

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC

Form N-30B-2

October 28, 2016

*FLAHERTY & CRUMRINE PREFERRED INCOME FUND*

To the Shareholders of Flaherty & Crumrine Preferred Income Fund ( PFD ):

The preferred market didn't miss a beat in the third fiscal quarter, continuing where it left off second quarter with additional positive returns. Total return<sup>2</sup> on net asset value ( NAV ) was 6.1% for the quarter, bringing the total return for the first nine months of fiscal 2016 to 10.7%. Total return on market price over the same periods was 5.3% and 25.6%, respectively.

Tailwinds described earlier in the year continued unabated during the most recent quarter. Monetary policy globally was very accommodative; supply of new preferred securities was subdued; legacy (those losing regulatory-capital treatment) and higher-coupon preferred securities were redeemed at a healthy pace; and credit quality remained strong. Preferred securities offered yield to investors struggling to find it in other places, which resulted in strong demand and higher prices for the asset class.

There is a direct inverse relationship in fixed-income securities (including preferreds) between price and yield, and higher prices this year have led to much lower coupons for newly-issued preferred securities. Many new issues during the quarter yield in the range of 4.5% - 5.5%, which in many cases is lower than early-2016 levels by almost 1.0%. These lower yields on preferreds were the result of lower overall interest rates (Treasuries and Swap Rates) and tighter spreads. Many issuers have taken advantage of persistently-low rates and positive market sentiment to refinance higher-coupon securities.

Although U.S. interest rates remain very low, the short end of the curve (notably T-bills and LIBOR) has moved higher in recent months as investors begin to factor in additional rate hikes by the Federal Reserve. The Federal Open Market Committee passed on a rate hike at its meeting on September 21, however, so markets continue to wrestle with predicting a future path of increases. Higher levels of 3-month LIBOR have resulted in higher leverage costs for the Fund, and future changes in this reference rate will be highly correlated to Federal Reserve rate changes. Although leverage still adds substantial incremental net income for the Fund, we expect that to decline modestly over time as borrowing costs rise.

We continue to see value in preferred securities, although security selection has become more challenging as yields have moved lower and older, higher-coupon issues have been refinanced. Flows into the preferred market (via mutual funds, exchange-traded funds (ETFs), asset managers, and retail investors) have been very strong for many years. If anything gives us pause, it is more this level of inflow than current valuations. ETFs that invest in preferreds have become very large relative to their target market segment (\$25-par listed securities), and it isn't clear where the outer limits are located. We know ETFs have been a source of volatility in the past (or opportunity, depending on one's viewpoint), and we expect they could be again in the future. Preferreds should benefit from continued strong credit quality, reliably earning coupons many of them tax-advantaged over time. However, at current levels they are potentially more sensitive to changes in market sentiment than they were six months ago.

<sup>1</sup> June 1, 2016 - August 31, 2016

<sup>2</sup> Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment.

As always, we encourage you to visit the Fund's website [www.preferredincome.com](http://www.preferredincome.com) for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2016

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OVERVIEW****August 31, 2016 (Unaudited)****Fund Statistics**

Net Asset Value	\$	14.04
Market Price	\$	15.64
Premium		11.40%
Yield on Market Price		6.91%
Common Stock Shares Outstanding		11,095,683

**Moody's Ratings\*****% of Net Assets**

A	1.4%
BBB	64.8%
BB	21.4%
Below BB	1.1%
Not Rated**	8.6%
Below Investment Grade***	22.5%

\* Ratings are from Moody's Investors Service, Inc. Not Rated securities are those with no ratings available from Moody's.

\*\* Does not include net other assets and liabilities of 2.7%

\*\*\* Below investment grade by all of Moody's, S&amp;P, and Fitch.

**Industry Categories****% of Net Assets****Top 10 Holdings by Issuer****% of Net Assets**

JPMorgan Chase	4.8%
Liberty Mutual Group	4.7%
MetLife	4.4%
Wells Fargo & Company	4.1%
Citigroup	4.0%
Fifth Third Bancorp	3.8%
M&T Bank Corporation	3.2%
Morgan Stanley	3.0%
PNC Financial Services Group	2.8%
Enbridge Energy Partners	2.7%

	<b>% of Net Assets****</b>
Holdings Generating Qualified Dividend Income (QDI) for Individuals	60%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	46%

\*\*\*\*This does not reflect year-end results or actual tax categorization of Fund distributions. These percentages can, and do, change, perhaps significantly, depending on market conditions. Investors should consult their tax advisor regarding their personal situation.  
Net Assets includes assets attributable to the use of leverage.

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS**

August 31, 2016 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities 92.1%</b>		
<b>Banking 48.3%</b>		
19,400	Astoria Financial Corp., 6.50%, Series C	\$ 522,103*
\$ 555,000	Australia & New Zealand Banking Group Ltd., 6.75%, 144A****	624,926**(3)
\$ 400,000	Banco Bilbao Vizcaya Argentaria SA, 9.00%, 144A****	419,500**(3)
Bank of America Corporation:		
\$ 400,000	6.30%, Series DD	438,000*
\$ 870,000	8.00%, Series K	896,100*(1)
\$ 1,151,000	8.125%, Series M	1,186,794*(1)
58,000	Barclays Bank PLC, 7.10%, Series 3	1,495,820**(3)
BNP Paribas:		
\$ 3,520,000	7.375%, 144A****	3,586,000**(3)
\$ 1,500,000	7.625%, 144A****	1,581,000**(3)
Capital One Financial Corporation:		
7,000	6.20%, Series F	190,680*
31,600	6.70%, Series D	907,631*
Citigroup, Inc.:		
103,800	6.875%, Series K	3,073,778*(1)
119,778	7.125%, Series J	3,639,155*(1)
\$ 2,299,000	8.40%, Series E	2,532,349*(1)
CoBank ACB:		
19,300	6.125%, Series G, 144A****	1,928,192*
10,000	6.20%, Series H, 144A****	1,049,375*
10,000	6.25%, Series F, 144A****	1,067,813*(1)
\$ 447,000	6.25%, Series I, 144A****	485,035*
\$ 5,210,000	Colonial BancGroup, 7.114%, 144A****	7,815(4)(5)
272,200	Fifth Third Bancorp, 6.625%, Series I	8,847,181*(1)
First Horizon National Corporation:		
795	First Tennessee Bank, Adj. Rate, 3.75%(6), 144A****	548,774*(1)
1	FT Real Estate Securities Company, 9.50%, 144A****	1,302,500
32,050	First Republic Bank, 6.70%, Series A	832,419*(1)
Goldman Sachs Group:		
\$ 195,000	5.70%, Series L	199,436*
50,000	6.375%, Series K	1,461,000*(1)
HSBC PLC:		
\$ 800,000	HSBC Capital Funding LP, 10.176%, 144A****	1,213,200(1)(2)(3)
\$ 995,000	HSBC Holdings PLC, 6.875%	1,043,506**(3)
111,700	HSBC Holdings PLC, 8.00%, Series 2	2,956,978**(1)(3)
106,000	Huntington Bancshares, Inc., 6.25%, Series D	2,956,605*(1)

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2016 (Unaudited)**

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Banking (Continued)</b>		
ING Groep NV:		
40,000	6.375%	\$ 1,028,000** <sup>(3)</sup>
35,000	7.05%	876,838** <sup>(3)</sup>
23,400	7.20%	615,245** <sup>(3)</sup>
JPMorgan Chase & Company:		
61,700	6.70%, Series T	1,748,578* <sup>(1)</sup>
\$ 4,715,000	6.75%, Series S	5,323,046* <sup>(1)</sup>
\$ 4,000,000	7.90%, Series I	4,155,000* <sup>(1)</sup>
112,500	KeyCorp, 8.625%, Series C	2,947,500*
M&T Bank Corporation:		
\$ 2,790,000	6.450%, Series E	3,117,825* <sup>(1)</sup>
\$ 4,372,000	6.875%, Series D, 144A****	4,410,255* <sup>(1)</sup>
Morgan Stanley:		
154,665	6.875%, Series F	4,632,217* <sup>(1)</sup>
80,516	7.125%, Series E	2,463,991* <sup>(1)</sup>
PNC Financial Services Group, Inc.:		
183,300	6.125%, Series P	5,552,615* <sup>(1)</sup>
\$ 875,000	6.75%, Series O	988,750*
\$ 2,160,000	RaboBank Nederland, 11.00%, 144A****	2,644,650 <sup>(1)(2)(3)</sup>
50,000	Regions Financial Corporation, 6.375%, Series B	1,476,625* <sup>(1)</sup>
103,600	Royal Bank of Scotland Group PLC, 7.25%, Series T	2,630,404** <sup>(1)(3)</sup>
Sovereign Bancorp:		
1,750	Sovereign REIT, 12.00%, Series A, 144A****	2,229,063
\$ 1,565,000	Standard Chartered PLC, 7.50%, 144A****	1,567,348** <sup>(3)</sup>
92,900	State Street Corporation, 5.90%, Series D	2,655,314* <sup>(1)</sup>
10,000	Texas Capital Bancshares Inc., 6.50%, Series A	265,825*
35,000	US Bancorp, 6.50%, Series F	1,093,838* <sup>(1)</sup>
Wells Fargo & Company:		
60,300	5.85%, Series Q	1,695,184* <sup>(1)</sup>
\$ 2,075,000	5.875%, Series U	2,294,328* <sup>(1)(2)</sup>
35,900	6.625%, Series R	1,100,335* <sup>(1)</sup>
\$ 1,095,000	7.98%, Series K	1,159,331* <sup>(1)</sup>
123,500	8.00%, Series J	3,410,144* <sup>(1)</sup>
Zions Bancorporation:		
\$ 1,000,000	7.20%, Series J	1,067,500*
93,000	7.90%, Series F	2,446,830* <sup>(1)</sup>
		112,590,244

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Financial Services 0.2%</b>		
\$ 460,000	AerCap Global Aviation Trust, 6.50% 06/15/45, 144A****	\$ 474,950 <sup>(3)</sup>
		474,950
<b>Insurance 23.6%</b>		
82,392	Allstate Corp., 6.625%, Series E	2,321,189* <sup>(1)</sup>
\$ 400,000	Aon Corporation, 8.205% 01/01/27	532,000 <sup>(1)(2)</sup>
112,500	Arch Capital Group, Ltd., 6.75%, Series C	2,980,406** <sup>(1)(3)</sup>
	AXA SA:	
\$ 1,423,000	6.379%, 144A****	1,558,185** <sup>(1)(2)(3)</sup>
\$ 500,000	8.60% 12/15/30	704,475 <sup>(3)</sup>
194,600	Axis Capital Holdings Ltd., 6.875%, Series C	5,091,223** <sup>(1)(3)</sup>
\$ 1,400,000	Catlin Insurance Company Ltd., 7.249%, 144A****	1,081,500 <sup>(3)</sup>
	Chubb Ltd.:	
\$ 975,000	Ace Capital Trust II, 9.70% 04/01/30	1,479,563 <sup>(1)(2)(3)</sup>
95,600	Delphi Financial Group, 7.376% 05/15/37	2,133,075 <sup>(1)(2)</sup>
15,000	Endurance Specialty Holdings, 6.35%, Series C	418,050** <sup>(3)</sup>
\$ 2,328,000	Everest Re Holdings, 6.60% 05/15/37	1,897,320 <sup>(1)(2)</sup>
10,000	Hartford Financial Services Group, Inc., 7.875%	315,625
	Liberty Mutual Group:	
\$ 500,000	7.80% 03/15/37, 144A****	581,250
\$ 5,157,000	10.75% 06/15/58, 144A****	7,799,963 <sup>(1)(2)</sup>
	MetLife:	
\$ 3,096,000	MetLife, Inc., 10.75% 08/01/39	4,992,300 <sup>(1)(2)</sup>
\$ 3,600,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	5,155,475 <sup>(1)(2)</sup>
	PartnerRe Ltd.:	
25,000	5.875%, Series I	690,000** <sup>(1)(3)</sup>
5,600	6.50%, Series G	163,016** <sup>(3)</sup>
94,510	7.25%, Series H	2,972,576** <sup>(1)(2)(3)</sup>
\$ 402,000	Prudential Financial, Inc., 5.625% 06/15/43	431,648
	QBE Insurance:	
\$ 3,325,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	3,786,344 <sup>(1)(3)</sup>
	Unum Group:	
\$ 2,820,000	Provident Financing Trust I, 7.405% 03/15/38	3,166,417 <sup>(1)(2)</sup>
24,000	W.R. Berkley Corporation, 5.75% 06/01/56	630,060
	XL Group PLC:	
\$ 5,500,000	XL Capital Ltd., 6.50%, Series E	4,130,500 <sup>(1)(2)(3)</sup>
		55,012,160

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
<b>Utilities 11.2%</b>		
10,000	Baltimore Gas & Electric Company, 6.70%, Series 1993	\$ 1,018,438 <sup>(1)</sup>
	Commonwealth Edison:	
\$ 2,953,000	COMED Financing III, 6.35% 03/15/33	3,149,059 <sup>(1)(2)</sup>
122,000	Dominion Resources, Inc., 5.25% 07/30/76, Series A	3,143,025
18,000	DTE Energy Company, 5.375% 06/01/76, Series B	471,825
\$ 2,180,000	Emera, Inc., 6.75% 06/15/76, Series 2016A	2,361,470 <sup>(1)(3)</sup>
25,000	Georgia Power Company, 6.50%, Series 2007A	2,632,033 <sup>(1)</sup>
25,000	Indianapolis Power & Light Company, 5.65%	2,553,908*
84,500	Integrus Energy Group, Inc., 6.00%	2,323,961 <sup>(1)</sup>
	Nextera Energy:	
\$ 1,500,000	FPL Group Capital, Inc., 6.65% 06/15/67, Series C	1,256,250 <sup>(1)(2)</sup>
	PECO Energy:	
\$ 500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	606,439 <sup>(1)</sup>
	PPL Corp:	
59,000	PPL Capital Funding, Inc., 5.90%, Series B	1,589,018 <sup>(1)(2)</sup>
\$ 2,250,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	1,953,693 <sup>(1)(2)</sup>
\$ 2,850,000	Puget Sound Energy, Inc., 6.974% 06/01/67, Series A	2,445,671
20,000	SCE Trust V, 5.45%, Series K	593,250*
		26,098,040
<b>Energy 3.6%</b>		
\$ 7,302,000	Enbridge Energy Partners LP, 8.05% 10/01/37	6,234,083 <sup>(1)(2)</sup>
\$ 450,000	Enterprise Products Operating L.P., 8.375% 08/01/66, Series A	422,438
16,900	Kinder Morgan, Inc., 9.75%, Series A	848,042*
\$ 1,000,000	Transcanada Pipelines, Ltd., 5.875% 08/15/76, Series 2016A	1,068,125 <sup>(3)</sup>
		8,572,688
<b>Real Estate Investment Trust (REIT) 1.5%</b>		
	National Retail Properties, Inc.:	
40,000	5.70%, Series E	1,067,300 <sup>(1)</sup>
14,624	6.625%, Series D	378,798
	PS Business Parks, Inc.:	
4,000	5.70%, Series V	105,450
56,560	6.45%, Series S	1,467,308 <sup>(1)(2)</sup>
17,500	Regency Centers Corporation, 6.625%, Series 6	455,219
		3,474,075



Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

Shares/\$ Par		Value
<b>Preferred Securities (Continued)</b>		
	<b>Miscellaneous Industries 3.7%</b>	
	BHP Billiton Limited:	
\$ 400,000	BHP Billiton Finance U.S.A., Ltd., 6.75% 10/19/75, 144A****	\$ 457,500 <sup>(3)</sup>
\$ 833,000	General Electric Company, 5.00%, Series D	894,434 <sup>*(1)</sup>
\$ 3,900,000	Land O Lakes, Inc., 8.00%, 144A****	4,148,626 <sup>*(1)(2)</sup>
34,700	Ocean Spray Cranberries, Inc., 6.25%, 144A****	3,120,831*
		8,621,391
	<b>Total Preferred Securities</b> (Cost \$203,749,808)	214,843,548
<b>Corporate Debt Securities 5.2%</b>		
	<b>Banking 2.5%</b>	
\$ 2,140,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	2,789,576 <sup>(1)(2)</sup>
94,000	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	2,452,695
18,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes	554,985 <sup>(1)(2)</sup>
		5,797,256
	<b>Financial Services 0.2%</b>	
19,163	Affiliated Managers Group, Inc., 6.375% 08/15/42	511,125
		511,125
	<b>Insurance 1.2%</b>	
\$ 2,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,680,460 <sup>(1)(2)</sup>
		2,680,460
	<b>Energy 0.9%</b>	
\$ 1,680,000	Energy Transfer Partners LP, 8.25% 11/15/29	2,091,786 <sup>(1)(2)</sup>
		2,091,786
	<b>Communication 0.3%</b>	
25,000	Qwest Corporation, 6.50% 09/01/56	648,810
		648,810
	<b>Miscellaneous Industries 0.1%</b>	
10,000	eBay, Inc., 6.00% 02/01/56	274,425

274,425

**Total Corporate Debt Securities**  
(Cost \$9,938,576)

12,003,862

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2016 (Unaudited)

Shares/\$ Par		Value
<b>Common Stock</b>	<b>1.0%</b>	
	<b>Banking 0.1%</b>	
3,620	CIT Group, Inc.	\$ 133,506*
		133,506
	<b>Energy 0.9%</b>	
99,212	Kinder Morgan, Inc.	2,167,782*
		2,167,782
	<b>Insurance 0.0%</b>	
19,896	WMI Holdings Corporation, 144A****	49,541*
		49,541
	<b>Total Common Stock</b>	
	(Cost \$3,041,295)	2,350,829
	<b>Money Market Fund 0.7%</b>	
	BlackRock Liquidity Funds:	
1,519,896	T-Fund, Institutional Class	1,519,896
	<b>Total Money Market Fund</b>	
	(Cost \$1,519,896)	1,519,896
<b>Total Investments</b> (Cost \$218,249,575***)	99.0%	230,718,135
<b>Other Assets And Liabilities</b> (Net)	1.0%	2,436,535
<b>Total Managed Assets</b>	100.0%	\$ 233,154,670
<b>Loan Principal Balance</b>		(77,400,000)
<b>Total Net Assets Available To Common Stock</b>		\$ 155,754,670

Flaherty & Crumrine Preferred Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

**August 31, 2016 (Unaudited)**

\* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

\*\* Securities distributing Qualified Dividend Income only.

\*\*\* Aggregate cost of securities held.

\*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At August 31, 2016, these securities amounted to \$55,560,071 or 23.8% of total managed assets.

(1) All or a portion of this security is pledged as collateral for the Fund's loan. The total value of such securities was \$143,554,545 at August 31, 2016.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was \$52,588,755 at August 31, 2016.

(3) Foreign Issuer.

(4) Illiquid security (designation is unaudited).

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of August 31, 2016.

(6) Represents the rate in effect as of the reporting date.

Non-income producing.

The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>****For the period from December 1, 2015 through August 31, 2016 (Unaudited)**

	Value
<b>OPERATIONS:</b>	
Net investment income	\$ 9,233,868
Net realized gain/(loss) on investments sold during the period	107,683
Change in net unrealized appreciation/(depreciation) of investments	6,256,988
<b>Net increase in net assets resulting from operations</b>	<b>15,598,539</b>
<b>DISTRIBUTIONS:</b>	
Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup>	(8,970,732)
<b>Total Distributions to Common Stock Shareholders</b>	<b>(8,970,732)</b>
<b>FUND SHARE TRANSACTIONS:</b>	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	530,016
<b>Net increase in net assets available to Common Stock resulting from Fund share transactions</b>	<b>530,016</b>
<b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK</b>	
<b>FOR THE PERIOD</b>	<b>\$ 7,157,823</b>
<b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>	
Beginning of period	\$ 148,596,847
Net increase in net assets during the period	7,157,823
End of period	\$ 155,754,670

(1) These tables summarize the nine months ended August 31, 2016 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2015.

(2) May include income earned, but not paid out, in prior fiscal year.

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from December 1, 2015 through August 31, 2016 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

Net asset value, beginning of period	\$	13.44
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**INVESTMENT OPERATIONS:**

Net investment income	0.83
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Net realized and unrealized gain/(loss) on investments	0.58
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Total from investment operations	1.41
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**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

From net investment income	(0.81)
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Total distributions to Common Stock Shareholders	(0.81)
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Net asset value, end of period	\$	14.04
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Market value, end of period	\$	15.64
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Common Stock shares outstanding, end of period	11,095,683
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**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

Net investment income	8.33%*
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Operating expenses including interest expense	2.08%*
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Operating expenses excluding interest expense	1.37%*
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**SUPPLEMENTAL DATA:**

Portfolio turnover rate	11%**
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Total managed assets, end of period (in 000 s)	\$	233,155
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Ratio of operating expenses including interest expense to total managed assets	1.36%*
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Ratio of operating expenses excluding interest expense to total managed assets	0.90%*
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(1) These tables summarize the nine months ended August 31, 2016 and should be read in conjunction with the Fund's audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2015.

\* Annualized.

\*\* Not annualized.

The net investment income ratio reflects income net of operating expenses, including interest expense.

Information presented under heading Supplemental Data includes loan principal balance.

Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**FINANCIAL HIGHLIGHTS (Continued)****Per Share of Common Stock (Unaudited)**

	<b>Total Dividends Paid</b>	<b>Net Asset Value</b>	<b>NYSE Closing Price</b>	<b>Dividend Reinvestment Price<sup>(1)</sup></b>
December 31, 2015	\$ 0.0900	\$ 13.28	\$ 12.92	\$ 12.97
January 29, 2016	0.0900	13.10	13.09	13.10
February 29, 2016	0.0900	12.86	13.16	12.86
March 31, 2016	0.0900	13.15	14.15	13.44
April 29, 2016	0.0900	13.20	14.51	13.78
May 31, 2016	0.0900	13.47	15.13	14.37
June 30, 2016	0.0900	13.54	15.64	14.86
July 29, 2016	0.0900	13.85	15.85	15.06
August 31, 2016	0.0900	14.04	15.64	14.86

<sup>(1)</sup> Whenever the net asset value per share of the Fund's Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty & Crumrine Preferred Income Fund Incorporated

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### 1. Aggregate Information for Federal Income Tax Purposes

At August 31, 2016, the aggregate cost of securities for federal income tax purposes was \$227,392,345, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$21,987,550 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$18,661,760.

### 2. Additional Accounting Standards

*Fair Value Measurements:* The Fund has analyzed all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

Level 1            quoted prices in active markets for identical securities

Level 2            other significant observable inputs (including quoted prices for similar securities, 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. Transfers in and out of levels are recognized at market value at the end of the period.



Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)**

A summary of the inputs used to value the Fund's investments as of August 31, 2016 is as follows:

	Total Value at August 31, 2016	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Preferred Securities</b>				
Banking	\$ 112,590,244	\$ 91,059,297	\$ 21,523,132	\$ 7,815
Financial Services	474,950		474,950	
Insurance	55,012,160	30,292,068	24,720,092	
Utilities	26,098,040	13,692,492	12,405,548	
Energy	8,572,688	2,338,605	6,234,083	
Real Estate Investment Trust (REIT)	3,474,075	3,474,075		
Miscellaneous Industries	8,621,391	1,351,934	7,269,457	
<b>Corporate Debt Securities</b>				
Banking	5,797,256	3,007,680	2,789,576	
Financial Services	511,125	511,125		
Insurance	2,680,460		2,680,460	
Energy	2,091,786		2,091,786	
Communication	648,810	648,810		
Miscellaneous Industries	274,425	274,425		
<b>Common Stock</b>				
Banking	133,506	133,506		
Energy	2,167,782	2,167,782		
Insurance	49,541	49,541		
Money Market Fund	1,519,896	1,519,896		
<b>Total Investments</b>	<b>\$ 230,718,135</b>	<b>\$ 150,521,236</b>	<b>\$ 80,189,084</b>	<b>\$ 7,815</b>

During the reporting period, there were no transfers into Level 1 from Level 2 or into Level 2 from Level 1.

The fair values of the Fund's investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active market participant.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades or the same information for securities that are similar in many respects to those being valued are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.



Flaherty &amp; Crumrine Preferred Income Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)**

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	<b>Total Investments</b>	<b>Preferred Securities Banking</b>
<b>Balance as of 11/30/15</b>	\$ 7,815	\$ 7,815
Accrued discounts/premiums		
Realized gain/(loss)		
Change in unrealized appreciation/(depreciation)		
Purchases		
Sales		
Transfer in		
Transfer out		
<b>Balance as of 08/31/16</b>	\$ 7,815	\$ 7,815

For the nine months ended August 31, 2016, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was \$0.

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

Category	Fair Value			
	at 08/31/16	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities (Banking)	\$ 7,815	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.50% (0.15%)

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.

**Directors**

R. Eric Chadwick, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

**Officers**

R. Eric Chadwick, CFA

Chief Executive Officer and

President

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Chief Financial Officer,

Vice President and Treasurer

Roger W. Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

**Investment Adviser**

Flaherty & Crumrine Incorporated

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**Questions concerning your shares of Flaherty & Crumrine Preferred Income Fund?**

If your shares are held in a Brokerage Account, contact your Broker.

If you have physical possession of your shares in certificate form, contact the Fund's Transfer Agent & Shareholder Servicing Agent  
BNY Mellon c/o Computershare

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**This report is sent to shareholders of Flaherty & Crumrine Preferred Income Fund Incorporated 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.**

Quarterly

Report

August 31, 2016

[www.preferredincome.com](http://www.preferredincome.com)