FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC
Form N-CSRS
July 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT**

**INVESTMENT COMPANIES**

Investment Company Act file number 811-06179

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)

Donald F. Crumrine

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: May 31, 2013

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

Total return on net asset value ( NAV )[1] was +2.9% during the second fiscal quarter.[2] In combination with solid performance in the first fiscal quarter, total return on net asset value for the first six months of fiscal 2013 was +7.1%. The following table highlights this investment performance and other performance measures of interest to investors.

**TOTAL RETURN ON NET ASSET VALUE**

**FOR PERIODS ENDED MAY 31, 2013**

| | 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 | 2.9% | 7.1% | 21.2% | 19.7% | 14.7% | 7.3% | 10.3% |
| Barclays U.S. Aggregate Index(2) | -0.7% | -1.1% | 0.9% | 4.6% | 6.5% | 4.7% | 6.6% |
| S&P 500 Index(3) | 8.2% | 16.4% | 27.3% | 16.9% | 5.4% | 7.6% | 9.5% |

(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 Index 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.*

Total return based on market price of Fund shares tells a different, less pleasing story. Using this measure, return was -3.4% last quarter, as the premium above NAV declined. For the six-month period total return on market price was +0.09%. We realize price changes in Fund shares are important, but we encourage shareholders with a long-term investment horizon to focus more on net asset value performance.

The Fund s investments in energy and insurance were top performers over the first half of the fiscal year. Bank positions, the largest component of the portfolio, lagged a bit, but still delivered respectable returns. Our cautious approach to foreign issues, owning only the strongest credits, has paid off as they outperformed domestic securities by a wide margin. We take a more in-depth look at the portfolio in the section below.

During much of the past quarter, the preferred market experienced steady, if unspectacular, appreciation. Market sentiment turned negative in mid-May, when focus shifted to risks of rising interest rates. For several days we sensed panic in certain segments of the market, primarily in retail preferreds ($25 par, exchange-listed securities). Almost across the board, market prices on these securities fell, albeit mostly on very-low volume. And while prices have recovered some, most remain well below recent highs.

[1] Following the methodology required by the SEC, total return assumes dividend reinvestment and includes income and principal change, plus the impact of the Fund s leverage and expenses.

[2] March 1st May 31st.

A steady stream of new issues came to market during the period at successively lower coupon rates. We chose not to participate in most new issues, finding better value in the secondary market. Those decisions proved wise, as these newer issues generally performed poorly. Supply of new issues seems likely to remain high, but with recent weaker market prices they probably will be at yield levels we ll find more tempting.

Exchange-traded funds ( ETFs ) play an important role in the preferred market, perhaps more so than in other markets. As of May 31st, the three largest preferred ETFs had a combined market value of over $16.8 billion they are large players in a relatively small market. ETF investment decisions are dictated by formulaic index rules rather than fundamental analysis of the merits of each investment. Further, most ETFs in the preferred market are handcuffed in the types of securities they may purchase: the indices matched by the three largest ETFs contain only retail preferred securities (which comprised roughly half of the overall market on May 31, 2013). In our view, this combination increases market volatility and contributed to price declines over the past few weeks.

PFD has a big advantage over ETFs investment flexibility. Your Fund invests in retail, listed preferred securities AND institutional, over-the-counter preferred securities; more importantly, portfolio holdings reflect management s on-going, in-depth analysis into credit quality and security terms. The benefits of flexibility and professional management are demonstrated in the first discussion topic below.

Heightened concern over rising interest rates appears overdone to us, at least for the near term. While there is evidence the U.S. economy continues to improve, the pace of improvement is slow, especially compared with prior recoveries. Fiscal policy tools have lain fallow in the rancorous environs of Washington, and monetary policy is in unchartered waters. Structural economic problems in Europe and erratic growth in Asia are contributing to a tepid outlook in the U.S. None of these conditions warrants a meaningful rise in interest rates.

Moreover, we believe yields on preferred securities already reflect expectations of modestly higher Treasury rates. Yield spreads on preferred securities are relatively wide historically. If higher Treasury yields are driven by stronger economic performance, then credit risk should continue to fall. In turn, preferred yield spreads should narrow, potentially offsetting an increase in Treasury rates. While volatility will probably remain elevated for a time, we think preferred securities offer attractive value for long-term investors.

In the following section, we dig deeper into topics mentioned here, as well as others important to shareholders. In addition, we encourage you to visit the Fund s website www.preferredincome.com for timely and important information.

Sincerely,

| | |
|---|---|
| Donald F. Crumrine | Robert M. Ettinger |
| Chairman | President |

June 28, 2013

# DISCUSSION TOPICS

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

The table below reflects performance over the recent six months of each element comprising total return for the Fund, namely: (a) investing in a portfolio of securities; (b) possibly hedging that portfolio of securities against significant increases in long-term interest rates, although no interest-rate hedges were in-place during the recent six-month period; and (c) utilizing leverage to enhance returns to shareholders. Next, we compute the impact of the Fund s operating expenses. All of the parts are summed to determine total return on NAV.

**Components of PFD s Total Return on NAV**

**for the Six Months Ended May 31, 2013**

| | | *Six Months** |
|---|---|---|
| Total Return on Unleveraged Securities Portfolio (including principal change and income) | | 5.5% |
| Return from Interest Rate Hedging Strategy | | N/A |
| Impact of Leverage (including leverage expense) | | 2.0% |
| Expenses (excluding leverage expense) | | -0.4% |
| * Actual, not annualized. | *Total Return on NAV* | **7.1%** |

For comparison, the following table displays returns over the same time period on three indices compiled by Bank of America Merrill Lynch, reflecting various segments of the preferred market. Because the index returns exclude all expenses and the impact of leverage, they compare most directly to the top line in the Fund s performance table above (Total Return on Unleveraged Securities Portfolio).

**Total Returns of BofA Merrill Lynch Preferred Securities Indices***

**for the Six Months Ended May 31, 2013**

| | *Six Months* |
|---|---|
| BofA Merrill Lynch 8% Constrained DRD Eligible Preferred Securities Index$^{SM}$ | 3.3% |
| BofA Merrill Lynch Hybrid Preferred Securities 8% Constrained Index$^{SM}$ | 2.9% |
| BofA Merrill Lynch U.S. Capital Securities U.S. Issuers 8% Constrained Index$^{SM}$ | 5.5% |

* The BofA Merrill Lynch 8% Constrained DRD Eligible Preferred Securities Index$^{SM}$ (P8D0) includes investment grade preferred securities issued by both corporations and government agencies that qualify for the corporate dividend received deduction with issuer concentration capped at a maximum of 8%. The BofA Merrill Lynch Hybrid Preferred Securities 8% Constrained Index$^{SM}$ (P8HO) includes taxable, fixed-rate, U.S. dollar-denominated investment-grade, preferred securities listed on a U.S. exchange with issuer concentration capped at 8%. The BofA Merrill Lynch U.S. Capital Securities U.S. Issuers 8% Constrained Index$^{SM}$ (C8CT) includes investment grade fixed rate or fixed-to-floating rate $1,000 par securities that receive some degree of equity credit from the rating agencies or their regulators with issuer concentration capped at a maximum of 8%. All index returns include interest and dividend income, and, unlike the Fund s returns, are unmanaged and do not reflect any expenses.

Over the recent six-month time period, the Fund s (unleveraged) securities portfolio has either beaten or performed in line with each of the three indices shown above.

During its fiscal year-to-date, the Fund s total return on NAV significantly exceeded returns on the indices, aided by the Fund s use of leverage. While leverage can reduce returns during periods of adverse market conditions, during the past six-month time period the Fund s use of leverage enhanced both income distributed by the Fund and its total return over the period.

**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 its *market price*. During the six-month period ending May 31, 2013, total return on market price of Fund shares was +0.1%.

Historically, the preferred securities market has experienced price volatility consistent with those of fixed-income securities. However, since mid-2007 it has become clear that preferred-security valuations, including both Fund NAV and market price of its shares, can move dramatically when there is volatility in financial markets. The chart below contrasts relative stability of the Fund s earlier period with the more recent decline and recovery in both its NAV and market price, during and following the Great Recession.

The decline and recovery in their valuations over this period was not unique to preferred securities. Virtually all fixed-income asset classes, excluding U.S. Treasury securities, experienced some volatility during this period. Although both market price and NAV of the Fund recovered sufficiently that long-term shareholders experienced returns consistent with those received prior to 2007, over the past two months we have seen some decline in preferred valuations as discussed below.

In a more perfect world, market price of Fund shares and its NAV, as shown in the above chart, would track more closely. If so, the resulting premium or discount of the Fund, calculated as the difference between these two inputs and expressed as a percentage, would remain relatively close to zero. However, as can be seen from the chart below, over the life of the Fund this often has not been the case. The Fund began fiscal 2013 with its market price at a significant premium to NAV. However, by May 31st this premium had contracted considerably, and, as a result, the total return earned on market price trailed the total return on NAV shown in the table above.

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 over time.

Based on a closing price of $14.08 on June 28th, the current annualized yield on market price of Fund shares is 7.67%.

**Monthly Distributions to Fund Shareholders**

The Fund makes monthly distributions of income to shareholders consistent with its primary objective of providing high current income. The Fund earns its income both by investing its shareholder capital in income-producing securities, such as preferred securities, and employing leverage by borrowing additional money to invest in additional income-producing securities.

Although interest rates across the entire yield curve have declined in recent years, the Fund has held securities with coupons above current market levels, and the Fund s income continues to benefit from those higher-coupon securities. We have written over the past year about the impact of changes in the regulatory environment (e.g., Dodd-Frank, Basel III), sustained low levels of interest rates, and a transition in the preferred-securities market to more traditional preferred stock (versus trust preferred securities). We expect issuers to continue to refinance higher-coupon securities, even beyond bank trust preferreds, given the relatively low level of interest rates.

The use of leverage is important in the Fund s strategy for producing high current income. Over time, the cost of leverage tends to be lower than yield on the Fund s portfolio. The difference between what the Fund earns on its investments and pays on the borrowed money increases income available to common shareholders. The Fund s cost of leverage continues to be very low (1.03% as of June 30, 2013), as it is tied to the level of 3-Month LIBOR.

With respect to our current dividend rate, we have looked out over the remainder of the fiscal year ending November 30th and anticipated necessary reinvestment. We expect that leverage costs will remain low, given our outlook for the economy and guidance from the Federal Reserve. As such, we believe current monthly dividends can be sustained through the fiscal year, consistent with our belief that shareholders are better served by stable monthly distributions than by distributions that change from month-to-month. As we have cautioned before, however, it is important not to confuse stable dividend with constant dividend. When it comes to distributions, there is no such thing as forever.

The two primary factors that could alter this course are greater-than-expected declines in top-line portfolio income, and increases in the cost of leverage from these historically-low levels. Both are probably inevitable, but we believe they are not likely to happen at exactly the same time and, in both cases, the pace should be gradual. We also believe preferred securities offer attractive total returns currently and that the Fund will continue to offer a competitive distribution rate.

**Preferred Market Conditions**

A Tale of Two Markets aptly describes preferred market conditions during the first half of fiscal 2013. Throughout most of the period, fundamental (improving credit quality) and technical (high demand in a shrinking market) factors produced a steady tailwind for preferred market performance, and price volatility was mostly benign. Investors, faced with little or no yield on alternative investments, turned to the preferred market.

In May, the rally in preferreds ran out of steam, prices reversed course, and volatility increased. The prime catalyst for reversal was weakness in intermediate and long-term U.S. Treasury securities. Prices fell further in mid-June after Federal Reserve comments hinted monetary tightening might occur sooner than anticipated (see separate discussion topic on page 7). Fed officials, worried the market misinterpreted their comments, scrambled to clarify their intent. The second round of comments did calm markets and, in the weeks since, prices have bounced back, but remain below recent highs.

Attracted by relatively high yields, individual investors have increasingly turned to preferred securities. On the flip side, as can be seen in the chart below, the size of the market (in dollar denominated issues) has shrunk by almost $25 billion in the past two years alone.

Source: Flaherty & Crumrine Incorporated

Adjusting for credit quality and issue structure, coupon rates on successive new-issue preferreds declined steadily. As yields on newly-issued preferreds fell, we bought fewer of them. So far in 2013, we have added 103 new preferred issues to our database. Although most of these were eligible investments for the Fund, we participated in just five. Instead, we purchased older, seasoned issues with comparable yields but superior structure compared to new issues (i.e., better call protection or floating-rate margin). Our intent was to own securities offering a better combination of expected risk and return over most market scenarios.

Long-time shareholders know swings such as these occur from time to time, and they often enable us to add value by taking advantage of overreactions of others. It is worth noting, in our view, concerns about credit quality have not been a significant factor in the sell-off. We think markets have overreacted, and we see good value in preferred securities at current prices.

**Economic Outlook**

U.S. economic growth continues at a moderate pace with low inflation. Inflation-adjusted gross domestic product (real GDP) grew 1.7% in 2012 and 1.8% in 1Q2013. Economists polled in the Federal Reserve s Livingston Survey (June 2013) expect growth of 1.5-2.0% in 2Q2013, accelerating to 2.3% in 2013 s second half and 2.6% for 2014 as a whole. Despite stronger growth, unemployment is forecast to remain elevated at 7.2% in June 2014 compared to 7.6% currently.

The Federal Open Market Committee (FOMC) is more optimistic, however. It anticipates real GDP growth of 3.0-3.5% in 2014, with unemployment falling below 7% by mid-2014 and to 6.5-6.8% in 4Q2014. Based on those forecasts, Fed Chairman Bernanke has issued updated guidance on monetary policy. The Fed would begin to taper its Treasury and mortgage-backed securities purchases (currently $85 billion per month) later in 2013, with purchases ending in mid-2014; the federal-funds rate would remain near zero until sometime in 2015 and rise gradually thereafter. Although Chairman Bernanke emphasized that removal of monetary-policy accommodation will depend upon FOMC forecasts actually being met, bond and credit markets sold off substantially.

Our own forecasts are closer to economists consensus than the FOMC s. We anticipate employment growth around 1.5% and wage growth around 2%, which should drive real personal consumption expenditure (PCE) growth of a little over 2%, assuming inflation a bit below $1\,^1/_2$ percent. However, the personal savings rate has averaged just 2.9% over the past three months, and it is likely to move back up over time. As a result, we see risk that real PCE growth could remain below 2%, as savings adjust upward. Business investment should grow moderately (3-5%), but with capacity utilization about unchanged in recent quarters, there is little need for companies to accelerate investment spending. Growth is slowing in emerging markets and is in or barely above recession in Europe, so trade is likely to slow U.S. GDP growth over coming quarters. And while drag from lower state and local spending may be coming to a close, federal government spending is still shrinking in real terms. Housing is the only sector that s really growing (residential investment is growing around 15%), but it is no longer large enough to carry the U.S. economy. Add these up, and we foresee 2 to $2\,^1/_2$ percent real GDP growth in 2014 not 3 to $3\,^1/_2$ as does the FOMC, and not fast enough to cause the FOMC to raise rates as quickly as the market currently anticipates.

The Fed s change in policy guidance affected two market expectations: Size of the Fed s balance sheet, and timing and pace of federal-funds rate hikes. Whether the Fed s tapering of securities purchases begins in September (earliest likely move) or a few months later (prior market expectations) does not make much difference to its nearly $3.5 trillion balance sheet and, therefore, should not affect long-term interest rates much. Higher short-rate expectations probably play a much bigger role in the market s selloff. However, if the FOMC s economic forecasts are too optimistic and we think they are even before factoring in any negative impact to growth from lower stock and bond prices then market expectations for higher policy rates should wane to the extent that economic growth does not match those forecasts.

We long have cautioned that unwinding of the Fed s highly-accommodative monetary policy would be messy and unpredictable. Unfortunately, we were more right about that in recent weeks than we would have wished. However, we continue to anticipate that moderate economic growth and improving credit fundamentals will benefit preferred securities. Their recent selloff should help us deliver attractive returns to long-term preferred investors, even as the Fed s quantitative easing policy comes to a close.

Flaherty & Crumrine Preferred Income Fund Incorporated

## PORTFOLIO OVERVIEW

**May 31, 2013 (Unaudited)**

| **Fund Statistics** | |
|---|---|
| Net Asset Value | $ 13.81 |
| Market Price | $ 14.18 |
| Premium | 2.68% |
| Yield on Market Price | 7.62% |
| Common Stock Shares Outstanding | 10,967,630 |

| **Moody s Ratings** | **% of Net Assets** |
|---|---|
| A | 0.7% |
| BBB | 59.5% |
| BB | 31.4% |
| Below BB | 2.9% |
| Not Rated* | 4.0% |
| Below Investment Grade** | 23.7% |

* Does not include net other assets and liabilities of 1.5%

** 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** |
|---|---|
| MetLife | 4.5% |
| Banco Santander, S.A. | 4.4% |
| HSBC PLC | 4.3% |
| Liberty Mutual Group | 3.8% |
| Goldman Sachs Group | 3.8% |
| Wells Fargo & Company | 3.6% |
| Barclays Bank PLC | 3.1% |
| XL Group PLC | 2.9% |
| Enbridge Energy Partners | 2.6% |
| Unum Group | 2.5% |

| | **% of Net Assets*** ** |
|---|---|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals | 47% |

| | |
|---|---|
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 27% |

*** 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 include assets attributable to the use of leverage.

Flaherty & Crumrine Preferred Income Fund Incorporated

## PORTFOLIO OF INVESTMENTS

**May 31, 2013 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| **Preferred Securities 89.4%** | | |
| | **Banking 34.6%** | |
| 15,000 | Astoria Financial Corp, 6.50% Pfd., Series C | $ 380,288* |
| | Banco Bilbao Vizcaya Argentaria, S.A.: | |
| $ 1,500,000 | BBVA International Preferred, 5.919% | 1,417,500**(1)(3) |
| | Banco Santander, S.A.: | |
| 355,000 | Banco Santander, 10.50% Pfd., Series 10 | 9,837,583**(1)(3) |
| | Bank of America: | |
| $ 1,000,000 | Bank of America Corporation, 8.125% | 1,147,745* |
| 2,500 | Countrywide Capital IV, 6.75% Pfd. 04/01/33 | 63,479 |
| 15,000 | Countrywide Capital V, 7.00% Pfd. 11/01/36 | 380,157 |
| | Barclays Bank PLC: | |
| $ 3,250,000 | Barclays Bank PLC, 6.278% | 3,228,414**(1)(2)(3) |
| 58,000 | Barclays Bank PLC, 7.10% Pfd. | 1,455,800**(3) |
| 3,700 | Barclays Bank PLC, 7.75% Pfd., Series 4 | 93,906**(3) |
| 90,000 | Barclays Bank PLC, 8.125% Pfd., Series 5 | 2,286,000**(1)(3) |
| $ 1,750,000 | BNP Paribas, 7.195%, 144A**** | 1,870,312**(1)(2)(3) |
| $ 2,750,000 | Citigroup, Inc., 8.40%, Series E | 3,165,727*(1) |
| | CoBank ACB: | |
| 12,500 | CoBank ACB, 6.125% Pfd., Series G, 144A**** | 1,268,750* |
| 10,000 | CoBank ACB, 6.25% Pfd., 144A**** | 1,070,625* |
| $ 5,210,000 | Colonial BancGroup, 7.114%, 144A**** | 7,815(4)(5) |
| 15,200 | Cullen/Frost Bankers, Inc., 5.375% Pfd. | 384,276* |
| | Fifth Third Bancorp: | |
| $ 750,000 | Fifth Third Capital Trust IV, 6.50% 04/15/37 | 754,687 |
| | First Horizon: | |
| 795 | First Tennessee Bank, Adj. Rate Pfd., 3.75%(6), 144A**** | 614,386*(1) |
| $ 500,000 | First Tennessee Capital II, 6.30% 04/15/34, Series B | 500,000 |
| 1 | FT Real Estate Securities Company, 9.50% Pfd., 144A**** | 1,100,625 |
| 112,500 | First Niagara Financial Group, Inc., 8.625% Pfd. | 3,255,469*(1) |
| 32,050 | First Republic Bank, 6.70% Pfd. | 874,084* |
| | Goldman Sachs Group: | |
| 17,500 | Goldman Sachs, 5.95% Pfd. | 443,826* |
| $ 2,000,000 | Goldman Sachs, Capital I, 6.345% 02/15/34 | 2,061,944(1) |
| | HSBC PLC: | |
| $ 1,500,000 | HSBC Capital Funding LP, 10.176%, 144A**** | 2,231,250(1)(3) |
| 132,900 | HSBC Holdings PLC, 8.00% Pfd., Series 2 | 3,741,972**(1)(3) |
| $ 130,000 | HSBC USA Capital Trust I, 7.808% 12/15/26, 144A**** | 132,600 |
| $ 145,000 | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** | 147,435(1) |
| 102,850 | HSBC USA, Inc., 6.50% Pfd., Series H | 2,616,658*(1) |

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

Flaherty & Crumrine Preferred Income Fund Incorporated

## PORTFOLIO OF INVESTMENTS (Continued)

**May 31, 2013 (Unaudited)**

| Shares/$ Par | | Value |
|---|---|---|
| **Preferred Securities (Continued)** | | |
| | **Banking (Continued)** | |
| | ING Groep NV: | |
| 40,000 | ING Groep NV, 6.375% Pfd. | $ 992,800**(3) |
| 35,000 | ING Groep NV, 7.05% Pfd. | 884,846** |