. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent may cease making open-market purchases and may invest the uninvested portion of the dividend amount in newly issued Common Stock at the net asset value per Common Stock at the close of business on the last purchase date. Participants should note that they will not be able to instruct the Agent to purchase Common Stock at a specific time or at a specific price. Open-market purchases may be made on any securities exchange where Common Stock are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine. Each Participant's uninvested funds held by the Agent will not bear interest. The Agent shall have no liability in connection with any inability to purchase Common Stock within the time provided, or with the timing of any purchases effected. The Agent shall have no responsibility for the value of Common Stock acquired. The Agent may commingle Participants' funds to be used for open-market purchases of the Fund's shares and the price per share allocable to each Participant in connection with such purchases shall be the average price (including brokerage commissions and other related costs) of all Fund shares purchased by Agent. The rules and regulations of the Securities and Exchange Commission may require the Agent to limit the Agent's market purchases or temporarily cease making market purchases for Participants.

5. The market price of Common Stock on a particular date shall be the last sales price on the securities exchange where the Common Stock are listed on that date (currently the NASDAQ Capital Market) (the "Exchange"), or, if there is no sale on the Exchange on that date, then the average between the closing bid and asked quotations on the Exchange on such date will be used. The net asset value per Common Stock on a particular date shall be the amount calculated on that date (or if not calculated on such date, the amount most recently calculated) by or on behalf of the Fund.
6. Whenever the Agent receives or purchases shares or fractional interests for a Participant's account, the Agent will send such Participant a notification of the transaction as soon as practicable. The Agent will hold such shares and fractional interests as such Participant's agent and may hold them in the Agent's name or the name of the Agent's nominee. The Agent will not send a Participant stock certificates for shares unless a Participant so requests in writing or unless a Participant's account is terminated as stated below. The Agent will vote any shares so held for a Participant in accordance with any proxy returned to the Fund by such Participant in respect of the shares of which such Participant is the record holder.

Dividend Reinvestment Plan (continued)

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7. There is presently no service charge for the Agent serving as Participants' agent and maintaining Participants' accounts. The Agent may, however, charge Participants for extra services performed at their request. The Plan may be amended in the future to impose a service charge. In acting as Participants' agent under the Plan, the Agent shall be liable only for acts, omissions, losses, damages or expenses caused by the Agent's willful misconduct or gross negligence. In addition, the Agent shall not be liable for any taxes, assessments or governmental charges which may be levied or assessed on any basis whatsoever in connection with the administration of the Plan.
8. The Agent may hold each Participant's Common Stock acquired pursuant to the Plan together with the Common Stock of other Stockholders of the Fund acquired pursuant to the Plan in non-certificated form in the Agent's name or that of the Agent's nominee. Each Participant will be sent a confirmation by the Agent of each acquisition made for his or her account as soon as practicable, but in no event later than 60 days, after the date thereof. Upon a Participant's request, the Agent will deliver to the Participant, without charge, a certificate or certificates for the full Common Stock. Although each Participant may from time to time have an undivided fractional interest in a Common Share of the Fund, no certificates for a fractional share will be issued. Similarly, Participants may request to sell a portion of the Common Stock held by the Agent in their Plan accounts by calling the Agent, writing to the Agent, or completing and returning the transaction form attached to each Plan statement. The Agent will sell such Common Stock through a broker-dealer selected by the Agent within 5 business days of receipt of the request. The sale price will equal the weighted average price of all Common Stock sold through the Plan on the day of the sale, less brokerage commissions. Participants should note that the Agent is unable to accept instructions to sell on a specific date or at a specific price. Any share dividends or split shares distributed by the Fund on Common Stock held by the Agent for Participants will be credited to their accounts. In the event that the Fund makes available to its Stockholders rights to purchase additional Common Stock, the Common Stock held for each Participant under the Plan will be added to other Common Stock held by the Participant in calculating the number of rights to be issued to each Participant.

If a Participant holds more than one Common Stock Certificate registered in similar but not identical names or if more than one address is shown for a Participant on the Fund's records, all of such Participant's shares of Common Stock must be put into the same name and address if all of them are to be covered by one account. Additional shares subsequently acquired by a Participant otherwise than through the Plan will be covered by the Plan.

9. The reinvestment of Distributions does not relieve Participants of any federal, state or local taxes which may be payable (or required to be withheld on Distributions.) Participants will receive tax information annually for their personal records and to help them prepare their federal income tax return. For further information as to tax consequences of participation in the Plan, Participants should consult with their own tax advisors.

Dividend Reinvestment Plan (continued)

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10. Each registered Participant may terminate his or her account under the Plan by notifying the Agent in writing at State Street Bank and Trust, P.O. Box 642, Boston, MA 02117-0642, or by calling the Agent at (617) 443-6870. Such termination will be effective with respect to a particular Distribution if the Participant's notice is received by the Agent prior to such Distribution record date. The Plan may be terminated by the Agent or the Fund upon notice in writing mailed to each Participant at least 60 days prior to the effective date of the termination. Upon any termination, the Agent will cause a certificate or certificates to be issued for the full shares held for each Participant under the Plan and cash adjustment for any fraction of a Common Share at the then current market value of the Common Shares to be delivered to him. If preferred, a Participant may request the sale of all of the Common Shares held by the Agent in his or her Plan account in order to terminate participation in the Plan. If any Participant elects in advance of such termination to have Agent sell part or all of his shares, Agent is authorized to deduct from the proceeds the brokerage commissions incurred for the transaction. If a Participant has terminated his or her participation in the Plan but continues to have Common Shares registered in his or her name, he or she may re-enroll in the Plan at any time by notifying the Agent in writing at the address above.
11. These terms and conditions may be amended by the Agent or the Fund at any time but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to each Participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Agent receives notice of the termination of the Participant's account under the Plan. Any such amendment may include an appointment by the Agent of a successor Agent, subject to the prior written approval of the successor Agent by the Fund.
12. These terms and conditions shall be governed by the laws of the State of Maryland.

Dated: November 22, 2006

Discussion Regarding the Approval of the Investment  
Advisory Agreement

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The Fund's Board of Directors, including a majority of those directors who are not "interested persons" as such term is defined in the 1940 Act ("Independent Directors"), unanimously approved the continuance of the investment advisory agreement between the Fund and the Advisor (the "Agreement") at a meeting held on August 15, 2012.

Before the meeting to determine whether to approve the Agreement, the Board had the opportunity to review written materials provided by the Advisor and by legal counsel to the Fund which contained information to help the Board evaluate the Agreement. The materials included (i) a memorandum from the Fund's legal counsel regarding the Directors' responsibilities in evaluating and approving the Agreement, (ii) a letter from the Advisor containing detailed information about the Advisor's services to the Fund, Fund performance, allocation of Fund transactions, compliance and administration information, and the compensation received by the Advisor from the Fund; (iii) a copy of the current investment advisory agreement between the Fund and the Advisor; (iv) audited financial statements for the Advisor for the year-ended December 31, 2011 and unaudited financial statements for the six months ended June 30, 2012; (v) the Advisor's Form ADV Parts I and II; (vi) comparative performance data for the Fund relative to peer funds (Latin American regional and single country funds); and (vii) comparative expense ratio and fee data for the Fund relative to peer funds.

During its deliberations on whether to approve the continuance of the Agreement, the Board considered many factors. The Board considered the nature, extent and quality of the services to be provided by the Advisor and determined that such services will meet the needs of the Fund and its shareholders. The Board reviewed the services provided to the Fund by the Advisor as compared to services provided by other advisors, which manage investment companies with investment objectives, strategies and policies similar to those of the Fund. The Board concluded that the nature, extent and quality of the services provided by the Advisor were appropriate and consistent with the terms of the advisory agreement, that the quality of those services had been consistent with industry norms and that the Fund was likely to benefit from the continued provision of those services. The Board also concluded that the Advisor had sufficient personnel, with the appropriate education and experience, to serve the Fund effectively and had demonstrated its continuing ability to attract and retain qualified personnel.

Both at the meeting and on an ongoing basis throughout the year, the Board considered and evaluated the investment performance of the Fund and reviewed the Fund's performance relative to other investment companies and funds in the Mexico and Latin America region. The Board considered both the short-term and long-term performance of the Fund noting that the Fund's net asset value performance was in line with, and in some periods higher than, funds used in the comparison. It was also noted that market price performance was slightly lower than the average of funds used in the comparison, reflecting a widening of the Fund's discount level. The board concluded that the performance of the Fund was within an acceptable range of performance relative to other funds used in the comparison.



Discussion Regarding the Approval of the Investment  
Advisory Agreement (continued)

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The Board considered the costs of the services provided by the Advisor, the compensation and benefits received by the Advisor providing services to the Fund, as well as the Advisor's profitability. The Board considered the advisory fees paid to the Advisor by the Fund and relevant comparable fee data and statistics of Latin American-specialist and small foreign equity funds. The Board noted that there are no funds with which to make a direct comparison because of the Fund's unique strategy. The Board also noted that the Fund is considerably smaller than many Latin American regional funds, and, therefore its total expense ratio is relatively higher than funds used in comparison. The Board further discussed the services by the Advisor and concluded that the advisory services performed were efficient and satisfactory and that the fee charged was reasonable and not excessive. The Board concluded that the Advisor's fees and profits derived from its relationship with the Fund in light of its expenses, were reasonable in relation to the nature and quality of the services provided, taking into account the fees charged by other advisors for managing comparable funds with similar strategies. The Directors also concluded that the overall expense ratio of the Fund was reasonable, taking into account the size of the Fund, the quality of services provided by the Advisor, and the investment performance of the Fund.

The Board also considered the extent to which economies of scale would be realized relative to fee levels as the Fund grows, and whether the advisory fee levels reflect these economies of scale for the benefit of shareholders. The Board recognized that because of the closed-end structure of the Fund, and the fact that there is no influx of capital, this particular factor is less relevant to the Fund than it would be to an open-end fund. The Board concluded that only marginal economies of scale could be achieved through the growth of assets since the Fund is closed-ended.

The Board also considered its deliberations regarding the Advisor's services and performance from the regular Board meetings held throughout the year, including the Board's discussion of the Fund's investment objective, long-term performance, investment style and process. The Board noted the high level of diligence with which it reviews and evaluates the Advisor throughout the year and the extensive information provided with respect to Advisor's performance and the Fund's expenses on a quarterly basis. The Board also considered whether any events occurred that would constitute a reason not to renew the Agreement and concluded there were not.

After deliberation and further consideration of the factors discussed above and information presented at the August 15, 2012 meeting and at previous meetings of the Board, the Board and the Independent Directors determined to continue the Agreement for an additional one-year period. In arriving at this decision, the Board and the Independent Directors did not identify any single matter, factor or consideration as controlling, but made their determination in light of all the circumstances. The Board based its decision to approve the Agreement on all the relevant factors in light of its reasonable business judgment, and with a view to future long-term considerations.

## Quarterly Portfolio Reports

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The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available by link on the Fund's website at [www.herzfeld.com](http://www.herzfeld.com), by calling the Fund at 800-TJH-FUND, or on the SEC's EDGAR database at [www.sec.gov](http://www.sec.gov). In addition, the Fund's Forms N-Q can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. More information about the SEC's website or the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-732-0330.

## Proxy Voting Policies and Procedures

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Information regarding how the Fund voted proxies relating to portfolio securities from July 1, 2011 to June 30, 2012, and a description of the policies and procedures used to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling the Fund at 800-TJH-FUND, or by accessing the SEC's website at [www.sec.gov](http://www.sec.gov).

## Privacy Policy

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### Information We Collect

We collect nonpublic information about you from applications or other account forms you complete, from your transactions with us, our affiliates or others through transactions and conversations over the telephone.

### Information We Disclose

We do not disclose information about you, or our former customers, to our affiliates or to service providers or other third parties except on the limited basis permitted by law. For example, we may disclose nonpublic information about you to third parties to assist us in servicing your account with us and to send transaction confirmations, annual reports, prospectuses and tax forms to you. We may also disclose nonpublic information about you to government entities in response to subpoenas.

### Our Security Procedures

To ensure the highest level of confidentiality and security, we maintain physical, electronic and procedural safeguards that comply with federal standards to guard your personal information. We also restrict access to your personal and account information to those employees who need to know that information to provide services to you.

Officers and Directors

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Officers

THOMAS J. HERZFELD

Director, Chairman of the Board, President and Portfolio Manager

ERIK M. HERZFELD

Portfolio Manager

CECILIA GONDOR

Secretary, Treasurer, Chief Compliance Officer

Independent Directors

JOHN A. GELETY

Director

ANN S. LIEFF

Director

MICHAEL A. RUBIN

Director

KAY W. TATUM, Ph.D.

Director

THE HERZFELD CARIBBEAN BASIN FUND, INC.  
119 Washington Avenue  
Suite 504  
Miami Beach, FL 33139

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ITEM 2. CODE OF ETHICS.

(a) This item is inapplicable to semi-annual report on Form N-CSR.

(c) There have been no amendments, during the period covered by this report, to a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, and that relates to any element of the code of ethics description.

(d) The registrant has not granted any waivers, including an implicit waiver, from a provision of the code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party, that relates to one or more of the items set forth in paragraph (b) of this item's instructions.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

This item is inapplicable to semi-annual report on Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

This item is inapplicable to semi-annual report on Form N-CSR.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

This item is inapplicable to semi-annual report on Form N-CSR.

ITEM 6. SCHEDULE OF INVESTMENTS.

(a) Schedule of Investments is included as part of the Report to Shareholders filed under Item 1 of this Form N-CSR.

(b) Not applicable.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

This item is inapplicable to semi-annual report on Form N-CSR.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a) This item is inapplicable to semi-annual report on Form N-CSR.

(b) During the period ended December 31, 2012, there were no changes of any of the Portfolio Managers.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Period	(a) Total Number of	(b) Average Price Paid	(c) Total Number	(d) Maximum
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	Shares Purchased	Per Share	of Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (beginning July 1, 2012 and ending July 31, 2012)	12,000	6.811	n/a	n/a
Month #2 (beginning August 1, 2012 and ending August 31, 2012)	0	n/a	n/a	n/a
Month #3 (beginning September 1, 2012 and ending September 30, 2012)	0	n/a	n/a	n/a
Month #4 (beginning October 1, 2012 and ending October 31, 2012)	0	n/a	n/a	n/a
Month #5 (beginning November 1, 2012 and ending November 30, 2012)	0	n/a	n/a	n/a
Month #6 (beginning December 1, 2012 and ending December 31, 2012)	8,840	7.592	n/a	n/a
Total	20,840	7.142	n/a	n/a

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ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which the stockholders may recommend nominees to the registrant's board of directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17 CFR 240.14a-101)), or this Item.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Code of ethics that is the subject of the disclosure required by Item 2 is incorporated by reference to Exhibit 99.Code of the registrant's Form N-CSR filed on August 31, 2011.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are filed herewith as Exhibits 99.302 Cert.

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are filed herewith as Exhibits 99.906 Cert.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Herzfeld Caribbean Basin Fund, Inc.

By: /s/ Thomas J. Herzfeld  
Thomas J. Herzfeld  
President and Chairman

Date: February 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Thomas J. Herzfeld  
Thomas J. Herzfeld  
President and Chairman

Date: February 28, 2013

By: /s/ Cecilia L. Gondor  
Cecilia L. Gondor  
Secretary and Treasurer  
(Principal Financial Officer)

Date: February 28, 2013