FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-CSR
January 29, 2016

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 811-06179

Flaherty & Crumrine Preferred Income Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

R. Eric Chadwick

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

Registrant s telephone number, including area code: 626-795-7300

Date of fiscal year end: November 30

Date of reporting period: November 30, 2015

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, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE PREFERRED INCOME FUND

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

Fiscal 2015 came to a close on November 30, and in most regards it was another respectable year for preferred stocks. Total return on net asset value (NAV)[1] was 2.0% for the fourth fiscal quarter[2], and 4.2% for the full fiscal year. Total return on market price of Fund shares over the same periods were 6.3% and -3.3%, respectively.

The table below shows Fund returns over various measurement periods, and they continue to be very good. The table includes performance of two indices, Barclays U.S. Aggregate and S&P 500, as proxies for bond and stock markets, respectively. While neither is a benchmark for Fund performance, they provide context for returns on broad asset categories.

TOTAL RETURN ON NET ASSET VALUE

FOR PERIODS ENDED NOVEMBER 30, 2015

(Unaudited)

	Actual Returns			**Average Annualized Returns**			
	Three Months	**Six Months**	**One Year**	**Three Years**	**Five Years**	**Ten Years**	**Life of Fund(1)**
Flaherty & Crumrine Preferred Income Fund	2.0%	1.1%	4.2%	8.6%	11.7%	7.6%	10.0%
Barclays U.S. Aggregate Index(2)	0.4%	-0.1%	1.0%	1.5%	3.1%	4.6%	6.2%
S&P 500 Index(3)	6.1%	-0.2%	2.7%	16.1%	14.4%	7.5%	9.7%

(1) Since inception on January 31, 1991.
(2) The Barclays U.S. Aggregate Index is an unmanaged index considered representative of the U.S. investment grade, fixed-rate bond market.
(3) The S&P 500 is a capitalization-weighted index of 500 common stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. In addition, NAV performance will vary from market price performance, and you may have a taxable gain or loss when you sell your shares.

Credit markets (including preferreds) had their share of fits and starts in 2015. Monetary policy liftoff was a constant debate that kept bond and stock markets on-edge. The Federal Reserve finally did raise short-term rates in December, but it was anticlimactic at best. Sharp declines in commodity prices brought many industries under the microscope, notably energy and metals, as credit metrics began to slip late in the year. Low interest rates, along with a host of mergers and acquisitions, led to a blockbuster year of issuance in corporate-debt securities in many cases causing leverage ratios to tick higher. These factors led to a widening of credit spreads and sub-par performance in the broader corporate debt market.

[1] Following the methodology required by the Securities and Exchange Commission, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund s leverage and expenses.
[2] September 1 November 30, 2015

One sector that shined in 2015 was financials. Banks, in particular, bucked the trend of weakening credit metrics. Regulation requiring banks to hold more capital and increased liquidity continued to weigh on earnings. However, having increasing amounts of common equity on the balance sheet is credit enhancing for preferred-securities investors. This credit trend helped bank preferreds perform well during the year, and we believe these regulatory trends are unlikely to reverse anytime soon.

The Fund s energy portfolio, while not large at approximately 5% at year-end, had an outsized negative impact on returns this year. These portfolio holdings are exclusively in pipeline companies most with very limited direct exposure to oil prices. These companies do, however, have a substantial backlog of projects that will require funding in coming years. Given a sharp drop in equity valuations, companies will increasingly need to rely on debt markets to fund projects. The result has been a dramatic repricing of bonds issued by these companies, as investors demand additional yield for new debt issuance. Preferred securities have weakened in step with debt securities, even though earnings and cash flows should remain relatively healthy. The market has not differentiated much, however, and prices on anything related to energy have moved materially lower.

We have written many times about growth in fixed-to-float preferred securities, noting both benefits (lower duration) and risks (extension).[3] Performance of these securities was mixed throughout the year, with concerns about back-end-reset spreads on some fixed-to-float securities nearing their first-float dates leading to markedly lower prices. Recall that a back-end spread represents an issuer s credit spread at the end of the fixed-rate period. Simply put, if an issuer s credit spread at time of reset is higher than the reset spread, the security will remain outstanding (extend) and trade at a discount to par value.

Much of the fixed-to-float market was issued in a higher interest-rate environment when credit spreads were tighter. From an issuer s perspective, some outstanding fixed-to-float securities are a cheaper source of capital than could be issued today. Persistently low interest rates, along with a widening of credit spreads, have increased the likelihood of extension for many of these securities causing them to be a drag on performance throughout the year.

As we have mentioned before, it s not all bad news for fixed-to-float securities. A security with very low duration due to a coupon that will adjust higher as short-term rates increase may be just what many investors want over time. There are also fixed-to-float securities with more current (higher) back-end-reset spreads which have been among the market s top performers.

One of the best places to be invested in 2015 was in preferreds that are listed on an exchange, typically in $25-par denominations (many of which have fixed-rate coupons). This market segment is the sole focus of preferred ETFs, which have had a disproportionate market impact for many years. ETFs have increased considerably in size as investors have piled on for perceived easy access to preferred securities, and this demand caused prices to move materially higher. Many listed preferred securities have some unflattering characteristics, but ETFs have been large and indiscriminate buyers. Consequently, 2015 returns were excellent, although we view their longer-term prospects less favorably at current prices.

[3] All things being equal, lower-duration securities will not fall in price as much as higher-duration securities would when interest rates rise.

Dividends paid to Fund shareholders have been a bright spot for many years, and 2015 was no exception. Portfolio yields have held up better than expected in this low-rate environment, and leverage costs have remained extremely low. As a result, the Fund s dividend rate has been among the highest offered by closed-end preferred funds. Leverage costs are likely to move higher over 2016, although pace is uncertain. Dividend rates have been set with this in mind and include a bit of cushion against higher short-term rates, but sustained Fed tightening would pressure the Fund s distributable income. We encourage you to read the discussion topic that follows on monthly distributions to shareholders.

Markets are entering a new phase with liftoff having occurred in December, but many positive factors supporting the preferred market will persist over the near-term. The path to higher short-term rates is likely to be gradual as the economy shows no signs of overheating and monetary policy around the globe remains exceptionally easy. Approximately 90% of the preferred market is comprised of issuers from financial industries, including banks, insurance, finance, and REITs. While not a homogeneous group, broadly speaking we believe these sectors have stronger credit metrics than many other non-financial sectors. A search for yield continues, and preferred securities offer higher yields than most other fixed-income securities especially for investors able to take advantage of lower tax rates on qualified dividend income.

We close this letter by acknowledging the retirement of a long-time portfolio manager of the Fund, and a co-founder of Flaherty & Crumrine, Don Crumrine. Don retired as a portfolio manager and from Flaherty & Crumrine on December 31, 2015. Don s contributions to the Fund and our firm are immeasurable, but most importantly, he has been instrumental in shaping the culture of the firm so that it can continue to deliver strong investment performance for many years to come. We thank Don for his 33 years of service and lasting contributions, and we wish him all the best in retirement.

In the discussion topics that follow, we dig deeper into subjects mentioned here as well as others of interest to shareholders. In addition, we encourage you to visit the Fund s website, www.preferredincome.com for timely and important information.

The Flaherty & Crumrine Portfolio Management Team

January 1, 2016

DISCUSSION TOPICS

(Unaudited)

The Fund s Portfolio Results and Components of Total Return on NAV

The table below presents a breakdown of the components that comprise the Fund s total return on NAV over both the recent six months and over the Fund s fiscal year. These components include: (a) the total return on the Fund s portfolio of securities; (b) any returns from hedging the portfolio against significant increases in long-term interest rates; (c) the impact of utilizing leverage to enhance returns to shareholders; and (d) the Fund s operating expenses. When all of these components are added together, they comprise the total return on NAV.

Components of PFD s Total Return on NAV

for Periods Ended November 30, 2015

	Six Months[1]	One Year
Total Return on Unleveraged Securities Portfolio (including principal change and income)	1.3%	4.1%
Return from Interest Rate Hedging Strategy	N/A	N/A
Impact of Leverage (including leverage expense)	0.5%	1.4%
Expenses (excluding leverage expense)	-0.7%	-1.3%
[1]Actual, not annualized *Total Return on NAV*	**1.1%**	**4.2%**

For the six month and one year periods ended November 30, 2015 the BofA Merrill Lynch 8% Constrained Core West Preferred & Jr Subordinated Securities Index^{SM} (P8JC)[1] returned 2.3% and 5.7%, respectively. This index reflects the various segments of the preferred securities market constituting the Fund s primary focus. Since this index return excludes all expenses and the impact of leverage, it compares most directly to the top line in the Fund s performance table above (Total Return on Unleveraged Securities Portfolio).

Total Return on Market Price of Fund Shares

While our focus is primarily on managing the Fund s investment portfolio, our shareholders actual return is comprised of the Fund s monthly dividend payments *plus* changes in the *market price* of Fund shares. During the twelve-month period ending November 30, 2015, total return on market price of Fund shares was -3.3%.

Historically, the preferred securities market has experienced price volatility consistent with those of other fixed-income securities. However, since mid-2007 it has become clear that preferred-security valuations, including both the Fund s NAV and the market price of its shares, can move dramatically when there is volatility in financial markets. The chart on page 5 contrasts the relative stability of the Fund s earlier period with the more recent volatility in both its NAV and market price. Many fixed-income asset classes experienced increased volatility over this period.

1 The BofA Merrill Lynch 8% Constrained Core West Preferred & Jr Subordinated Securities Index^{SM} (P8JC) includes U.S. dollar-denominated investment-grade or below investment-grade, fixed rate, floating rate or fixed-to-floating rate, retail or institutionally structured preferred securities of U.S. and foreign issuers with issuer concentration capped at 8%. All index returns include interest and dividend income, and, unlike the Fund s returns, are unmanaged and do not reflect any expenses.

In a more perfect world, the market price of Fund shares and its NAV, as shown in the above chart, would track closely. If so, any premium or discount, calculated as the difference between these two inputs and expressed as a percentage, would remain relatively close to zero. However, as can be seen in the chart below, this often has not been the case.

Although divergence between NAV and market price of a closed-end fund is generally driven by supply/demand imbalances affecting its market price, we can only speculate about why the relationship between the Fund s market price and NAV hasn t been closer.

Based on a closing price of $12.92 on December 31st and assuming its current monthly distribution of $0.09 does not change, the current annualized yield on market price of Fund shares is 8.4%. In our opinion, this distribution rate measures up favorably with most comparable fixed-income investment opportunities. Of course, there can be no guarantee that the Fund s dividend will not change based on market conditions.

Economic and Interest Rate Recap and Outlook

U.S. inflation-adjusted Gross Domestic Product (real GDP) probably grew about 2.2% in 2015, slower than its 2.5% pace in 2014 and below most forecasts (including ours) entering the year. Most of the miss in 2015 came in the first quarter, when cold and snow across much of the nation held growth to just 0.6%; it appears to have averaged about 2.7% thereafter, about in-line with earlier full-year forecasts. Private domestic final sales expanded by more than 3%, led by solid gains in personal consumption and residential investment. Business investment and government spending were a little weaker than expected, but a wider trade deficit was 2015 s biggest economic headwind. Although U.S. economic growth was only modest in 2015, it was better than that of most other developed nations, and the U.S. dollar rose sharply, curbing exports.

We expect slightly firmer real GDP growth of about 2.5% in 2016. Personal consumption and residential investment should remain strong in 2016 as rising employment and gradually-accelerating wages boost income. In turn, that should prompt higher business investment as the year progresses. Trade probably will remain a headwind, however, and government spending gains are likely to lag as well.

Inflation remained at or below 0.5% in 2015 due to sharply lower energy prices. Recent warm winter weather in the U.S., higher oil output from the Middle East, and rising energy efficiency may push energy prices still lower over the near term, although a sharp drop in exploration activity should put a floor under prices at some point. Core U.S. inflation (i.e., excluding food and energy) edged upward in 2015 and now ranges between 1.2% (core personal consumption expenditure deflator) and 2.0% (core consumer price index).

As a disinflationary impulse from lower energy prices wanes, overall inflation should move up toward core inflation. And because energy prices dropped especially sharply in late 2014 and early 2015, headline inflation could rise fairly quickly in 2016 as those negative months roll out of year-over-year inflation calculations. We re not inflation hawks, but we do expect inflation to pick up in 2016.

With economic growth modest and inflation low in 2015, long-term interest rates finished the year about where they began. Ten- and 30-year Treasury rates rose by 10 basis points (bp) to 2.27% and 26 bp to 3.01%, respectively. Short-term rates spent almost the whole year hovering near zero, finally rising by 25 bp in December when the Federal Open Market Committee (FOMC) ended seven years of zero-interest-rate policy.

We expect the FOMC to hike the fed funds rate by 25 bp per quarter until it reaches 2% or so, with more gradual moves thereafter, bringing rates back to 3-3.5%. We consider this the most likely path of rates, but risks are skewed toward less Fed tightening. Global economic growth is still slow, inflation is muted and most major central banks are easing monetary policy. Too-rapid Fed tightening could cause the U.S. dollar to soar, damaging exports and blunting inflation. Accordingly, markets discount somewhat less tightening than this most likely path of rates. We look for long-term Treasury rates to move modestly higher in 2016, but we do not expect another episode like 2013 s taper tantrum, when long-term interest rates shot up by more than 100 bp in short order.

Credit conditions were mixed in 2015. On a positive note, U.S. financial companies (especially banks) continued to build capital and liquidity, and loan defaults and delinquencies fell further. European banks, while not as far along in their recoveries as their U.S. counterparts, are also gradually rebuilding their balance sheets and looking more attractive. In contrast, nonfinancial companies increased leverage in 2015, and their credit metrics began to deteriorate, albeit from very strong levels in most cases. Looking ahead, we think economic and credit conditions should benefit preferred securities again in 2016. Although long-term U.S. interest rates are likely to rise modestly, spreads on preferred securities are wide and should absorb at least a portion of any rate increase. Financial issuers, which make up most of the preferred securities market, should benefit from gradual Fed tightening and improving credit profiles. We believe prospective returns on preferred securities remain attractive for long-term investors (that is, those within an investment horizon of at least 3-5 years).

Implications of Fed Tightening on Dividends and Investments

In December, the FOMC raised its target for the federal funds rate by 25 bp to 0.25-0.50% after seven years of near-zero interest rates. FOMC members project additional rate hikes over coming years: 100 bp in 2016, 100 bp in 2017 and another 100 bp or so thereafter, bringing the fed funds rate to about 3.5% over a long horizon. Markets currently price in less tightening: 75 bp in 2016, 50 bp in 2017 and a long-run rate of about 3%. Markets expect a slower-and-lower period of tightening than does the Fed. Our own forecasts are in-between.

What will higher short-term rates mean for the Fund? Most directly, cost of the Fund s floating-rate leverage will increase, while income on most of the Fund s investments will hold about steady. Thus, higher leverage cost will reduce distributable income over the short run. That does not necessarily mean that *the Fund s dividend* will fall immediately. We have anticipated rate hikes for some time and set the current dividend rate in light of that. However, higher leverage cost reduces income and will eventually lead to reduced Fund dividends unless it is offset by higher portfolio income. Higher rates could boost portfolio income over time as proceeds of called securities are reinvested (and some securities switch from fixed- to floating-rate), but it may take some time to adjust, and some coupons could float down rather than up. Distributable income is likely to fall over the next couple of years if rates rise as expected.

More positively, higher short-term rates should be associated with a stronger economy, which, in turn, should improve credit performance and lead to narrower yield spreads. This should be particularly true for financial institutions. Nearly all banks are asset sensitive, meaning their assets re-price more quickly than their liabilities. Banks net interest margins should expand as rates increase, improving profitability and allowing banks to build capital and reserves more quickly. Yield spreads on preferred securities are wide by historical standards and have ample room to contract, at least partly offsetting higher benchmark interest rates.

We have long said that a distribution yield of roughly 8% in a world of near-zero interest rates was bound to come to an end eventually. It has lasted longer than we and most other market participants expected. While that halcyon period may be coming to a close, we believe preferred securities still offer an attractive combination of high yield, good credit quality and tax-advantaged income.

Monthly Distributions to Fund Shareholders

When it comes to projecting income available to shareholders in future years, the elephant in the room is the expected cost of leverage. Use of leverage is an important part of the Fund s strategy for producing high current income, and we could not produce the Fund s current level of income without it. Leverage costs, which for the Fund are currently 3-month LIBOR + 0.75%, reset quarterly, remained low throughout 2015. We are, however, another year into economic recovery in the United States and the Fed raised short-term rates in December for the first time in seven years.

Looking into 2016 and beyond, with potentially higher leverage costs, there are two questions that shareholders might ask.

If you expect the cost of leverage to increase, why not remove (or at least reduce) leverage from the Fund?

The answer is twofold. First, as shown for this past fiscal year in the first discussion topic above, so long as the cost of leverage is below income earned on the portfolio which has almost always been the case income available to shareholders will be higher with leverage than it would be without leverage. Second, following the same logic, removing or substantially reducing leverage today would result in a material reduction in the current dividend rate, given current wide spreads between yields on preferred securities and cost of leverage. So even if leverage costs increase, benefits to distributable income over time can still be substantial as long as leverage costs do not exceed portfolio yield.

If you think short-term rates are going to increase, why don t you hedge the cost of leverage?

In general, hedging is done for two reasons: first, to reduce absolute exposure to a particular risk; and second, to reduce volatility associated with a particular risk. When considering a hedge against a rise in short-term rates, one has to weigh cost versus benefit. If we knew exactly when rates would rise and by how much, then we could evaluate the explicit costs and determine if it would be a winning trade.

Since we don t know the exact timing or magnitude of higher short-term interest rates, a hedge is really another investment decision one in which we would be betting that the cost of a hedge now (in the form of higher leverage costs today) will be lower than the actual cost of leverage (unhedged) over the hedge s timeframe. In other words, the Fund s distributable income would be lower today if we were to hedge the cost of leverage very far into the future. This is because today s upward-sloping yield curve means the market already expects rates in the future to be higher, so that expected cost is reflected in hedging cost today.

We acknowledge this is complicated, but to simplify: hedging the cost of leverage today would result in lower income today and may or may not result in improved return (relative to no hedge) in the future. This is because hedging today costs money.

We are not opposed to hedging leverage costs in the right context. However, we acknowledge that a hedge is a bet on the timing and magnitude of rate increases relative to the market s pricing of these risks. There are times when the market s expectations of future rates make this a worthwhile bet, or when risk reduction offered by hedging is particularly valuable, but we don t feel this is true today. Funds that hedged over the past couple years missed out on quite a bit of distributable income without providing protection until very recently, since short-term interest rates didn t move higher until December 2015.

We would like our shareholders to understand that we are not currently hedging the cost of leverage, and are unlikely to do so unless the market s expectations (and, therefore, hedging costs) change. As a result, shareholders are receiving more income today (and have received more over the last several years) in exchange for potentially lower income and returns in the future. Given the current cost of hedging, we have so far decided it is best to take short-term rates as they come.

Federal Tax Advantages of 2015 Calendar Year Distributions

In calendar year 2015, approximately 73.3% of distributions made by the Fund was eligible for treatment as qualified dividend income, or QDI. For taxpayers in the 15% marginal tax bracket, QDI is taxed by the federal government at 0% instead of an individual s ordinary income tax rate; for taxpayers in the 25%-35% marginal tax brackets, QDI is taxed at 15%; and for taxpayers in the 39.6% marginal tax bracket, QDI is taxed at 20%.

For an individual in the 28% marginal tax bracket, this means that the Fund s total distributions will only be taxed at a blended 18.5% rate versus the 28% rate which would apply to distributions by a fund investing in traditional corporate bonds. This tax advantage means that, all other things being equal, such an individual who held 100 shares of Common Stock of the Fund for the calendar year would have had to receive approximately $122.29 in distributions from a fully-taxable bond fund to net the same after-tax amount as the $108 in distributions paid by the Fund.

For detailed information about tax treatment of particular distributions received from the Fund, please see the Form 1099 you receive from either the Fund or your broker.

Corporate shareholders also receive a federal tax benefit from the 38.7% distributions that were eligible for the inter-corporate dividends received deduction, or DRD.

It is important to remember that composition of the portfolio and income distributions can change from one year to the next, and that the QDI or DRD portions of 2016 s distributions may not be the same (or even similar) to 2015.

Contingent Capital Securities

Some debt and traditional and hybrid preferred securities include loss absorption provisions that make the securities more like equity. These securities are generally referred to as contingent capital securities, or CoCos. CoCos are typically issued by financial companies, such as banks, in order to be a source of capital in a time of crisis.

In one type of a CoCo, the security has loss absorption characteristics whereby the liquidation value of the security may be written down to below original principal amount (even to zero) under certain circumstances. This may occur, for instance, in the event that business losses have eroded capital to a substantial extent. Such securities may, but are not required to, provide for circumstances under which liquidation value may be adjusted back up, such as an improvement in capitalization and/or earnings.

Another type of a CoCo provides for mandatory conversion of the security into common shares of the issuer under certain circumstances. A mandatory conversion might result, for instance, from the issuer s failure to maintain a capital minimum. In addition, some Cocos provide for an automatic write-down if the price of the common stock is below the conversion price on the conversion date.

An automatic write-down or conversion event is typically triggered by a reduction in the capital level of the issuer, but may also be triggered by regulatory actions (e.g., a change in capital requirements) or by other factors.

Risks of Investing in Contingent Capital Securities

CoCo s which are subject to an automatic write-down (i.e., automatic write-down of the original principal amount, potentially to zero, and cancellation of the securities) under certain circumstances could result in the Fund losing a portion or all of its investment in such securities. In addition, the Fund may not have any rights with respect to repayment of the principal amount of the securities that have not become due or the payment of interest or dividends on such securities for any period from (and including) the interest or dividend payment date falling immediately prior to the occurrence of such automatic write-down. An automatic write-down could also result in a reduced income rate if the dividend or interest payment is based on the security s written-down value. Finally, since the write-down would occur automatically, holders would not be able to protect the value of the security through the bankruptcy process.

If a CoCo provides for mandatory conversion of the security into common shares of the issuer under certain circumstances and such conversion event occurs, the Fund could experience a reduced income rate, potentially to zero, as a result of the issuer s common shares not paying a dividend. In addition, a conversion event would likely be the result of or related to the deterioration of the issuer s financial condition (e.g., a decrease in the issuer s regulatory capital ratio) and status as a going concern, so the market price of the issuer s common shares received by the Fund will have likely declined, perhaps substantially, and may continue to decline, which may adversely affect the Fund s NAV. Further, the issuer s common shares would be subordinate to the issuer s other security classes and therefore worsen the Fund s standing in a bankruptcy proceeding.

It will often be difficult to predict when, if at all, an automatic write-down or conversion event will occur. Accordingly, trading behavior of CoCos may not follow trading behavior of other types of debt and preferred securities. Any indication that an automatic write-down or conversion event may occur can be expected to have a material adverse effect on the market price of a CoCo. CoCos are a relatively new form of security and the full effects of an automatic write-down or conversion event have not been experienced broadly in the marketplace. An automatic write-down or conversion event may be unpredictable and the potential effects of such event on the Fund s yield, NAV and/or market price would likely be adverse, perhaps materially so. As of November 30, 2015, less than 2% of the Fund s assets were invested in CoCos. The Fund is not limited in the extent to which it can invest in CoCos.

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OVERVIEW

November 30, 2015 (Unaudited)

Fund Statistics	
Net Asset Value	$ 13.44
Market Price	$ 13.20
Discount	1.79%
Yield on Market Price	8.18%
Common Stock Shares Outstanding	11,057,483

Moody s Ratings*	**% of Net Assets**
A	1.4%
BBB	65.9%
BB	21.5%
Below BB	1.4%
Not Rated**	8.1%
Below Investment Grade***	24.6%

* 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 1.7%.
*** Below investment grade by all of Moody s, S&P, and Fitch.

Industry Categories **% of Net Assets**

Top 10 Holdings by Issuer	**% of Net Assets**
JPMorgan Chase	4.9%
Liberty Mutual Group	4.8%
HSBC PLC	4.5%
MetLife	4.4%
Wells Fargo & Company	4.2%
Citigroup	3.9%
Fifth Third Bancorp	3.8%
M&T Bank Corporation	3.3%
Morgan Stanley	2.9%
PNC Financial Services Group	2.9%

% of Net Assets****

Holdings Generating Qualified Dividend Income (QDI) for Individuals	61%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	48%

**** 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. See accompanying notes to financial statements for tax characterization of 2015 distributions.

Net Assets include assets attributable to the use of leverage.

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

November 30, 2015

Shares/$ Par		Value
Preferred Securities 93.3%		
	Banking 47.5%	
19,400	Astoria Financial Corp., 6.50%, Series C	$ 508,309*
	Bank of America Corporation:	
$ 870,000	8.00%, Series K	900,450*(1)
$ 1,151,000	8.125%, Series M	1,197,040*(1)
	Barclays Bank PLC:	
58,000	7.10%, Series 3	1,503,940**(3)
3,700	7.75%, Series 4	97,014**(3)
$ 3,520,000	BNP Paribas, 7.375%, 144A****	3,621,200**(3)
6,600	Capital One Financial Corporation, 6.70%, Series D	176,434*
	Citigroup, Inc.:	
103,800	6.875%, Series K	2,830,885*(1)
119,778	7.125%, Series J	3,381,632*
$ 2,299,000	8.40%, Series E	2,560,511*(1)
	CoBank ACB:	
22,000	6.125%, Series G, 144A****	2,080,375*
10,000	6.20%, Series H, 144A****	1,029,063*
10,000	6.25%, Series F, 144A****	1,035,625*(1)
$ 5,210,000	Colonial BancGroup, 7.114%, 144A****	7,815(4)(5)
11,900	Cullen/Frost Bankers, Inc., 5.375%, Series A	305,015*
295,600	Fifth Third Bancorp, 6.625%, Series I	8,499,239*(1)
	First Horizon National Corporation:	
795	First Tennessee Bank, Adj. Rate, 3.75%(6), 144A****	517,098*(1)
1	FT Real Estate Securities Company, 9.50%, 144A****	1,302,500
112,500	First Niagara Financial Group, Inc., 8.625%, Series B	3,062,419*(1)
32,050	First Republic Bank, 6.70%, Series A	849,085*(1)
	Goldman Sachs Group:	
$ 195,000	5.70%, Series L	195,244*
50,000	6.375%, Series K	1,350,000*
	HSBC PLC:	
$ 800,000	HSBC Capital Funding LP, 10.176%, 144A****	1,203,608(1)(2)(3)
142,000	HSBC Holdings PLC, 8.00%, Series 2	3,644,075**(1)(3)
170,000	HSBC USA, Inc., 6.50%, Series H	4,417,025*(1)
	ING Groep NV:	
40,000	6.375%	1,020,800**(3)
35,000	7.05%	921,988**(3)
23,400	7.20%	612,881**(3)

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par		Value
Preferred Securities (Continued)		
	Banking (Continued)	
	JPMorgan Chase & Company:	
66,700	6.70%, Series T	$ 1,798,899*(1)
$ 4,715,000	6.75%, Series S	5,114,596*(1)
$ 4,000,000	7.90%, Series I	4,125,000*(1)
	M&T Bank Corporation:	
$ 2,790,000	6.450%, Series E	2,965,770*(1)
$ 4,372,000	6.875%, Series D, 144A****	4,382,930*(1)
	Morgan Stanley:	
154,665	6.875%, Series F	4,271,847*(1)
80,516	7.125%, Series E	2,294,102*(1)
	PNC Financial Services Group, Inc.:	
200,200	6.125%, Series P	5,668,163*(1)
$ 750,000	6.75%, Series O	816,367*
$ 2,160,000	RaboBank Nederland, 11.00%, 144A****	2,686,500(1)(3)
50,000	Regions Financial Corporation, 6.375%, Series B	1,334,575*(1)
31,975	Royal Bank of Canada, 6.75%, Series C-2	930,473**(1)(3)
	Royal Bank of Scotland Group PLC:	
15,000	6.60%, Series S	383,400**(3)
103,600	7.25%, Series T	2,671,844**(1)(3)
	Sovereign Bancorp:	
1,750	Sovereign REIT, 12.00%, Series A, 144A****	2,229,063
92,900	State Street Corporation, 5.90%, Series D	2,551,173*(1)
10,000	Texas Capital Bancshares Inc., 6.50%, Series A	257,115*
35,000	US Bancorp, 6.50%, Series F	1,017,188*
	Wells Fargo & Company:	
60,300	5.85%, Series Q	1,557,700*(1)
$ 2,075,000	5.875%, Series U	2,189,125*(1)(2)
35,900	6.625%, Series R	1,018,124*
$ 1,095,000	7.98%, Series K	1,151,119*(1)
123,500	8.00%, Series J	3,487,949*(1)
	Zions Bancorporation:	
$ 1,000,000	7.20%, Series J	1,076,250*
93,000	7.90%, Series F	2,481,240*(1)
		107,291,782

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par		Value
Preferred Securities (Continued)		
	Financial Services 0.8%	
$ 675,000	General Electric Capital Corp., 7.125%, Series A	$ 803,250*(1)
36,537	HSBC PLC:	
	HSBC Finance Corporation, 6.36%, Series B	929,410*(1)
		1,732,660
	Insurance 23.5%	
	Ace Ltd.:	
$ 975,000	Ace Capital Trust II, 9.70% 04/01/30	1,423,500(1)(2)(3)
97,500	Allstate Corp., 6.625%, Series E	2,679,544*(1)
$ 400,000	Aon Corporation, 8.205% 01/01/27	504,000(1)(2)
112,500	Arch Capital Group, Ltd., 6.75%, Series C	3,037,781**(1)(3)
	AXA SA:	
$ 1,423,000	6.379%, 144A****	1,532,400**(1)(2)(3)
$ 500,000	8.60% 12/15/30	693,750(3)
201,600	Axis Capital Holdings Ltd., 6.875%, Series C	5,419,310**(1)(3)
95,600	Delphi Financial Group, 7.376%, 05/15/37	2,372,075(1)(2)
	Endurance Specialty Holdings:	
15,000	6.35%, Series C	373,950**(3)
37,400	7.50%, Series B	964,602**(3)
$ 2,328,000	Everest Re Holdings, 6.60%, 05/15/37	2,124,300(1)(2)
10,000	Hartford Financial Services Group, Inc., 7.875%	314,415
	Liberty Mutual Group:	
$ 500,000	7.80% 03/15/37, 144A****	586,250
$ 5,157,000	10.75% 06/15/58, 144A****	7,748,392(1)(2)
	MetLife:	
$ 3,096,000	MetLife, Inc., 10.75% 08/01/39	4,899,420(1)(2)
$ 3,600,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	5,031,000(1)(2)
	PartnerRe Ltd.:	
16,900	5.875%, Series F	445,210**(3)
90,010	7.25%, Series E	2,552,819**(1)(3)
$ 402,000	Prudential Financial, Inc., 5.625% 06/15/43	419,085
	QBE Insurance:	
$ 2,150,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	2,389,187(1)(3)
7,504	RenaissanceRe Holdings Ltd., 6.08%, Series C	188,200**(3)
	Unum Group:	
$ 2,820,000	Provident Financing Trust I, 7.405% 03/15/38	3,102,000(1)(2)
	XL Group PLC:	
$ 5,500,000	XL Capital Ltd., 6.50%, Series E	4,303,750(1)(3)
		53,104,940

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par		Value
Preferred Securities (Continued)		
	Utilities 11.1%	
	Baltimore Gas & Electric Company:	
10,000	6.70%, Series 1993	$ 1,015,000*(1)
2,400	7.125%, Series 1993	243,825*
	Commonwealth Edison:	
$ 2,953,000	COMED Financing III, 6.35% 03/15/33	3,069,614(1)(2)
$ 2,700,000	Dominion Resources, Inc., 7.50% 06/30/66	2,352,780(1)(2)
25,000	Georgia Power Company, 6.50%, Series 2007A	2,657,032*(1)
25,000	Indianapolis Power & Light Company, 5.65%	2,535,938*
84,500	Integrys Energy Group, Inc., 6.00%	2,160,031(1)(2)
	Nextera Energy:	
$ 1,500,000	FPL Group Capital, Inc., 6.65% 06/15/67, Series C	1,203,750(1)(2)
	PECO Energy:	
$ 500,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	573,110(1)(2)
	PPL Corp:	
59,000	PPL Capital Funding, Inc., 5.90%, Series B	1,520,578
$ 2,250,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	1,856,788(1)(2)
$ 2,850,000	Puget Sound Energy, Inc., 6.974% 06/01/67, Series A	2,386,875(1)(2)
34,000	Southern California Edison, 6.50%, Series D	3,499,875*(1)
		25,075,196
	Energy 4.4%	
$ 7,002,000	Enbridge Energy Partners LP, 8.05% 10/01/37	6,250,195(1)(2)
$ 450,000	Enterprise Products Operating L.P., 8.375% 08/01/66, Series A	442,125
72,000	Kinder Morgan, Inc., 9.75%, Series A	3,178,800*
		9,871,120
	Real Estate Investment Trust (REIT) 2.8%	
	National Retail Properties, Inc.:	
40,000	5.70%, Series E	1,010,100
19,580	6.625%, Series D	516,746
	PS Business Parks, Inc.:	
4,000	5.70%, Series V	100,126
50,000	6.45%, Series S	1,320,125(1)(2)
14,000	Public Storage, 6.375%, Series Y	388,500
86,000	Realty Income Corporation, 6.625%, Series F	2,266,960(1)(2)
30,300	Regency Centers Corporation, 6.625%, Series 6	796,935
		6,399,492

The accompanying notes are an integral part of the financial statements.

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Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par		Value
Preferred Securities (Continued)		
	Miscellaneous Industries 3.2%	
	BHP Billiton Limited:	
$ 400,000	BHP Billiton Finance U.S.A., Ltd., 6.75% 10/19/75, 144A****	$ 399,500[3]
$ 3,350,000	Land O Lakes, Inc., 8.00%, 144A****	3,479,812*[1]
37,400	Ocean Spray Cranberries, Inc., 6.25%, 144A****	3,363,663*
		7,242,975
	Total Preferred Securities (Cost $204,933,626)	210,718,165
Corporate Debt Securities 4.8%		
	Banking 2.3%	
$ 2,140,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	2,731,308[1][2]
77,000	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	1,987,563
20,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes	563,126[1]
		5,281,997
	Financial Services 0.3%	
19,163	Affiliated Managers Group, Inc., 6.375% 08/15/42	502,431
5,562	Raymond James Financial, 6.90% 03/15/42	150,855
		653,286
	Insurance 1.1%	
$ 2,000,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	2,491,600[1][2]
		2,491,600
	Energy 0.9%	
$ 1,680,000	Energy Transfer Partners LP, 8.25% 11/15/29	1,976,785[1][2]
		1,976,785
	Communication 0.2%	
20,200	Qwest Corporation, 7.375% 06/01/51	516,363
		516,363
	Total Corporate Debt Securities (Cost $9,366,933)	10,920,031

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

Shares/$ Par			Value
Common Stock 0.1%			
	Banking 0.1%		
3,620	CIT Group, Inc.		$ 155,515*
			155,515
	Insurance 0.0%		
19,896	WMI Holdings Corporation, 144A****		48,745*
			48,745
	Total Common Stock (Cost $1,330,325)		204,260
Money Market Fund 0.8%			
1,846,822	BlackRock Liquidity Funds T-Fund, Institutional Class		1,846,822
	Total Money Market Fund (Cost $1,846,822)		1,846,822
Total Investments (Cost $217,477,706***)		99.0%	223,689,278
Other Assets And Liabilities (Net)		1.0%	2,307,569
Total Managed Assets		100.0%	$ 225,996,847
Loan Principal Balance			(77,400,000)
Total Net Assets Available To Common Stock			$ 148,596,847

The accompanying notes are an integral part of the financial statements.

PORTFOLIO OF INVESTMENTS (Continued)

November 30, 2015

* 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 November 30, 2015, these securities amounted to $47,166,326 or 20.9% 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 $138,458,606 at November 30, 2015.
(2) All or a portion of this security has been rehypothecated. The total value of such securities was $49,914,891 at November 30, 2015.
(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 November 30, 2015.
(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.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

November 30, 2015

ASSETS:		
Investments, at value (Cost $217,477,706)		$ 223,689,278
Receivable for investments sold		84,417
Dividends and interest receivable		2,498,267
Prepaid expenses		45,325
Total Assets		226,317,287
LIABILITIES:		
Loan Payable	$ 77,400,000	
Dividends payable to Common Stock Shareholders	76,447	
Investment advisory fees payable	103,159	
Administration, Transfer Agent and Custodian fees payable	38,431	
Professional fees payable	71,319	
Accrued expenses and other payables	31,084	
Total Liabilities		77,720,440
NET ASSETS AVAILABLE TO COMMON STOCK		$ 148,596,847
NET ASSETS AVAILABLE TO COMMON STOCK consist of:		
Undistributed net investment income		$ 759,404
Accumulated net realized loss on investments sold		(15,541,981)
Unrealized appreciation of investments		6,211,572
Par value of Common Stock		110,575
Paid-in capital in excess of par value of Common Stock		157,057,277
Total Net Assets Available to Common Stock		$ 148,596,847
NET ASSET VALUE PER SHARE OF COMMON STOCK:		
Common Stock (11,057,483 shares outstanding)		$ 13.44

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENT OF OPERATIONS

For the Year Ended November 30, 2015

INVESTMENT INCOME:		
Dividends		$ 8,199,630
Interest		6,749,311
Rehypothecation Income		27,232
Total Investment Income		14,976,173
EXPENSES:		
Investment advisory fees	$ 1,267,408	
Interest expenses	795,160	
Administrator s fees	215,258	
Professional fees	108,325	
Insurance expenses	114,161	
Transfer Agent fees	31,107	
Directors fees	71,894	
Custodian fees	21,784	
Compliance fees	35,000	
Other	124,761	
Total Expenses		2,784,858
NET INVESTMENT INCOME		12,191,315
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS		
Net realized gain on investments sold during the year		1,760,904
Change in net unrealized appreciation/(depreciation) of investments		(7,692,764)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS		(5,931,860)
NET INCREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS		$ 6,259,455

For Federal income tax purposes, a significant portion of this amount may not qualify for the inter-corporate dividends received deduction (DRD) or as qualified dividend income (QDI) for individuals.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	Year Ended November 30, 2015	Year Ended November 30, 2014
OPERATIONS:		
Net investment income	$ 12,191,315	$ 12,273,655
Net realized gain/(loss) on investments sold during the year	1,760,904	6,342,766
Change in net unrealized appreciation/(depreciation) of investments	(7,692,764)	4,836,469
Net increase in net assets resulting from operations	**6,259,455**	**23,452,890**
DISTRIBUTIONS:		
Dividends paid from net investment income to Common Stock Shareholders[1]	(11,929,248)	(12,757,913)
Total Distributions to Common Stock Shareholders	**(11,929,248)**	**(12,757,913)**
FUND SHARE TRANSACTIONS:		
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	577,688	433,798
Net increase in net assets available to Common Stock resulting from Fund share transactions	**577,688**	**433,798**
NET INCREASE/(DECREASE) IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE YEAR	**$ (5,092,105)**	**$ 11,128,775**

NET ASSETS AVAILABLE TO COMMON STOCK:		
Beginning of year	$ 153,688,952	$ 142,560,177
Net increase/(decrease) in net assets during the year	(5,092,105)	11,128,775
End of year (including undistributed net investment income of $759,404 and $405,181, respectively)	$ 148,596,847	$ 153,688,952

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

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

STATEMENT OF CASH FLOWS

For the Year Ended November 30, 2015

INCREASE/(DECREASE) IN CASH	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 6,259,455
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Purchase of investment securities	(24,416,145)
Proceeds from disposition of investment securities	22,509,412
Net purchases of short-term investment securities	(1,180,035)
Increase in dividends and interest receivable	(91,410)
Decrease in receivable for investments sold	587,413
Decrease in prepaid expenses	4,036
Net amortization/(accretion) of premium/(discount)	34,690
Decrease in payables to related parties	(1,244)
Increase in accrued expenses and other liabilities	8,817
Change in net unrealized (appreciation)/depreciation of investments	7,692,764
Net realized gain from investments sold	(1,760,904)
Net cash provided by operating activities	9,646,849
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from loan	1,700,000
Dividends paid (net of reinvestment of dividends and change in dividends payable) to common stock shareholders from net investment income	(11,346,849)
Net cash used in financing activities	(9,646,849)
Net increase/(decrease) in cash	
CASH:	
Beginning of the year	$
End of the year	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid during the year	$ 796,311
Reinvestment of dividends	577,688
Increase in dividends payable to common stock shareholders	4,711

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

FINANCIAL HIGHLIGHTS

For a Common Stock share outstanding throughout each year

Contained below is per share operating performance data, total investment returns, ratios to average net assets and other supplemental data. This information has been derived from information provided in the financial statements and market price data for the Fund s shares.

	Year Ended November 30,				
	2015	**2014**	**2013**	**2012**	**2011**
PER SHARE OPERATING PERFORMANCE:					
Net asset value, beginning of year	$ 13.95	$ 12.98	$ 13.51	$ 11.45	$ 11.86
INVESTMENT OPERATIONS:					
Net investment income	1.10	1.12	1.13	1.25	1.14
Net realized and unrealized gain/(loss) on investments	(0.53)	1.01	(0.46)	1.97	(0.43)
Total from investment operations	0.57	2.13	0.67	3.22	0.71
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:					
From net investment income	(1.08)	(1.16)	(1.20)	(1.16)	(1.12)
Total distributions to Common Stock Shareholders	(1.08)	(1.16)	(1.20)	(1.16)	(1.12)
Net asset value, end of year	$ 13.44	$ 13.95	$ 12.98	$ 13.51	$ 11.45
Market value, end of year	$ 13.20	$ 14.76	$ 12.48	$ 14.85	$ 13.63
Total investment return based on net asset value*	4.19%	17.12%	5.02%	28.22%	5.65%
Total investment return based on market value*	(3.29)%	28.89%	(8.14)%	18.40%	23.99%
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:					
Total net assets, end of year (in 000 s)	$ 148,597	$ 153,689	$ 142,560	$ 147,522	$ 124,095
Operating expenses including interest expense[(1)]	1.83%	1.82%	1.84%	2.02%	2.08%
Operating expenses excluding interest expense	1.31%	1.31%	1.31%	1.38%	1.46%
Net investment income	8.03%	8.24%	8.46%	10.06%	9.45%
SUPPLEMENTAL DATA:					
Portfolio turnover rate	10%	28%	32%	35%	24%
Total managed assets, end of year (in 000 s)	$ 225,997	$ 229,389	$ 218,260	$ 221,622	$ 192,395
Ratio of operating expenses including interest expense[(1)] to total managed assets	1.22%	1.20%	1.22%	1.34%	1.38%
Ratio of operating expenses excluding interest expense to total managed assets	0.87%	0.87%	0.87%	0.92%	0.97%

* Assumes reinvestment of distributions at the price obtained by the Fund s Dividend Reinvestment and Cash Purchase Plan.
The net investment income ratios reflect income net of operating expenses, including interest expense.
Information presented under heading Supplemental Data includes loan principal balance.

(1) See Note 8.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

FINANCIAL HIGHLIGHTS (Continued)

Per Share of Common Stock

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price(1)
December 31, 2014	$ 0.0900	$ 13.90	$ 14.08	$ 13.90
January 30, 2015	0.0900	14.02	15.30	14.54
February 27, 2015	0.0900	14.01	15.47	14.70
March 31, 2015	0.0900	14.10	15.17	14.41
April 30, 2015	0.0900	13.96	15.60	14.82
May 29, 2015	0.0900	13.85	15.10	14.35
June 30, 2015	0.0900	13.57	13.58	13.57
July 31, 2015	0.0900	13.64	13.17	13.22
August 31, 2015	0.0900	13.45	12.67	12.75
September 30, 2015	0.0900	13.36	12.55	12.62
October 30, 2015	0.0900	13.48	13.30	13.33
November 30, 2015	0.0900	13.44	13.20	13.29

(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.

Senior Securities

	11/30/2015	11/30/2014	11/30/2013	11/30/2012	11/30/2011
Total Debt Outstanding, End of Period (000s)(1)	$ 77,400	$ 75,700	$ 75,700	$ 74,100	$ 68,300
Asset Coverage per $1,000 of Debt(2)	2,920	3,030	2,883	2,991	2,817

(1) See Note 8.

(2) Calculated by subtracting the Fund s total liabilities (excluding the loan) from the Fund s total assets and dividing that amount by the loan outstanding in 000 s.

The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Preferred Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS

1. Organization

Flaherty & Crumrine Preferred Income Fund Incorporated (the Fund) was incorporated as a Maryland corporation on September 28, 1990, and commenced operations on January 31, 1991 as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s investment objective is to provide its common shareholders with high current income consistent with the preservation of capital.

2. Significant Accounting Policies

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of the financial statements is in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Portfolio valuation: The net asset value of the Fund s Common Stock is determined by the Fund s Administrator no less frequently than on the last business day of each week and month in accordance with the policies and procedures approved by the Board of Directors of the Fund. It is determined by dividing the value of the Fund s net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund s net assets available to Common Stock is deemed to equal the value of the Fund s total assets less (i) the Fund s liabilities and (ii) the aggregate liquidation value of any outstanding preferred stock.

The Fund s preferred and debt securities are valued on the basis of current market quotations provided by independent pricing services or dealers approved by the Board of Directors of the Fund. Each quotation is based on the mean of the bid and asked prices of a security. In determining the value of a particular preferred or debt security, a pricing service or dealer may use information with respect to transactions in such investments, quotations, market transactions in comparable investments, various relationships observed in the market between investments, and/or calculated yield measures based on valuation technology commonly employed in the market for such investments. Common stocks that are traded on stock exchanges are valued at the last sale price or official close price on the exchange, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available mean price. Futures contracts and option contracts on futures contracts are valued on the basis of the settlement price for such contracts on the primary exchange on which they trade. Investments in over-the-counter derivative instruments, such as interest rate swaps and options thereon (swaptions), are valued using prices supplied by a pricing service, or if such prices are unavailable, prices provided by a single broker or dealer that is not the counterparty or, if no such prices are available, at a price at which the counterparty to the contract would repurchase the instrument or terminate the contract. Investments for which market quotations are not readily available or for which management determines that the prices are not reflective of current market conditions are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including reference to valuations of other securities which are comparable in quality, maturity and type.

Flaherty & Crumrine Preferred Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Continued)

Investments in money market instruments and all debt and preferred securities which mature in 60 days or less are valued at amortized cost. Investments in money market funds are valued at the net asset value of such funds.

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.

A summary of the inputs used to value the Fund s investments as of November 30, 2015 is as follows:

	Total Value at November 30, 2015	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	$ 107,291,782	$ 87,180,444	$ 20,103,523	$ 7,815
Financial Services	1,732,660	1,732,660		
Insurance	53,104,940	30,629,086	22,475,854	
Utilities	25,075,196	6,741,147	18,334,049	
Energy	9,871,120	3,620,925	6,250,195	
Real Estate Investment Trust (REIT)	6,399,492	6,399,492		
Miscellaneous Industries	7,242,975	399,500	6,843,475	
Corporate Debt Securities				
Banking	5,281,997	2,550,689	2,731,308	
Financial Services	653,286	653,286		
Insurance	2,491,600		2,491,600	
Energy	1,976,785		1,976,785	
Communications	516,363	516,363		
Common Stock				
Banking	155,515	155,515		
Insurance	48,745	48,745		
Money Market Fund	1,846,822	1,846,822		
Total Investments	$ 223,689,278	$ 142,474,674	$ 81,206,789	$