

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 quarter¹, continuing where it left off second quarter with additional positive returns. Total return² 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.

¹ June 1, 2016—August 31, 2016

² 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 for timely and important information.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team

September 30, 2016

PORTFOLIO OVERVIEW

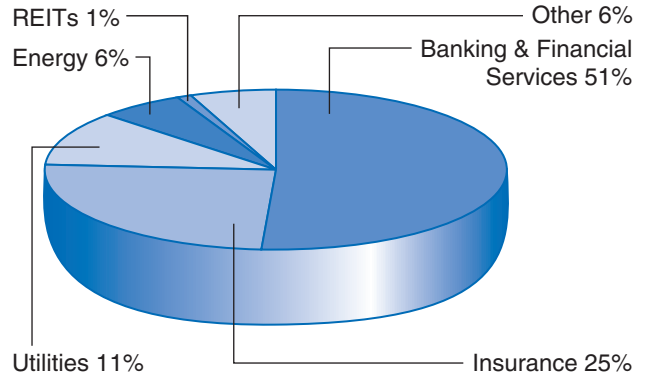
August 31, 2016 (Unaudited)

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

Industry Categories

% of Net Assets†



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&P, and Fitch.

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%

% of Net Assets**†**

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.

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

Shares/\$ Par		Value
Preferred Securities — 92.1%		
Banking — 48.3%		
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 & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2016 (Unaudited)

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

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

<u>Shares/\$ Par</u>		<u>Value</u>
Preferred Securities — (Continued)		
Financial Services — 0.2%		
\$ 460,000	AerCap Global Aviation Trust, 6.50% 06/15/45, 144A****	\$ 474,950 ⁽³⁾
		<u>474,950</u>
Insurance — 23.6%		
82,392	Allstate Corp., 6.625%, Series E	2,321,189 ^{*(1)}
\$ 400,000	Aon Corporation, 8.205% 01/01/27	532,000 ⁽¹⁾⁽²⁾
112,500	Arch Capital Group, Ltd., 6.75%, Series C	2,980,406 ^{**1(3)}
	AXA SA:	
\$ 1,423,000	6.379%, 144A****	1,558,185 ^{**1(2)(3)}
\$ 500,000	8.60% 12/15/30	704,475 ⁽³⁾
194,600	Axis Capital Holdings Ltd., 6.875%, Series C	5,091,223 ^{**1(3)}
\$ 1,400,000	Catlin Insurance Company Ltd., 7.249%, 144A****	1,081,500 ⁽³⁾
	Chubb Ltd.:	
\$ 975,000	Ace Capital Trust II, 9.70% 04/01/30	1,479,563 ⁽¹⁾⁽²⁾⁽³⁾
95,600	Delphi Financial Group, 7.376% 05/15/37	2,133,075 ⁽¹⁾⁽²⁾
15,000	Endurance Specialty Holdings, 6.35%, Series C	418,050 ^{**3)}
\$ 2,328,000	Everest Re Holdings, 6.60% 05/15/37	1,897,320 ⁽¹⁾⁽²⁾
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 ⁽¹⁾⁽²⁾
	MetLife:	
\$ 3,096,000	MetLife, Inc., 10.75% 08/01/39	4,992,300 ⁽¹⁾⁽²⁾
\$ 3,600,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	5,155,475 ⁽¹⁾⁽²⁾
	PartnerRe Ltd.:	
25,000	5.875%, Series I	690,000 ^{**1(3)}
5,600	6.50%, Series G	163,016 ^{**3)}
94,510	7.25%, Series H	2,972,576 ^{**1(2)(3)}
\$ 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 ⁽¹⁾⁽³⁾
	Unum Group:	
\$ 2,820,000	Provident Financing Trust I, 7.405% 03/15/38	3,166,417 ⁽¹⁾⁽²⁾
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 ⁽¹⁾⁽²⁾⁽³⁾
		<u>55,012,160</u>

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2016 (Unaudited)

Shares/\$ Par		Value
Preferred Securities — (Continued)		
Utilities — 11.2%		
10,000	Baltimore Gas & Electric Company, 6.70%, Series 1993	\$ 1,018,438 ⁽¹⁾
	Commonwealth Edison:	
\$ 2,953,000	COMED Financing III, 6.35% 03/15/33	3,149,059 ⁽¹⁾⁽²⁾
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 ⁽¹⁾⁽³⁾
25,000	Georgia Power Company, 6.50%, Series 2007A	2,632,033 ⁽¹⁾
25,000	Indianapolis Power & Light Company, 5.65%	2,553,908*
84,500	Integrays Energy Group, Inc., 6.00%	2,323,961 ⁽¹⁾
	Nextera Energy:	
\$ 1,500,000	FPL Group Capital, Inc., 6.65% 06/15/67, Series C	1,256,250 ⁽¹⁾⁽²⁾
	PECO Energy:	
\$ 500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	606,439 ⁽¹⁾
	PPL Corp:	
59,000	PPL Capital Funding, Inc., 5.90%, Series B	1,589,018 ⁽¹⁾⁽²⁾
\$ 2,250,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	1,953,693 ⁽¹⁾⁽²⁾
\$ 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*
		<u>26,098,040</u>
Energy — 3.6%		
\$ 7,302,000	Enbridge Energy Partners LP, 8.05% 10/01/37	6,234,083 ⁽¹⁾⁽²⁾
\$ 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 ⁽³⁾
		<u>8,572,688</u>
Real Estate Investment Trust (REIT) — 1.5%		
	National Retail Properties, Inc.:	
40,000	5.70%, Series E	1,067,300 ⁽¹⁾
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 ⁽¹⁾⁽²⁾
17,500	Regency Centers Corporation, 6.625%, Series 6	455,219
		<u>3,474,075</u>

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

Shares/\$ Par	Value
Preferred Securities — (Continued)	
Miscellaneous Industries — 3.7%	
BHP Billiton Limited:	
\$ 400,000 BHP Billiton Finance U.S.A., Ltd., 6.75% 10/19/75, 144A****	\$ 457,500 ⁽³⁾
\$ 833,000 General Electric Company, 5.00%, Series D	894,434 ^{*(1)}
\$ 3,900,000 Land O' Lakes, Inc., 8.00%, 144A****	4,148,626 ^{*(1)(2)}
34,700 Ocean Spray Cranberries, Inc., 6.25%, 144A****	3,120,831*
	<u>8,621,391</u>
Total Preferred Securities	
(Cost \$203,749,808)	<u>214,843,548</u>
Corporate Debt Securities — 5.2%	
Banking — 2.5%	
\$ 2,140,000 Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	2,789,576 ⁽¹⁾⁽²⁾
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 ⁽¹⁾⁽²⁾
	<u>5,797,256</u>
Financial Services — 0.2%	
19,163 Affiliated Managers Group, Inc., 6.375% 08/15/42	511,125
	<u>511,125</u>
Insurance — 1.2%	
\$ 2,000,000 Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,680,460 ⁽¹⁾⁽²⁾
	<u>2,680,460</u>
Energy — 0.9%	
\$ 1,680,000 Energy Transfer Partners LP, 8.25% 11/15/29	2,091,786 ⁽¹⁾⁽²⁾
	<u>2,091,786</u>
Communication — 0.3%	
25,000 Qwest Corporation, 6.50% 09/01/56	648,810
	<u>648,810</u>
Miscellaneous Industries — 0.1%	
10,000 eBay, Inc., 6.00% 02/01/56	274,425
	<u>274,425</u>
Total Corporate Debt Securities	
(Cost \$9,938,576)	<u>12,003,862</u>

Flaherty & Crumrine Preferred Income Fund Incorporated
PORTFOLIO OF INVESTMENTS (Continued)
August 31, 2016 (Unaudited)

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

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.

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

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

⁽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.

FINANCIAL HIGHLIGHTS⁽¹⁾

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

INVESTMENT OPERATIONS:

Net investment income 0.83
 Net realized and unrealized gain/(loss) on investments 0.58
 Total from investment operations 1.41

DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:

From net investment income (0.81)
 Total distributions to Common Stock Shareholders (0.81)
 Net asset value, end of period \$ 14.04
 Market value, end of period \$ 15.64
 Common Stock shares outstanding, end of period 11,095,683

RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:

Net investment income† 8.33%*
 Operating expenses including interest expense 2.08%*
 Operating expenses excluding interest expense 1.37%*

SUPPLEMENTAL DATA:††

Portfolio turnover rate 11%**
 Total managed assets, end of period (in 000's) \$ 233,155
 Ratio of operating expenses including interest expense to total managed assets 1.36%*
 Ratio of operating expenses excluding interest expense to total managed assets 0.90%*

⁽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 & Crumrine Preferred Income Fund Incorporated

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

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price ⁽¹⁾
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

⁽¹⁾ 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.

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.

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
Preferred Securities				
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	—
Corporate Debt Securities				
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	—	—
Common Stock				
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	—	—
Total Investments	<u>\$230,718,135</u>	<u>\$150,521,236</u>	<u>\$80,189,084</u>	<u>\$7,815</u>

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.

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:

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

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Directors

R. Eric Chadwick, CFA
Chairman of the Board
David Gale
Morgan Gust
Karen H. Hogan

Officers

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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
e-mail: flaherty@pfdincome.com

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 —
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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.



Flaherty & Crumrine

PREFERRED INCOME FUND

Quarterly Report

August 31, 2016

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