

FLAHERTY & CRUMRINE PREFERRED INCOME FUND INC  
Form 40-17G  
June 29, 2007

CHUBB GROUP OF INSURANCE COMPANIES  
15 Mountain View Road, Warren, New Jersey 07059

DECLARATIONS  
FINANCIAL INSTITUTION INVESTMENT  
COMPANY ASSET PROTECTION BOND

NAME OF ASSURED (including its SUBSIDIARIES):

Bond Number: 82052989

FLAHERTY & CRUMRINE / PREFERRED INCOME FUND

FEDERAL INSURANCE COMPANY

301 E. COLORADO BLVD., STE 720  
PASADENA, CAL 91101

Incorporated under the laws of Indiana  
a stock insurance company herein called  
Capital Center, 251 North Illinois, Su  
Indianapolis, IN 46204-1927

ITEM 1. BOND PERIOD: from 12:01 a.m. on  
to 12:01 a.m. on  
ITEM 2. LIMITS OF LIABILITY--DEDUCTIBLE AMOUNTS:

If "Not Covered" is inserted below opposite any specified INSURING CLAUSE, such INSURING CLAUSE and any other reference shall be deemed to be deleted. THERE SHALL BE NO DEDUCTIBLE APPLICABLE TO ANY LOSS UNDER INSURING CLAUSE 1. SUSTAINED BY ANY INVESTMENT COMPANY.

INSURING CLAUSE	LIMIT OF LIABILITY
1. Employee	\$ 600,000
2. On Premises	\$ 600,000
3. In Transit	\$ 600,000
4. Forgery or Alteration	\$ n/a
5. Extended Forgery	\$ n/a
6. Counterfeit Money	\$ n/a
7. Threats to Person	\$ n/a
8. Computer System	\$ n/a
9. Voice Initiated Funds Transfer Instruction	\$ n/a
10. Uncollectible Items of Deposit	\$ n/a
11. Audit Expense	\$ 25,000

ITEM 3. THE LIABILITY OF THE COMPANY IS ALSO SUBJECT TO THE TERMS OF THE FOLLOWING ENDORSEMENTS EXECUTED SIMULTANEOUSLY HEREWITH:  
1 - 3

IN WITNESS WHEREOF, THE COMPANY has caused this Bond to be signed by its authorized officers, but it shall not be valid unless also signed by an authorized representative of the Company.

/S/ W. ANDREW MACAN  
Secretary

/S/ THOMAS F. MOTAMED  
President

/S/ ROBERT HAMBURGER  
Authorized Representative

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The COMPANY, in consideration of payment of the required premium, and in reliance on the APPLICATION and all other statements made and information furnished to the COMPANY by the ASSURED, and subject to the DECLARATIONS made a part of this Bond and to all other terms and conditions of this Bond, agrees to pay the ASSURED for:

INSURING CLAUSES

EMPLOYEE

1. Loss resulting directly from LARCENY or EMBEZZLEMENT committed by an EMPLOYEE, alone or in collusion with others.

ON PREMISES

2. Loss of PROPERTY resulting directly from robbery, burglary, fire, common law or statutory larceny, misplacement, mysterious disappearance, damage, destruction or removal, from the possession or control of the ASSURED, while such PROPERTY is lodged or deposited or located anywhere.

IN TRANSIT

3. Loss of PROPERTY resulting directly from common law or statutory larceny, misplacement, mysterious unexplainable disappearance, damage or destruction, while the PROPERTY is in transit anywhere:

a. in an armored motor vehicle, including loading and unloading.

b. in the custody of a natural person acting as a messenger, or

c. in the custody of a TRANSPORTATION COMPANY and being transported by conveyance other than an armored motor vehicle provided such covered PROPERTY transported in such manner is limited to:

(1) securities, bonds, notes, debentures, or other written records,

(2) securities issued in registered form, which are not restrictively endorsed, or

(3) negotiable instruments not payable to the order of the ASSURED or are restrictively endorsed.

Coverage under this INSURING CLAUSE begins immediately on the date of acquisition of such PROPERTY by the natural person or TRANSPORTATION COMPANY.

immediately on delivery to the premises of the addressee or to the addressee located anywhere.

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INSURING CLAUSES  
(CONTINUED)

FORGERY OR ALTERATION

4. Loss resulting directly from:

- a. FORGERY on, or fraudulent material alteration of, any checks, drafts, acceptances, certificates of deposit, bills, money orders, orders upon public treasuries, written promises, orders or directions to pay sums of receipts for the withdrawal of PROPERTY, or
- b. transferring, paying or delivering any funds or other any credit or giving any value in reliance on any written or applications directed to the ASSURED authorizing transfer, payment, delivery or receipt of funds or other instructions, advices or applications fraudulently purporting to be the handwritten signature of any customer of the ASSURED subscriber to shares of an INVESTMENT COMPANY, or of an institution or EMPLOYEE but which instructions, advices or applications bear a FORGERY or have been fraudulently materially altered without the knowledge and consent of such customer, shareholder, institution or EMPLOYEE;

excluding, however, under this INSURING CLAUSE any loss covered under INSURING CLAUSE 5. of this Bond, whether or not coverage for INSURING CLAUSE 5. is provided for in the DECLARATIONS of this Bond.

For the purpose of this INSURING CLAUSE, a mechanically reproduced signature is treated the same as a handwritten signature.

EXTENDED FORGERY

5. Loss resulting directly from the ASSURED having, in good faith in the ordinary course of business, for its own account or the account of another, in its capacity:

- a. acquired, accepted or received, accepted or received or given value, extended credit or assumed liability, in connection with the purchase of SECURITIES, DOCUMENTS OR OTHER WRITTEN INSTRUMENTS which

- (1) bear a FORGERY or a fraudulently materially altered
- (2) have been lost or stolen, or
- (3) be COUNTERFEIT, or

- b. guaranteed in writing or witnessed any signatures on assignment, bill of sale, power of attorney, guarant obligation upon or in connection with any SECURITIES WRITTEN INSTRUMENTS.

Actual physical possession, and continued actual physical possession collateral, of such SECURITIES, DOCUMENTS OR OTHER WRITTEN INSTRUMENTS BY AN EMPLOYEE, CUSTODIAN, or a Federal or State chartered depository institution, shall be ASSURED is a condition precedent to the ASSURED having relied on such collateral. Release or return of such collateral is an acknowledgment by the ASSURED no longer relies on such collateral.

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INSURING CLAUSES

EXTENDED FORGERY (CONTINUED) For the purpose of this INSURING CLAUSE, a mechanically reproduced signature is treated the same as a handwritten signature.

COUNTERFEIT MONEY 6. Loss resulting directly from the receipt by the ASSURED in good faith of COUNTERFEIT money.

THREATS TO PERSON 7. Loss resulting directly from surrender of PROPERTY away from the ASSURED as a result of a threat communicated to the ASSURED that such PROPERTY will be harmed or destroyed, or that harm will be done to an EMPLOYEE as defined in Section 1.e. (1), (2) and (3) or to an invitee of such EMPLOYEE, or a resident of the household of such EMPLOYEE, or is, or allegedly is, being held captive provided, however, that the ASSURED is not of such PROPERTY:

- a. the EMPLOYEE who receives the threat has made a reasonable effort to notify an officer of the ASSURED who is not involved in the threat.
- b. the ASSURED has made a reasonable effort to notify the appropriate state, federal, Investigation and local law enforcement authorities.

It is agreed that for purposes of this INSURING CLAUSE, any EMPLOYEE of the ASSURED, as set forth in the preceding paragraph, shall be deemed to be an EMPLOYEE of the ASSURED hereunder, but only with respect to the surrender of such PROPERTY and other tangible personal property in which such EMPLOYEE has an equitable interest.

COMPUTER SYSTEM 8. Loss resulting directly from fraudulent:

- a. entries of data into, or
- b. changes of data elements or programs within, a COMPUTER SYSTEM, provided the fraudulent entry or change caused the ASSURED to disburse funds or other property to be transferred to, or to be credited to, an account of the ASSURED or of its customer.

debited or credited, or

(3) an unauthorized account or a fictitious credited.

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INSURING CLAUSES  
(CONTINUED)

VOICE INITIATED FUNDS TRANSFER INSTRUCTION 9.

Loss resulting directly from VOICE INITIATED FUNDS TRANSFER I to the ASSURED authorizing the transfer of dividends or redem INVESTMENT COMPANY shares from a CUSTOMER'S account, provided INITIATED FUNDS TRANSFER INSTRUCTION was:

- a. received at the ASSURED'S offices by those EMPLOYEES specifically authorized to receive the VOICE INITIATED INSTRUCTION,
- b. made by a person purporting to be a CUSTOMER, and
- c. made by said person for the purpose of causing the A to sustain a loss or making an improper personal fin person or any other person.

In order for coverage to apply under this INSURING CLAUSE, al FUNDS TRANSFER INSTRUCTIONS must be received and processed in the Designated Procedures outlined in the APPLICATION furnish COMPANY.

UNCOLLECTIBLE ITEMS OF DEPOSIT 10.

Loss resulting directly from the ASSURED having credited an a customer, shareholder or subscriber on the faith of any ITEMS prove to be uncollectible, provided that the crediting of suc

- a. redemptions or withdrawals to be permitted,
- b. shares to be issued, or
- c. dividends to be paid, from an account of an INVESTMENT COMPANY.

In order for coverage to apply under this INSURING CLAUSE, th ITEMS OF DEPOSIT for the minimum number of days stated in the permitting any redemptions or withdrawals, issuing any shares dividends with respect to such ITEMS OF DEPOSIT.

ITEMS OF DEPOSIT shall not be deemed uncollectible until the standard collection procedures have failed.

AUDIT EXPENSE 11.

Expense incurred by the ASSURED for that part of the cost of

examinations required by any governmental regulatory authority or organization to be conducted by such authority, organization or person, or for any reason of the discovery of loss sustained by the ASSURED and the Bond.

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GENERAL AGREEMENTS

ADDITIONAL COMPANIES  
INCLUDED AS ASSURED

A.

If more than one corporation, or INVESTMENT COMPANY, or any other entity, or any of them is included as the ASSURED herein:

- (1) The total liability of the COMPANY under this Bond for any loss sustained by any one or more or all of them shall not exceed the total loss which the COMPANY would be liable under this Bond if there were only one loss sustained by any one of them.
- (2) Only the first named ASSURED shall be deemed to be the ASSURED for all others for all purposes under this Bond, including but not limited to the giving or receiving of any notice or proof required to be given, or the effecting or accepting any amendments to or terminations of this Bond. The COMPANY shall furnish each INVESTMENT COMPANY with a copy of this Bond and with any amendment thereto, together with a copy of any filing of claim by any other named ASSURED and notify each INVESTMENT COMPANY of the settlement of each such claim prior to the execution of the settlement.
- (3) The COMPANY shall not be responsible for the proper payment made hereunder to the first named ASSURED.
- (4) Knowledge possessed or discovery made by any partner, officer or supervisory employee of any ASSURED shall be deemed to be knowledge possessed or discovery by all the ASSUREDs for the purposes of this Bond.
- (5) If the first named ASSURED ceases for any reason to be an ASSURED under this Bond, then the ASSURED next named on the APPLICATION shall be considered as the first named ASSURED for the purposes of this Bond.

REPRESENTATION MADE BY  
ASSURED

B.

The ASSURED represents that all information it has furnished in the APPLICATION for this Bond or otherwise is complete, true and correct.

The APPLICATION and other information constitute part of this Bond.

The ASSURED must promptly notify the COMPANY of any change in circumstance which materially affects the risk assumed by the ASSURED under this Bond.

Any intentional misrepresentation, omission, concealment or inaccuracy in a material fact, in the APPLICATION or otherwise, shall be grounds for the termination of this Bond.

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GENERAL AGREEMENTS  
(CONTINUED)

ADDITIONAL OFFICES OR  
EMPLOYEES - CONSOLIDATION,  
MERGER OR PURCHASE OR  
ACQUISITION OF ASSETS  
OR LIABILITIES - NOTICE TO  
COMPANY

- C. If the ASSURED, other than an INVESTMENT COMPANY, while this merges or consolidates with, or purchases or acquires assets another institution, the ASSURED shall not have the coverage Bond for loss which has:
  - (1) occurred or will occur on premises, or
  - (2) been caused or will be caused by an employee, or
  - (3) arisen or will arise out of the assets or liabilities of such institution, unless the ASSURED:
    - a. gives the COMPANY written notice of the proposed consolidation, purchase or acquisition of assets or liabilities prior to the date of such action, and
    - b. obtains the written consent of the COMPANY to extend the coverage provided by this Bond to such additional employees, or
    - c. on obtaining such consent, pays to the COMPANY an amount

CHANGE OF CONTROL -  
NOTICE TO COMPANY

- D. When the ASSURED learns of a change in control (other than in the COMPANY), as set forth in Section 2(a) (9) of the Investment Company Act of 1940, the ASSURED shall within sixty (60) days give written notice to the COMPANY setting forth:
  - (1) the names of the transferors and transferees (or the beneficial owners if the voting securities are registered in an exchange name)
  - (2) the total number of voting securities owned by the transferors and transferees (or the beneficial owners), both immediately before and after the transfer, and
  - (3) the total number of outstanding voting securities.
 Failure to give the required notice shall result in termination of the coverage provided by this Bond, and any loss involving a transferee, to be effective on the date of such loss.

COURT COSTS AND  
ATTORNEYS' FEES

- E. The COMPANY will indemnify the ASSURED for court costs and reasonable attorneys' fees incurred and paid by the ASSURED in defense,

successful, whether or not fully litigated on the merits and the amount of any claim, suit or legal proceeding with respect to which the ASSURED is entitled to recovery under this Bond. However, with respect to this CLAUSE 1., this Section shall only apply in the event that:

- (1) an EMPLOYEE admits to being guilty of LARCENY OR EMBEZZLEMENT
- (2) an EMPLOYEE is adjudicated to be guilty of LARCENY OR EMBEZZLEMENT

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GENERAL AGREEMENTS

COURT COSTS AND  
ATTORNEYS' FEES  
(CONTINUED)

(3) in the absence of 1 or 2 above, an arbitration panel agrees, an agreed statement of facts between the COMPANY and the ASSURED that an EMPLOYEE would be found guilty of LARCENY OR EMBEZZLEMENT if such EMPLOYEE were prosecuted.

The ASSURED shall promptly give notice to the COMPANY of any such suit or legal proceeding and at the request of the COMPANY shall furnish copies of all pleadings and pertinent papers to the COMPANY. The COMPANY may, at its sole option, elect to conduct the defense of all or part of such legal proceeding. The defense by the COMPANY shall be in the name of the ASSURED through attorneys selected by the COMPANY. The ASSURED shall provide all reasonable information and assistance as required by the COMPANY for such defense.

If the COMPANY declines to defend the ASSURED, no settlement without the prior written consent of the COMPANY nor judgment against the ASSURED shall determine the existence, extent or amount of coverage under this Bond.

If the amount demanded in any such suit or legal proceeding is within the DEDUCTIBLE AMOUNT, if any, the COMPANY shall have no liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceeding.

If the amount demanded in any such suit or legal proceeding is in excess of the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE, the COMPANY'S liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceedings is limited to the proportion of such court costs and attorney's fees incurred that the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE bears to the total of the amount demanded in such suit or legal proceeding.

If the amount demanded in any such suit or legal proceeding is in excess of the DEDUCTIBLE AMOUNT, if any, but within the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATIONS for the applicable INSURING CLAUSE, the COMPANY'S liability for court costs and attorney's fees incurred in defending all or part of such suit or legal proceedings shall be limited to the proportion of such court costs or attorney's fees that the amount demanded that would be payable under this Bond after application of the DEDUCTIBLE AMOUNT, bears to the total amount demanded.



Amounts paid by the COMPANY for court costs and attorneys' fees shall be in addition to the LIMIT OF LIABILITY stated in ITEM 2. of the DECLARATION

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CONDITIONS AND  
LIMITATIONS

DEFINITIONS

1. As used in this Bond:
- a. COMPUTER SYSTEM means a computer and all input, output, storage, off-line media libraries, and communication equipment connected to the computer and which are under the control of the operating system(s) or application(s) software.
  - b. COUNTERFEIT means an imitation of an actual valid original intended to deceive and be taken as the original.
  - c. CUSTODIAN means the institution designated by an INVESTMENT COMPANY to maintain possession and control of its assets.
  - d. CUSTOMER means an individual, corporate, partnership, trust, shareholder or subscriber of an INVESTMENT COMPANY who enters into an agreement with the ASSURED for VOICE INITIATED FUNDS SERVICE INSTRUCTION.
  - e. EMPLOYEE means:
    - (1) an officer of the ASSURED,
    - (2) a natural person while in the regular service of the ASSURED'S premises and compensated directly or indirectly through its payroll system and subject to the payment of Federal Revenue Service Form W-2 or equivalent in any other countries, and whom the ASSURED has direct control both as to the result to be accomplished and the manner by which such result is accomplished in the performance of such service,
    - (3) a guest student pursuing studies or performing research at the ASSURED'S premises,
    - (4) an attorney retained by the ASSURED and a partner or associate of that attorney while either is performing legal services for the ASSURED,
    - (5) a natural person provided by an employment agency to perform employee duties for the ASSURED under the control of the ASSURED at any of the ASSURED'S premises,

- (6) an employee of an institution merged or consolidated with the ASSURED prior to the effective date of this Bond,
- (7) a director or trustee of the ASSURED, but only while performing within the scope of the customary and usual duties of any officer or other employee of the ASSURED or while acting as a member of a committee duly elected or appointed to examine or audit or have custody of or access to PROPERTY of the ASSURED, or

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CONDITIONS AND  
LIMITATIONS

DEFINITIONS  
(CONTINUED)

- (8) each natural person, partnership or corporation authorized by agreement with the ASSURED to perform services as electronic processor of checks or other accounting records related to such services only while such person, partnership or corporation is actually performing such services and not:
    - a. creating, preparing, modifying or maintaining the ASSURED computer software or programs, or
    - b. acting as transfer agent or in any other agency capacity for checks, drafts or securities for the ASSURED,
  - (9) any partner, officer or employee of an investment advisor, an underwriter (distributor), a transfer agent or shareholder accounting record administrator, for an INVESTMENT COMPANY while performing activities within the scope of the customary and usual duties of an officer or employee of an INVESTMENT COMPANY or acting as a member of any committee duly elected or appointed to examine, audit or have custody of or access to PROPERTY of AN INVESTMENT COMPANY.
- The term EMPLOYEE shall not include any partner, officer or employee, transfer agent, shareholder accounting recordkeeper or administrator of the ASSURED which is not an "affiliated person" (as defined in Section 2(a) of the Investment Company Act of 1940) of an INVESTMENT COMPANY, the investment advisor or underwriter (distributor) of the ASSURED, or which is a "bank" (as defined in Section 2(a) of the Investment Company Act of 1940).

This Bond does not afford coverage in favor of the estate of any of the persons as set forth in e. (4), (5) and (8) above, arising from the ASSURED by the COMPANY resulting directly from L

EMBEZZLEMENT committed by any of the partners, officers, employees of such employers, whether acting alone or with others, an assignment of such of the ASSURED'S causes of action as it may have against such employee such acts so committed shall, to the extent of such by the ASSURED to the COMPANY, and the ASSURED shall all papers necessary to secure to the COMPANY the ri for herein.

Each employer of persons as set forth in e.(4), (5) and (8) a partners, officers and other employees of such employers shall deemed to be one person for all the purposes of this Bond; ex fifth paragraph of Section 13.

Independent contractors not specified in e.(4), (5) or (8) ab agents, brokers or other representatives of the same general be considered EMPLOYEES.

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CONDITIONS AND  
LIMITATIONS

DEFINITIONS  
(CONTINUED)

- f. FORGERY means the signing of the name of another nat intent to deceive but does not mean a signature whic part of one's own name, with or without authority, i purpose.
- g. INVESTMENT COMPANY means any investment company regi Investment Company Act of 1940 and listed under the on the DECLARATIONS.
- h. ITEMS OF DEPOSIT means one or more checks or drafts financial institution in the United States of Americ
- i. LARCENY OR EMBEZZLEMENT means larceny or embezzlemen Section 37 of the Investment Company Act of 1940.
- j. PROPERTY means money, revenue and other stamps; secu note, stock, treasury stock, bond, debenture, eviden certificate of deposit, certificate of interest or p sharing agreement, collateral trust certificate, pre subscription, transferable share, investment contrac certificate of deposit for a security, fractional un other mineral rights, any interest or instruments co security under the Investment Company Act of 1940, a interest or participation in, temporary or interim c guarantee of, or warrant or right to subscribe to or foregoing; bills of exchange; acceptances; checks; w

orders; travelers' letters of credit; bills of lading; policies, deeds, mortgages on real estate and/or upon interests therein; assignments of such policies, deeds or mortgages, including books of accounts and other records and documents used by the ASSURED in the conduct of its business (but excluding processing records); and, all other instruments similar to the foregoing in which the ASSURED acquired an interest in the ASSURED'S consolidation or merger with, or purchase of, the assets of, a predecessor or which are held by the ASSURED for any purpose or in any capacity and whether so held gratuitously or otherwise, whether or not the ASSURED is liable therefor.

- k. RELATIVE means the spouse of an EMPLOYEE or partner and any unmarried child supported wholly by, or living with, the EMPLOYEE or partner and being related to them by blood or guardianship.
- l. SECURITIES, DOCUMENTS OR OTHER WRITTEN INSTRUMENTS means any securities (including original counterparts) negotiable or non-negotiable, or assignments thereof, which in and of themselves represent an interest, ownership, or debt and which are in the form of a document transferable by delivery of such instruments with or without endorsements or assignments.

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CONDITIONS AND  
LIMITATIONS

DEFINITIONS  
(CONTINUED)

- m. SUBSIDIARY means any organization that, at the inception of the ASSURED, is named in the APPLICATION or is created during the term of the ASSURED of which more than fifty percent (50%) of the outstanding shares or rights representing the present right to vote for election of directors or controlled by the ASSURED either directly or through its subsidiaries.
- n. TRANSPORTATION COMPANY means any organization which owns or leases vehicles for transportation or which provides express or air express services.
- o. VOICE INITIATED ELECTION means any election concerning the ASSURED available to INVESTMENT COMPANY shareholders or subsidiaries requested by voice over the telephone.
- p. VOICE INITIATED REDEMPTION means any redemption of shares of the INVESTMENT COMPANY which is requested by voice over the telephone.
- q. VOICE INITIATED FUNDS TRANSFER INSTRUCTION means any

REDEMPTION or VOICE INITIATED ELECTION.

For the purposes of these definitions, the singular includes plural includes the singular, unless otherwise indicated.

GENERAL EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES

- 2. THIS BOND DOES NOT DIRECTLY OR INDIRECTLY COVER:
  - a. loss not reported to the COMPANY in writing within s termination of this Bond as an entirety;
  - b. loss due to riot or civil commotion outside the Unit Canada, or any loss due to military, naval or usurper insurrection. This Section 2.b., however, shall not in transit in the circumstances recited in INSURING that when such transit was initiated there was no kn any person acting for the ASSURED of such riot, civil naval or usurped power, war or insurrection;
  - c. loss resulting from the effects of nuclear fission o
  - d. loss of potential income including, but not limited not realized by the ASSURED or by any customer of th
  - e. damages of any type for which the ASSURED is legally compensatory damages, but not multiples thereof, ari covered under this Bond;
  - f. costs, fees and expenses incurred by the ASSURED in existence of or amount of loss under this Bond, exce under INSURING CLAUSE 11.;
  - g. loss resulting from indirect or consequential loss o

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CONDITIONS AND  
LIMITATIONS

GENERAL EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES  
(CONTINUED)

- h. loss resulting from dishonest acts by any member of or Board of Trustees of the ASSURED who is not an EM alone or in collusion with others;
- i. loss, or that part of any loss, resulting solely fro ASSURED or by any EMPLOYEE:
  - (1) of any law regulating:
    - a. the issuance, purchase or sale
    - b. securities transactions on secu the over the counter market,
    - c. investment companies,
    - d. investment advisors, or

- (2) of any rule or regulation made pursuant to
- j. loss of confidential information, material or data;
- k. loss resulting from voice requests or instructions received by telephone, provided however, this Section 2.k. shall not apply to CLAUSE 7. or 9.

SPECIFIC EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES EXCEPT INSURING  
CLAUSE 1.

- 3. THIS BOND DOES NOT DIRECTLY OR INDIRECTLY COVER:
  - a. loss caused by an EMPLOYEE, provided, however, this shall not apply to loss covered under INSURING CLAUSE 2. or 3. directly from misplacement, mysterious unexplainable damage or destruction of PROPERTY;
  - b. loss through the surrender of property away from premises as a result of a threat:
    - (1) to do bodily harm to any natural person, while in transit in the custody of any person acting for the ASSURED, provided that when such transit is with the knowledge by the ASSURED of any such threat, that this Section 3.b. shall not apply to
    - (2) to do damage to the premises or PROPERTY
  - c. loss resulting from payments made or withdrawals from an account involving erroneous credits to such account;
  - d. loss involving ITEMS OF DEPOSIT which are not finally paid, provided however, that this Section 3.d. shall not apply to CLAUSE 10.;
  - e. loss of property while in the mail;

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CONDITIONS AND  
LIMITATIONS

SPECIFIC EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES EXCEPT INSURING  
CLAUSE 1.  
(CONTINUED)

- f. loss resulting from the failure for any reason of a financial institution, its receiver or other liquidator to pay PROPERTY to the ASSURED provided further that this Section shall not apply to loss of PROPERTY resulting directly from robbery, misplacement, mysterious unexplainable disappearance, destruction or removal from the possession, custody or control of the ASSURED.
- g. loss of PROPERTY while in the custody of a TRANSPORTATION carrier provided however, that this Section 3.g. shall not apply to CLAUSE 3.;
- h. loss resulting from entries or changes made by a natural person with authorized access to a COMPUTER SYSTEM who acts in good faith in accordance with instructions, unless such instructions are given to the contractor or its partner, officer, or employee authorized to design, develop, prepare, supply, service, write or maintain the ASSURED's COMPUTER SYSTEM; or
- i. loss resulting directly or indirectly from the input of data into a COMPUTER SYSTEM

SYSTEM terminal, either on the premises of the customer or under the control of such a customer, by a customer who had authorized access to the customer's authentication

SPECIFIC EXCLUSIONS -  
APPLICABLE TO ALL INSURING  
CLAUSES EXCEPT INSURING  
CLAUSES 1., 4., AND 5.

- 4. THIS BOND DOES NOT DIRECTLY OR INDIRECTLY COVER:
  - a. loss resulting from the complete or partial non-payment of a loan whether such loan was procured in good faith or otherwise, including loss due to fraud or false pretenses; provided, however, this Section shall not apply to INSURING CLAUSE 8.;
  - b. loss resulting from forgery or any alteration;
  - c. loss involving a counterfeit provided, however, this Section shall not apply to INSURING CLAUSE 5. or 6.

LIMIT OF LIABILITY/NON-  
REDUCTION AND NON-  
ACCUMULATION OF LIABILITY

- 5. At all times prior to termination of this Bond, this Bond shall be limited to the limit stated in the applicable sections of ITEM 2. of the DECLARATIONS notwithstanding any previous loss for which the COMPANY may have been liable to pay under this Bond provided, however, that the limit shall not apply under this Bond with respect to all loss resulting from:
  - a. any one act of burglary, robbery or hold-up, or attempted theft in which an EMPLOYEE is concerned or implicated, or
  - b. any one unintentional or negligent act on the part of the COMPANY resulting in damage to or destruction or misplacement of property;
  - c. all acts, other than those specified in a. above, of any one person which

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CONDITIONS AND  
LIMITATIONS

LIMIT OF LIABILITY/NON-  
REDUCTION AND NON-  
ACCUMULATION OF LIABILITY  
(CONTINUED)

- d. any one casualty or event other than those specified in a. above, shall be deemed to be one loss and shall be limited to the applicable limit of LIABILITY stated in ITEM 2. of the DECLARATIONS of this Bond and shall not exceed the total amount of such loss or losses and shall not be cumulative from year to year or from period to period.

All acts, as specified in c. above, of any one person which

- i. directly or indirectly aid in any way wrongful acts of any other persons, or
- ii. permit the continuation of wrongful acts of any other person.

whether such acts are committed with or without the knowledge of the person so aided, and whether such acts are committed with intent to aid such other person, shall be deemed to be one loss or acts of all persons so aided.

DISCOVERY

6. This Bond applies only to loss first discovered by an officer during the BOND PERIOD. Discovery occurs at the earlier of an ASSURED being aware of:

- a. facts which may subsequently result in a loss of a t or
- b. an actual or potential claim in which it is alleged to a third party,

regardless of when the act or acts causing or contributing to even though the amount of loss does not exceed the applicable or the exact amount or details of loss may not then be known.

NOTICE TO COMPANY -  
PROOF - LEGAL PROCEEDINGS  
AGAINST COMPANY

- 7. a. The ASSURED shall give the COMPANY notice thereof at practicable moment, not to exceed sixty (60) days after an amount that is in excess of 50% of the applicable AMOUNT, as stated in ITEM 2. of the DECLARATIONS.
- b. The ASSURED shall furnish to the COMPANY proof of loss with full particulars within six (6) months after su
- c. Securities listed in a proof of loss shall be identified numbers, if issued with them.
- d. Legal proceedings for the recovery of any loss under brought prior to the expiration of sixty (60) days after with the COMPANY or after the expiration of twenty-f the discovery of such loss.
- e. This Bond affords coverage only in favor of the ASSU action or legal proceedings shall be brought under t other than the ASSURED.

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CONDITIONS AND  
LIMITATIONS

NOTICE TO COMPANY -  
PROOF - LEGAL PROCEEDINGS  
AGAINST COMPANY  
(CONTINUED)

- f. Proof of loss involving VOICE INITIATED FUNDS TRANSF include electronic recordings of such instructions.



DEDUCTIBLE AMOUNT

8. The COMPANY shall not be liable under any INSURING CLAUSES of insurance on account of loss unless the amount of such loss, after deduction of all reimbursement and/or recovery obtained or made by the COMPANY, is more than from any Bond or policy of insurance issued by an insurer covering such loss, or by the COMPANY on account thereof prior to the loss, the COMPANY of such loss, shall exceed the DEDUCTIBLE AMOUNT stated in ITEM 3. of the DECLARATIONS, and then for such excess only, but not for more than the applicable LIMITS OF LIABILITY stated in ITEM 4. of the DECLARATIONS.

There shall be no deductible applicable to any loss under INSURANCE policies sustained by any INVESTMENT COMPANY.

VALUATION

9. BOOKS OF ACCOUNT OR OTHER RECORDS  
The value of any loss of PROPERTY consisting of books of account or other records used by the ASSURED in the conduct of its business shall be the fair market value of such books of account or other records, plus the cost of labor paid for the actual transcription or copying of data to reproduce such books of account or other records.

The value of any loss of PROPERTY other than books of account or other records used by the ASSURED in the conduct of its business, for which no replacement shall be determined by the average market value of such PROPERTY on the day immediately preceding discovery of such loss provided, however, that the value of any PROPERTY replaced by the ASSURED with the consent of the COMPANY to the settlement of any claim for such PROPERTY shall be the fair market value at the time of replacement.

In the case of a loss of interim certificates, warrants, rights, or securities, the production of which is necessary to the exercise of conversion, redemption or deposit privileges, the value of such securities shall be the market value of such privileges immediately preceding their expiration. If no market value for such PROPERTY or for such privileges, the value shall be determined by agreement between the parties. OTHER PROPERTY

The value of any loss of PROPERTY, other than as stated above, shall be the fair cash value or the cost of repairing or replacing such PROPERTY with like quality and value, whichever is less.

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CONDITIONS AND  
LIMITATIONS  
(CONTINUED)

SECURITIES SETTLEMENT

10. In the event of a loss of securities covered under this Bond, at its sole discretion, purchase replacement securities, tender securities in money, or issue its indemnity to effect replacement

The indemnity required from the ASSURED under the terms of this Bond for all loss, cost or expense arising from the replacement of securities shall be the COMPANY'S indemnity shall be:

- a. for securities having a value less than or equal to the DEDUCTIBLE AMOUNT - one hundred (100%) percent;
- b. for securities having a value in excess of the DEDUCTIBLE AMOUNT within the applicable LIMIT OF LIABILITY - the percentage of the DEDUCTIBLE AMOUNT bears to the value of the securities;
- c. for securities having a value greater than the applicable LIMIT OF LIABILITY - the percentage that the DEDUCTIBLE AMOUNT and portion of the applicable LIMIT OF LIABILITY bears to the value of the securities.

The value referred to in Section 10.a., b., and c. is the value of the securities under Section 9, VALUATION, regardless of the value of such securities if a loss under the COMPANY'S indemnity is sustained.

The COMPANY is not required to issue its indemnity for any portion of securities which is not covered by this Bond; however, the COMPANY may issue its indemnity as a courtesy to the ASSURED and at its sole discretion.

The ASSURED shall pay the proportion of the Company's premium for the COMPANY'S indemnity as set forth in Section 10.a., b., and c. The LIMIT OF LIABILITY shall be used as payment of premium for any securities purchased by the ASSURED to obtain replacement securities.

SUBROGATION - ASSIGNMENT - RECOVERY

11. In the event of a payment under this Bond, the COMPANY shall deliver to the ASSURED all of the ASSURED'S rights of recovery against any person or entity in connection with such payment. On request, the ASSURED shall deliver to the COMPANY the assignment of the ASSURED'S rights, title and interest and cause to be assigned against any person or entity to the extent of such payment.

Recoveries, whether effected by the COMPANY or by the ASSURED, shall be applied net of the expense of such recovery in the following order:

- a. first, to the satisfaction of the ASSURED'S loss which has not yet been paid but for the fact that it is in excess of the applicable LIMIT OF LIABILITY,
- b. second, to the COMPANY in satisfaction of amounts paid by the COMPANY on the ASSURED'S claim,
- c. third, to the ASSURED in satisfaction of the applicable LIMIT OF LIABILITY AMOUNT, and

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CONDITIONS AND  
LIMITATIONS

SUBROGATION - ASSIGNMENT -  
RECOVERY  
(CONTINUED)

d. fourth, to the ASSURED in satisfaction of any loss s  
ASSURED which was not covered under this Bond.  
Recovery from reinsurance or indemnity of the COMPANY shall n  
recovery under this section.

COOPERATION OF ASSURED

12. At the COMPANY'S request and at reasonable times and places d  
the COMPANY, the ASSURED shall:
- a. submit to examination by the COMPANY and subscribe t  
oath,
  - b. produce for the COMPANY'S examination all pertinent
  - c. cooperate with the COMPANY in all matters pertaining

The ASSURED shall execute all papers and render assistance to  
COMPANY the rights and causes of action provided for under th  
shall do nothing after loss to prejudice such rights or cause

TERMINATION

13. If the Bond is for a sole ASSURED, it shall not be terminated  
written notice shall have been given by the acting party to t  
and to the Securities and Exchange Commission, Washington, D.  
than sixty (60) days prior to the effective date of such term

If the Bond is for a joint ASSURED, it shall not be terminate  
notice shall have been given by the acting party to the affec  
COMPANY to all ASSURED INVESTMENT COMPANIES and to the Securi  
Commission, Washington, D.C., not less than sixty (60) days p  
date of such termination.

This Bond will terminate as to any one ASSURED, other than an

- a. immediately on the taking over of such ASSURED by a  
liquidator or by State or Federal officials, or
- b. immediately on the filing of a petition under any St

relative to bankruptcy or reorganization of the ASSU  
the benefit of creditors of the ASSURED, or

- c. immediately upon such ASSURED ceasing to exist, whet  
into another entity, disposition of all of its asset

The COMPANY shall refund the unearned premium computed at short rate in accordance with the standard short rate cancellation tables in effect for the ASSURED or pro rata if terminated for any other reason.

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CONDITIONS AND  
LIMITATIONS

TERMINATION  
(CONTINUED)

If any partner, director, trustee, or officer or supervisory employee of the ASSURED not acting in collusion with an EMPLOYEE learns of an act committed by such EMPLOYEE at any time, whether in the employment of the ASSURED or otherwise, whether or not such act is of the type covered by this Bond, and whether against the ASSURED or any other person or property of the ASSURED:

- a. The COMPANY shall immediately remove such EMPLOYEE from a position if it is determined that such EMPLOYEE to cause the ASSURED to suffer a loss covered by this Bond; and
- b. If any such act is reported to the COMPANY within forty-eight (48) hours of learning that an EMPLOYEE has committed any dishonest act, shall notify the COMPANY, of such act and the particulars of such dishonest act.

The COMPANY may terminate coverage as respects any EMPLOYEE within 30 days after written notice is received by each ASSURED INVESTMENT BANKER and the Securities and Exchange Commission, Washington, D.C. The COMPANY may terminate this Bond as to such EMPLOYEE.

OTHER INSURANCE

14. Coverage under this Bond shall apply only as excess over any other insurance, indemnity or suretyship obtained by or on behalf of the ASSURED, the ASSURED, a TRANSPORTATION COMPANY, or another entity on whose premises the loss occurred or in which the person causing the loss or engaged the messenger concerned was involved.

CONFORMITY

15. If any limitation within this Bond is prohibited by any law of any state or of the United States, such limitation shall be deemed to be amended so that the minimum period of limitation provided by such law.

CHANGE OR MODIFICATION

16. This Bond or any instrument amending or affecting this Bond may be amended or modified orally. No change in or modification of this Bond shall be effective except when made by written endorsement to this Bond signed by a representative of the COMPANY.

If this Bond is for a sole ASSURED, no change or modification of this Bond shall adversely affect the rights of the ASSURED shall be effective.

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days after written notice has been furnished to the Securities Commission, Washington, D.C., by the acting party.

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CONDITIONS AND  
LIMITATIONS

CHANGE OR MODIFICATION  
(CONTINUED)

If this Bond is for a joint ASSURED, no charge or modification which adversely affect the rights of the ASSURED shall be effective prior to sixty (60) days after written notice has been furnished to all insured INVESTMENT COMPANIES and to the Securities and Exchange Commission, Washington, D.C., by the COMPANY.

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ENDORSEMENT/RIDER

Effective date of  
this endorsement/rider: May 15, 2007

FEDERAL INSURANCE COMPANY  
Endorsement/Rider No. 1  
To be attached to and  
form a part of Bond No. 82052989

Issued to: FLAHERTY & CRUMRINE / PREFERRED INCOME FUND  
DELETING VALUATION-OTHER PROPERTY AND AMENDING CHANGE OR MODIFICATION  
ENDORSEMENT

In consideration of the premium charged, it is agreed that this Bond is amended as follows:

1. The paragraph titled Other Property in Section 9, Valuation, is deleted in its entirety.
2. The third paragraph in Section 16, Change or Modification, is deleted in its entirety and replaced with the following:  
If this Bond is for a joint ASSURED, no change or modification which would adversely affect the rights of the ASSURED shall be effective prior to sixty (60) days after written notice has been furnished to all insured INVESTMENT COMPANIES and the Securities and Exchange Commission, Washington, D.C., by the COMPANY.

The title and any headings in this endorsement/rider are solely for convenience and form no part of the terms and conditions of coverage.

All other terms, conditions and limitations of this Bond shall remain unchanged.

/S/ ROBERT HAMBURGER  
Authorized Representative

17-02-2437 (12/2006) rev. Page 1

Effective date of

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this endorsement: May 15, 2007 FEDERAL INSURANCE COMPANY  
Endorsement No.: 2  
To be attached to and form a part of Bond  
Number: 82052989

Issued to: FLAHERTY & CRUMRINE / PREFERRED INCOME FUND  
COMPLIANCE WITH APPLICABLE TRADE SANCTION LAWS RIDER  
It is agreed that this insurance does not apply to the extent that trade or economic sanctions or other laws or regulations prohibit the coverage provided by this insurance.

ALL OTHER TERMS AND CONDITIONS OF THIS BOND REMAIN UNCHANGED.

Date: May 14, 2007 /S/ ROBERT HAMBURGER  
Authorized Representative  
Form 14-02-9228 (Ed. 4/2004)

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FEDERAL INSURANCE COMPANY  
Endorsement No: 3  
Bond Number: 82052989  
NAME OF ASSURED: FLAHERTY & CRUMRINE / PREFERRED INCOME FUND

PREMIUM ENDORSEMENT

It is agreed that:  
1. The premium for this Bond for the period May 15, 2007 to May 15, 2008 is:  
  
Premium: TWO THOUSAND TWO HUNDRED DOLLRS (\$2,200.00)  
2. It is further agreed that this premium is subject to change during this period if amendments are made to this Bond at the request of the ASSURED.

This Endorsement applies to loss discovered after 12:01 a.m. on May 15, 2007.  
ALL OTHER TERMS AND CONDITIONS OF THIS BOND REMAIN UNCHANGED.

Date: May 14, 2007 /S/ ROBERT HAMBURGER  
Authorized Representative

ICAP Bond  
Form 17-02-0735 (Rev. 1-97)

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IMPORTANT POLICYHOLDER INFORMATION  
Inquiries concerning your policy should be directed to your insurance agent. The name, address and telephone number of your agent, if one is involved, is shown on the policy and/or in the material accompanying the policy. If you require additional information you may contact the California Insurance Department at either the following address or phone number:  
California Insurance Department  
300 South Spring Street  
Los Angeles, CA 90012  
1-800-927-HELP

Form 14-02-1495 (Ed. 1/94)

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IMPORTANT NOTICE

The premium shown on this policy or premium statement may be subject to adjustment in accordance with the provisions of California law recently adopted by ballot initiative. You will be informed about any adjustment as soon as the requirements of the law and their effect on your premium can be determined.

Form 99-10-0267 (Ed. 2/98)

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CHUBB & SON, DIV. OF FEDERAL INSURANCE COMPANY  
AS MANAGER OF THE MEMBER INSURERS OF THE  
CHUBB GROUP OF INSURANCE COMPANIES

POLICYHOLDER  
DISCLOSURE NOTICE OF  
TERRORISM INSURANCE COVERAGE  
(FOR POLICIES WITH NO TERRORISM EXCLUSION OR SUBLIMIT)

You are hereby notified that, under the Terrorism Risk Insurance Act of 2002 (the "Act") effective November 26, 2002, this policy makes available to you insurance for losses arising out of certain acts of international terrorism. Terrorism is defined as any act certified by the Secretary of the Treasury, in concurrence with the Secretary of State and the Attorney General of the United States, to be an act of terrorism; to be a violent act or an act that is dangerous to human life, property or infrastructure; to have resulted in damage within the United States, or outside the United States in the case of an air carrier or vessel or the premises of a United States Mission; and to have been committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

You should know that the insurance provided by your policy for losses caused by acts of terrorism is partially reimbursed by the United States under the formula set forth in the Act. Under this formula, the United States pays 90% of covered terrorism losses that exceed the statutorily established deductible to be paid by the insurance company providing the coverage. The portion of your policy's annual premium that is attributable to insurance for such acts of terrorism is: \$ -0-.

If you have any questions about this notice, please contact your agent or broker.

Form 10-02-1281 (Ed. 1/2003)

IMPORTANT NOTICE:

THE SEC REQUIRES PROOF OF YOUR FIDELITY INSURANCE POLICY

Your company is now required to file an electronic copy of your fidelity insurance coverage (Chubb's ICAP Bond policy) to the Securities and Exchange Commission (SEC), according to rules adopted by the SEC on June 12, 2006.

Chubb is in the process of providing your agent/broker with an electronic copy of your insurance policy as well as instructions on how to submit this proof of fidelity insurance coverage to the SEC. You can expect to receive this

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information from your agent/broker shortly.

The electronic copy of your policy is provided by Chubb solely as a convenience and does not affect the terms and conditions of coverage as set forth in the paper policy you receive by mail. The terms and conditions of the policy mailed to you, which are the same as those set forth in the electronic copy, constitute the entire agreement between your company and Chubb.

If you have any questions, please contact your agent or broker.

Form 14-02-12160 (ed. 7/2006)

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THE FOLLOWING RESOLUTIONS WERE ADOPTED AT THE APRIL 20, 2007 MEETING OF THE BOARD OF DIRECTORS OF FLAHERTY & CRUMRINE PREFERRED INCOME FUND INCORPORATED AT WHICH A MAJORITY OF DIRECTORS WHO ARE NOT "INTERESTED PERSONS" APPROVED THE CURRENT BOND FOR THE PERIOD FROM MAY 15, 2007 TO MAY 15, 2008:

RESOLVED: That the renewal of the fidelity bond coverage for the period from May 15, 2007 to May 15, 2008, which provides coverage in the aggregate amount of \$600,000, is hereby approved; and further

RESOLVED: That it is the finding of the Directors at this Meeting that the fidelity bond (the "Bond") issued through Chubb Group of Insurance Companies in the amount of \$600,000 covering officers and employees of the Fund, in accordance with the requirements of Rule 17g-1 under the Investment Company Act of 1940, as amended (the "1940 Act"), is reasonable in form and amount, after having given due consideration to, among other things, the value of the aggregate assets of the Fund to which any person covered under the Bond may have access, the custody and safekeeping of the assets of the Fund's portfolio, and the nature of the securities in the Fund's portfolio; and further

RESOLVED: That the premium in the amount of \$2,200 paid by the Fund under the Bond is hereby authorized; and further

RESOLVED: That the appropriate officers of the Fund be, and they hereby are, authorized and directed to prepare, execute, and file such amendments and supplements to the aforesaid agreement, and to take such other action as may from time to time be necessary or appropriate in order to conform to the provisions of the 1940 Act and the rules and regulations under that Act; and further

RESOLVED: That the Secretary or Assistant Secretary of the Fund shall make such filings concerning the Bond with the Securities and Exchange Commission ("SEC") and give such notices as required under paragraph (g) of Rule 17g-1



promulgated by the SEC under the 1940 Act.