

Flaherty & Crumrine Dynamic Preferred & Income Fund Inc  
Form N-30B-2

October 29, 2014

*FLAHERTY & CRUMRINE DYNAMIC PREFERRED AND INCOME FUND*

To the Shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund ( DFP ):

Your Fund performed well during its third fiscal quarter<sup>1</sup>, delivering +3.4% total return on net asset value<sup>2</sup>. For the first nine months of fiscal 2014, the Fund's return on NAV was an impressive +17.4%. While third quarter *market* performance was +2.4%, year-to-date market performance was +23.5% at August 31<sup>st</sup>.

U.S. economic growth appears to be running around 3% currently, after averaging just 1.3% in 2014's first half. Job growth is up, unemployment is down and inflation remains low. The Fed is not filling its monetary punch bowl as quickly as before, but, while it's always hard to predict what the Fed will do, it probably won't start to raise short-term interest rates until mid-2015 or later. In contrast, economic growth abroad has slowed, with most developed countries trailing the U.S. recovery and monetary policy in many of those countries is easing further.

Although long-term interest rates in the U.S. will probably rise modestly over coming quarters, we think any upward movement will be limited by moderate GDP growth and strong investor demand for yield. Credit conditions continue to improve for most issuers of preferred securities, as earnings remain healthy and companies continue to build capital. With this backdrop, we believe prospective returns remain attractive for long-term investors.

The Fund's portfolio benefited from small declines in intermediate and long-term interest rates during the quarter, as well as on-going demand for higher yields of preferred securities. Supply of new issues remains steady—a key measure of market health. From December 2013 through September 2014, U.S. and foreign companies issued 103 new securities in the United States, raising just under \$64 billion. Over the same period, issuers redeemed 67 preferred securities totaling \$25 billion.

New issue supply was dominated by banks tailoring their capital to meet new regulatory requirements. Large U.S. banks (those deemed to be a systemically important financial institution, or SIFI) have issued traditional non-cumulative perpetual preferred stock. Non-U.S. SIFI banks are utilizing a preferred stock variation termed Contingent Convertible Securities, or CoCos. As you know from prior letters, the Fund has not yet purchased any CoCos, but we continue to evaluate them as potential investments.

With foreign economies lagging recovery in the U.S. and foreign banks issuing securities we have not yet been inclined to buy, the portion of the portfolio invested in foreign securities has drifted lower this fiscal year. Through September 30<sup>th</sup>, this portion declined from 30.1% of the portfolio to 21.7%. We anticipate this rate could fall further through more issuer redemptions.

As we discussed last quarter, another portfolio trend is a continued shift to fixed-to-float securities. These have coupons that are *fixed* for an initial period, typically five or ten years. Afterwards, coupons *float* based on a formula set at issuance. Prices on floating rate issues typically are less sensitive to changes in benchmark interest rates; this effect has spilled over to fixed-to-float preferred securities as well. If long-term interest rates begin to rise, as we expect they will eventually, these securities should tend to outperform.

<sup>1</sup> June 1, 2014 – August 31, 2014

<sup>2</sup> 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.

issues with fixed-for-life coupons, all other things being equal. As of September 30<sup>th</sup>, the portion of the portfolio in this structure was 71.3%. We continue to look for opportunities to add fixed-to-float holdings.

Although these issues yield a bit less than many fixed-for-life securities, and thus may reduce portfolio income at the margin, we believe owning fixed-to-float securities is prudent and consistent with our interest-rate outlook.

As always, we encourage you to visit the Fund's website, [www.preferredincome.com](http://www.preferredincome.com), for current information on preferred-securities markets, the Fund and the broader economy.

Sincerely,

The Flaherty & Crumrine Portfolio Management Team:

R. Eric Chadwick

Donald F. Crumrine

Robert M. Ettinger

Bradford S. Stone

October 1, 2014

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OVERVIEW****August 31, 2014 (Unaudited)****Fund Statistics**

|                                 |    |            |
|---------------------------------|----|------------|
| Net Asset Value                 | \$ | 24.97      |
| Market Price                    | \$ | 22.96      |
| Discount                        |    | 8.05%      |
| Yield on Market Price           |    | 8.36%      |
| Common Stock Shares Outstanding |    | 19,156,782 |

| <b>Moody's Ratings*</b>   | <b>% of Net Assets</b> |
|---------------------------|------------------------|
| A                         | 2.1%                   |
| BBB                       | 48.1%                  |
| BB                        | 38.7%                  |
| Below BB                  | 5.5%                   |
| Not Rated**               | 3.8%                   |
| Below Investment Grade*** | 32.2%                  |

\* 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 1.8%.

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

| <b>Industry Categories</b> | <b>% of Net Assets</b> |
|----------------------------|------------------------|
|----------------------------|------------------------|

| <b>Top 10 Holdings by Issuer</b> | <b>% of Net Assets</b> |
|----------------------------------|------------------------|
| Citigroup                        | 4.7%                   |
| JPMorgan Chase                   | 4.5%                   |
| MetLife                          | 4.4%                   |
| Liberty Mutual Group             | 4.2%                   |
| Morgan Stanley                   | 3.7%                   |
| PNC Financial Services Group     | 3.6%                   |
| Wells Fargo & Company            | 3.5%                   |

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|                      |      |
|----------------------|------|
| Fifth Third Bancorp  | 3.5% |
| Prudential Financial | 3.4% |
| HSBC PLC             | 3.3% |

### **% of Net Assets\*\*\***

|  |     |
|--|-----|
| Holdings Generating Qualified Dividend Income (QDI) for Individuals                      | 61% |
| Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD) | 46% |

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

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS****August 31, 2014 (Unaudited)**

| Shares/\$ Par                     |   | Value              |
|-----------------------------------|---|--------------------|
| <b>Preferred Securities 96.8%</b> |   |                    |
| <b>Banking 52.4%</b>              |   |                    |
| 11,750                            | AgStar Financial Services ACA, 6.75% Pfd., 144A**** | \$ 12,057,703*(1)  |
| 103,166                           | Astoria Financial Corp., 6.50% Pfd., Series C       | 2,530,796*(1)      |
| 296,121                           | Banco Santander, 10.50% Pfd., Series 10             | 7,610,754**(2)     |
| Bank of America:                  |   |                    |
| \$ 13,000,000                     | Bank of America Corporation, 8.00%                  | 14,435,122*(1)     |
| \$ 7,455,000                      | Bank of America Corporation, 8.125%                 | 8,314,621*(1)      |
| Barclays Bank PLC:                |   |                    |
| 60,000                            | Barclays Bank PLC, 7.10% Pfd.                       | 1,540,200**(2)     |
| 27,807                            | Barclays Bank PLC, 8.125% Pfd., Series 5            | 720,757**(1)(2)    |
| 44,933                            | BB&T Corporation, 5.625% Pfd., Series E             | 1,079,358*         |
| Citigroup:                        |   |                    |
| 1,032,107                         | Citigroup, Inc., 6.875% Pfd., Series K              | 27,941,717*(1)     |
| 198,522                           | Citigroup, Inc., 7.125% Pfd., Series J              | 5,526,852*         |
| 3,450                             | CoBank ACB, 6.25% Pfd., 144A****                    | 359,124*           |
| 899,035                           | Fifth Third Bancorp, 6.625% Pfd., Series I          | 24,679,859*(1)     |
| 33,550                            | First Niagara Financial Group, Inc., 8.625% Pfd.    | 954,883*(1)        |
| 25,000                            | First Republic Bank, 6.20% Pfd.                     | 637,313*           |
| Goldman Sachs Group:              |   |                    |
| \$ 1,170,000                      | Goldman Sachs, 5.70%, Series L                      | 1,213,754*         |
| 85,979                            | Goldman Sachs, 5.95% Pfd., Series I                 | 2,098,429*(1)      |
| 741,522                           | Goldman Sachs, 6.375% Pfd., Series K                | 19,272,157*(1)     |
| HSBC PLC:                         |   |                    |
| \$ 4,458,000                      | HSBC Capital Funding LP, 10.176%, 144A****          | 6,709,290(1)(2)    |
| 70,800                            | HSBC Holdings PLC, 8.00% Pfd., Series 2             | 1,904,697**(2)     |
| \$ 3,910,000                      | HSBC USA Capital Trust I, 7.808% 12/15/26, 144A**** | 3,958,288          |
| \$ 1,100,000                      | HSBC USA Capital Trust II, 8.38% 05/15/27, 144A**** | 1,114,646          |
| 340,800                           | HSBC USA, Inc., 6.50% Pfd., Series H                | 8,711,700*(1)      |
| ING Groep NV:                     |   |                    |
| 160,000                           | ING Groep NV, 6.375% Pfd.                           | 4,057,600**(1)(2)  |
| 38,082                            | ING Groep NV, 7.05% Pfd.                            | 978,765**(2)       |
| 3,201                             | ING Groep NV, 7.20% Pfd.                            | 82,591**(1)(2)     |
| 235,000                           | ING Groep NV, 7.375% Pfd.                           | 6,098,250**(1)(2)  |
| JPMorgan Chase:                   |   |                    |
| \$ 10,700,000                     | JPMorgan Chase & Company, 6.00%, Series R           | 11,026,350*(1)     |
| \$ 500,000                        | JPMorgan Chase & Company, 6.75%, Series S           | 539,375*           |
| \$ 18,500,000                     | JPMorgan Chase & Company, 7.90%, Series I           | 20,558,125*(1)     |
| \$ 14,022,000                     | Lloyds Banking Group PLC, 6.657%, 144A****          | 15,389,145**(1)(2) |

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

| Shares/\$ Par                           |   | Value              |
|---|---|--------------------|
| <b>Preferred Securities (Continued)</b> |   |                    |
| <b>Banking (Continued)</b>              |   |                    |
|   | M&T Bank Corporation:                                     |                    |
| \$ 3,500,000                            | M&T Bank Corporation, 6.450%, Series E                    | \$ 3,780,000*(1)   |
| \$ 6,789,000                            | M&T Bank Corporation, 6.875%, Series D, 144A****          | 6,965,154*(1)      |
|   | Morgan Stanley:   |                    |
| 39,002                                  | Morgan Stanley Capital Trust IV, 6.25% Pfd.               | 994,649(1)         |
| \$ 1,500,000                            | Morgan Stanley, 5.45%, Series H                           | 1,528,125*         |
| 802,694                                 | Morgan Stanley, 6.875% Pfd., Series F                     | 21,680,765*(1)     |
| 91,200                                  | Morgan Stanley, 7.125% Pfd., Series E                     | 2,550,089*         |
|   | PNC Financial Services:                                   |                    |
| 451,824                                 | PNC Financial Services Group, Inc., 6.125% Pfd., Series P | 12,524,019*(1)     |
| \$ 11,748,000                           | PNC Financial Services Group, Inc., 6.75%                 | 13,248,830*(1)     |
| \$ 8,625,000                            | Rabobank Nederland, 11.00%, 144A****                      | 11,449,687(1)(2)   |
| 627,170                                 | Regions Financial Corporation, 6.375% Pfd., Series B      | 15,898,760*(1)     |
|   | Royal Bank of Scotland:                                   |                    |
| \$ 4,825,000                            | RBS Capital Trust II, 6.425%                              | 5,162,750**(1)(2)  |
| 13,000                                  | Royal Bank of Scotland Group PLC, 6.60% Pfd., Series S    | 325,390**(2)       |
| 647,500                                 | Royal Bank of Scotland Group PLC, 7.25% Pfd., Series T    | 16,627,800**(1)(2) |
| 110,317                                 | State Street Corporation, 5.90% Pfd., Series D            | 2,877,343*(1)      |
| 288,008                                 | SunTrust Banks, Inc., 5.875% Pfd.                         | 6,876,191*         |
| 110,000                                 | US Bancorp, 6.50% Pfd., Series F                          | 3,214,365*(1)      |
|   | Wells Fargo:  |                    |
| 180,300                                 | Wells Fargo & Company, 5.85% Pfd.                         | 4,710,338*(1)      |
| \$ 18,000,000                           | Wells Fargo & Company, 7.98%, Series K                    | 20,430,000*(1)     |
|   | Zions Bancorporation:                                     |                    |
| 10,000                                  | Zions Bancorporation, 6.30% Pfd., Series G                | 259,375*           |
| \$ 10,000,000                           | Zions Bancorporation, 7.20%, Series J                     | 10,597,000*        |
|   |   | 373,802,851        |
|   | <b>Financial Services 2.2%</b>                            |                    |
| \$ 5,600,000                            | Charles Schwab Corporation, 7.00%                         | 6,615,000*(1)      |
|   | Deutsche Bank:  |                    |
| 89,000                                  | Deutsche Bank Contingent Capital Trust III, 7.60% Pfd.    | 2,458,314**(1)(2)  |
| 8,103                                   | Deutsche Bank Contingent Capital Trust V, 8.05% Pfd.      | 230,773**(1)(2)    |
| \$ 5,000,000                            | General Electric Capital Corp., 7.125%, Series A          | 5,902,785*(1)      |
|   | HSBC PLC:   |                    |
| 36,348                                  | HSBC Finance Corporation, 6.36% Pfd., Series B            | 913,843*           |
|   |   | 16,120,715         |

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

| Shares/\$ Par                           |  | Value                        |
|---|--|------------------------------|
| <b>Preferred Securities (Continued)</b> |  |                              |
| <b>Insurance 27.9%</b>                  |  |                              |
| 281,995                                 | Allstate Corp., 6.625% Pfd., Series E                  | \$ 7,388,692*                |
| American International Group:           |  |                              |
| \$ 280,000                              | AIG Life Holdings, Inc., 7.57%, 144A****               | 377,132                      |
| \$ 497,000                              | AIG Life Holdings, Inc., 8.125%, 144A****              | 711,286                      |
| \$ 350,000                              | American International Group, Inc., 8.175% 05/15/58    | 483,875                      |
| \$ 1,010,000                            | Aon Corporation, 8.205% 01/01/27                       | 1,300,147                    |
| 322,480                                 | Arch Capital Group, Ltd., 6.75% Pfd., Series C         | 8,678,743**(1)(2)            |
| AXA SA:                                 |  |                              |
| \$ 6,550,000                            | AXA SA, 6.379%, 144A****                               | 7,139,500**(1)(2)            |
| \$ 8,950,000                            | AXA SA, 8.60% 12/15/30                                 | 12,121,701 <sup>(1)(2)</sup> |
| Axis Capital Holdings:                  |  |                              |
| 4,300                                   | Axis Capital Holdings Ltd., 5.50% Pfd., Series D       | 98,094**(2)                  |
| 646,952                                 | Axis Capital Holdings Ltd., 6.875% Pfd., Series C      | 17,508,139**(1)(2)           |
| 6,000                                   | Delphi Financial Group, 7.376% Pfd., 05/15/37          | 150,375                      |
| 181,000                                 | Endurance Specialty Holdings, 7.50% Pfd., Series B     | 4,762,563**(2)               |
| \$ 988,000                              | Everest Re Holdings, 6.60% 05/15/37                    | 1,043,575 <sup>(1)</sup>     |
| 25,000                                  | Hartford Financial Services Group, Inc., 7.875% Pfd.   | 754,788                      |
| Liberty Mutual Group:                   |  |                              |
| \$ 17,950,000                           | Liberty Mutual Group, 7.80% 03/15/37, 144A****         | 21,270,750 <sup>(1)</sup>    |
| \$ 5,520,000                            | Liberty Mutual Group, 10.75% 06/15/58, 144A****        | 8,611,200 <sup>(1)</sup>     |
| MetLife:                                |  |                              |
| \$ 3,759,000                            | MetLife, Inc., 10.75% 08/01/39                         | 6,108,375 <sup>(1)</sup>     |
| \$ 17,200,000                           | MetLife Capital Trust X, 9.25% 04/08/38, 144A****      | 25,069,000 <sup>(1)</sup>    |
| PartnerRe:                              |  |                              |
| 20,486                                  | PartnerRe Ltd., 5.875% Pfd., Series F                  | 499,039**(2)                 |
| 37,556                                  | PartnerRe Ltd., 6.50% Pfd., Series D                   | 953,603**(2)                 |
| 71,237                                  | PartnerRe Ltd., 7.25% Pfd., Series E                   | 1,912,713**(2)               |
| 631,500                                 | Principal Financial Group, 6.518% Pfd., Series B       | 16,458,469*                  |
| Prudential Financial:                   |  |                              |
| \$ 5,574,000                            | Prudential Financial, Inc., 5.625% 06/15/43            | 6,005,985 <sup>(1)</sup>     |
| \$ 6,375,000                            | Prudential Financial, Inc., 5.875% 09/15/42            | 6,865,237 <sup>(1)</sup>     |
| \$ 9,070,000                            | Prudential Financial, Inc., 8.875% 06/15/38            | 11,054,062 <sup>(1)</sup>    |
| QBE Insurance:                          |  |                              |
| \$ 8,000,000                            | QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A**** | 8,711,648 <sup>(1)(2)</sup>  |
| 288,323                                 | W.R. Berkley Corporation, 5.625% Pfd.                  | 6,848,392 <sup>(1)</sup>     |

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)****August 31, 2014 (Unaudited)**

| Shares/\$ Par                                   |   | Value                           |
|---|---|---------------------------------|
| <b>Preferred Securities (Continued)</b>         |   |                                 |
| <b>Insurance (Continued)</b>                    |   |                                 |
|   | XL Group PLC:   |                                 |
| \$ 17,080,000                                   | XL Capital Ltd., 6.50%, Series E                        | \$ 16,546,250 <sup>(1)(2)</sup> |
|   |   | 199,433,333                     |
| <b>Utilities 5.0%</b>                           |   |                                 |
|   | Commonwealth Edison:                                    |                                 |
| \$ 2,000,000                                    | COMED Financing III, 6.35% 03/15/33                     | 2,065,000                       |
| 25,000  | Entergy Louisiana, Inc., 6.95% Pfd.                     | 2,503,908*                      |
| 116,000   | Integrus Energy Group, Inc., 6.00% Pfd.                 | 3,055,730 <sup>(1)</sup>        |
|   | PPL Corp:   |                                 |
| \$ 19,500,000                                   | PPL Capital Funding, Inc., 6.70% 03/30/67, Series A     | 19,899,497 <sup>(1)</sup>       |
| \$ 5,500,000                                    | Puget Sound Energy, Inc., 6.974% 06/01/67               | 5,788,497                       |
| \$ 2,000,000                                    | Southern California Edison Co., 6.25%, Series E         | 2,184,870*                      |
|   |   | 35,497,502                      |
| <b>Energy 2.5%</b>                              |   |                                 |
| \$ 9,780,000                                    | DCP Midstream LLC, 5.85% 05/21/43, 144A****             | 9,535,500 <sup>(1)</sup>        |
| \$ 4,000,000                                    | Enbridge Energy Partners LP, 8.05% 10/01/37             | 4,520,000 <sup>(1)</sup>        |
| \$ 3,675,000                                    | Enterprise Products Partners, 7.034% 01/15/68, Series B | 4,165,094 <sup>(1)</sup>        |
|   |   | 18,220,594                      |
| <b>Real Estate Investment Trust (REIT) 6.8%</b> |   |                                 |
| 425,148   | Alexandria Real Estate, 6.45% Pfd., Series E            | 10,883,789                      |
|   | Duke Realty Corp.:                                      |                                 |
| 100,000   | Duke Realty Corp, 6.50% Pfd., Series K                  | 2,516,250                       |
| 234,877   | Duke Realty Corp, 6.60% Pfd., Series L                  | 5,908,636                       |
| 118,280   | Equity Commonwealth, 7.25% Pfd., Series E               | 3,004,312                       |
|   | Kimco Realty Corporation:                               |                                 |
| 18,500  | Kimco Realty Corporation, 5.50% Pfd., Series J          | 432,900                         |
| 5,000   | Kimco Realty Corporation, 5.625% Pfd., Series K         | 119,708                         |
| 47,308  | Kimco Realty Corporation, 6.00% Pfd., Series I          | 1,204,878                       |
| 116,006   | Kimco Realty Corporation, 6.90% Pfd., Series H          | 3,057,918 <sup>(1)</sup>        |
|   | National Retail Properties:                             |                                 |
| 45,300  | National Retail Properties, Inc., 5.70% Pfd., Series E  | 1,068,799                       |
| 27,879  | National Retail Properties, Inc., 6.625% Pfd., Series D | 738,306                         |



Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

| Shares/\$<br>Par                                       |  | Value                     |
|--|--|---------------------------|
| <b>Preferred Securities (Continued)</b>                |  |                           |
| <b>Real Estate Investment Trust (REIT) (Continued)</b> |  |                           |
| PS Business Parks:                                     |  |                           |
| 23,808   | PS Business Parks, Inc., 5.70% Pfd., Series V                | \$ 569,785                |
| 20,867   | PS Business Parks, Inc., 5.75% Pfd., Series U                | 499,556                   |
| 487,476  | PS Business Parks, Inc., 6.00% Pfd., Series T                | 12,104,029 <sup>(1)</sup> |
| 97,606   | PS Business Parks, Inc., 6.45% Pfd., Series S                | 2,506,766 <sup>(1)</sup>  |
| 12,180   | PS Business Parks, Inc., 6.875% Pfd., Series R               | 319,116 <sup>(1)</sup>    |
| 112,614  | Public Storage, 6.35% Pfd., Series R                         | 2,935,002                 |
| 7,035  | Regency Centers Corporation, 6.625% Pfd., Series 6           | 188,696                   |
| 8,313  | Weingarten Realty Investors, 6.50% Pfd., Series F            | 212,750 <sup>(1)</sup>    |
|  |  | 48,271,196                |
|  | <b>Total Preferred Securities</b><br>(Cost \$668,684,157)    | 691,346,191               |
| <b>Corporate Debt Securities 1.3%</b>                  |  |                           |
| <b>Banking 0.9%</b>                                    |  |                           |
| \$ 700,000   | Regions Financial Corporation, 7.375% 12/10/37, Sub Notes    | 901,424                   |
| 112,876  | Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes     | 2,772,517 <sup>(1)</sup>  |
| 100,000  | Zions Bancorporation, 6.95% 09/15/28, Sub Notes              | 2,675,000                 |
|  |  | 6,348,941                 |
|  | <b>Financial Services 0.2%</b>                               |                           |
| 39,267   | Affiliated Managers Group, Inc., 6.375% 08/15/42             | 1,003,331 <sup>(1)</sup>  |
|  |  | 1,003,331                 |
|  | <b>Communication 0.2%</b>                                    |                           |
| 63,200   | Qwest Corporation, 7.375% 06/01/51                           | 1,652,838                 |
|  |  | 1,652,838                 |
|  | <b>Total Corporate Debt Securities</b><br>(Cost \$8,626,423) | 9,005,110                 |

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**PORTFOLIO OF INVESTMENTS (Continued)**

August 31, 2014 (Unaudited)

| Shares/\$<br>Par              |  | Value                 |
|-------------------------------|--|-----------------------|
| <b>Money Market Fund 0.9%</b> |  |                       |
|                               | BlackRock Liquidity Funds:                           |                       |
| 6,578,512                     | T-Fund, Institutional Class                          | \$ 6,578,512          |
|                               | <b>Total Money Market Fund</b><br>(Cost \$6,578,512) | 6,578,512             |
|                               | <b>Total Investments</b> (Cost \$683,889,092***)     | 99.0% 706,929,813     |
|                               | <b>Other Assets And Liabilities</b> (Net)            | 1.0% 6,825,282        |
|                               | <b>Total Managed Assets</b>                          | 100.0% \$ 713,755,095 |
|                               | <b>Loan Principal Balance</b>                        | (235,500,000)         |
|                               | <b>Total Net Assets Available To Common Stock</b>    | \$ 478,255,095        |

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

\*\* Securities distributing Qualified Dividend Income only.

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

\*\*\*\* Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At August 31, 2014, these securities amounted to \$139,429,053 or 19.5% 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 \$420,822,706 at August 31, 2014.

(2) Foreign Issuer.

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

**ABBREVIATIONS:**

**Pfd.** Preferred Securities  
**REIT** Real Estate Investment Trust

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK<sup>(1)</sup>**

**For the period from December 1, 2013 through August 31, 2014 (Unaudited)**

|   | <b>Value</b>         |
|---|----------------------|
| <b>OPERATIONS:</b>  |                      |
| Net investment income   | \$ 24,944,831        |
| Net realized gain/(loss) on investments sold during the period                        | 4,379,345            |
| Change in net unrealized appreciation/(depreciation) of investments                   | 41,763,821           |
| <b>Net increase in net assets resulting from operations</b>                           | <b>71,087,997</b>    |
| <b>DISTRIBUTIONS:</b>   |                      |
| Dividends paid from net investment income to Common Stock Shareholders <sup>(2)</sup> | (28,581,919)         |
| <b>Total Distributions to Common Stock Shareholders</b>                               | <b>(28,581,919)</b>  |
| <b>NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD</b>            | <b>\$ 42,506,078</b> |
| <b>NET ASSETS AVAILABLE TO COMMON STOCK:</b>  |                      |
| Beginning of period   | \$ 435,749,017       |
| Net increase in net assets during the period  | 42,506,078           |
| End of period   | \$ 478,255,095       |

(1) These tables summarize the nine months ended August 31, 2014 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2013.

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

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**FINANCIAL HIGHLIGHTS<sup>(1)</sup>****For the period from December 1, 2013 through August 31, 2014 (Unaudited)****For a Common Stock share outstanding throughout the period****PER SHARE OPERATING PERFORMANCE:**

|                                      |          |
|--------------------------------------|----------|
| Net asset value, beginning of period | \$ 22.75 |
|--------------------------------------|----------|

**INVESTMENT OPERATIONS:**

|                       |      |
|-----------------------|------|
| Net investment income | 1.30 |
|-----------------------|------|

|  |      |
|--|------|
| Net realized and unrealized gain/(loss) on investments | 2.41 |
|--|------|

|                                  |      |
|----------------------------------|------|
| Total from investment operations | 3.71 |
|----------------------------------|------|

**DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:**

|                            |        |
|----------------------------|--------|
| From net investment income | (1.49) |
|----------------------------|--------|

|  |        |
|--|--------|
| Total distributions to Common Stock Shareholders | (1.49) |
|--|--------|

|                                |          |
|--------------------------------|----------|
| Net asset value, end of period | \$ 24.97 |
|--------------------------------|----------|

|                             |          |
|-----------------------------|----------|
| Market value, end of period | \$ 22.96 |
|-----------------------------|----------|

|  |            |
|--|------------|
| Common Stock shares outstanding, end of period | 19,156,782 |
|--|------------|

**RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:**

|                       |        |
|-----------------------|--------|
| Net investment income | 7.26%* |
|-----------------------|--------|

|   |        |
|---|--------|
| Operating expenses including interest expense | 1.66%* |
|---|--------|

|   |        |
|---|--------|
| Operating expenses excluding interest expense | 1.09%* |
|---|--------|

**SUPPLEMENTAL DATA:**

|                         |       |
|-------------------------|-------|
| Portfolio turnover rate | 22%** |
|-------------------------|-------|

|  |            |
|--|------------|
| Total managed assets, end of period (in 000 s) | \$ 713,755 |
|--|------------|

|  |        |
|--|--------|
| Ratio of operating expenses including interest expense to total managed assets | 1.12%* |
|--|--------|

|  |        |
|--|--------|
| Ratio of operating expenses excluding interest expense to total managed assets | 0.73%* |
|--|--------|

(1) These tables summarize the nine months ended August 31, 2014 and should be read in conjunction with the Fund's audited financial statements, including footnotes, in its Annual Report dated November 30, 2013.

\* Annualized.

\*\* Not Annualized.

The net investment income ratios reflect income net of operating expenses, including interest expense.

Information presented under heading Supplemental Data includes loan principal balance.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

**FINANCIAL HIGHLIGHTS (Continued)**

**Per Share of Common Stock (Unaudited)**

|                   | <b>Total<br/>Dividends<br/>Paid</b> | <b>Net Asset<br/>Value</b> | <b>NYSE<br/>Closing Price</b> | <b>Dividend<br/>Reinvestment<br/>Price<sup>(1)</sup></b> |
|-------------------|-------------------------------------|----------------------------|-------------------------------|--|
| December 31, 2013 | \$ 0.2120                           | \$ 22.46                   | \$ 20.53                      | \$ 20.49   |
| January 31, 2014  | 0.1600                              | 22.95                      | 20.90                         | 20.86  |
| February 28, 2014 | 0.1600                              | 23.47                      | 21.91                         | 21.92  |
| March 31, 2014    | 0.1600                              | 23.72                      | 21.72                         | 21.75  |
| April 30, 2014    | 0.1600                              | 24.23                      | 22.76                         | 22.84  |
| May 30, 2014      | 0.1600                              | 24.66                      | 22.90                         | 22.93  |
| June 30, 2014     | 0.1600                              | 24.90                      | 23.56                         | 23.54  |
| July 31, 2014     | 0.1600                              | 24.72                      | 22.16                         | 22.15  |
| August 29, 2014   | 0.1600                              | 24.97                      | 22.96                         | 23.06  |

(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.

Flaherty &amp; Crumrine Dynamic Preferred and Income Fund Incorporated

**NOTES TO FINANCIAL STATEMENTS (Unaudited)****1. Aggregate Information for Federal Income Tax Purposes**

At August 31, 2014, the aggregate cost of securities for federal income tax purposes was \$685,621,488, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was \$25,218,096 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was \$3,909,771.

**2. Additional Accounting Standards**

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

- Level 1 quoted prices in active markets for identical securities
- Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period. A summary of the inputs used to value the Fund's investments as of August 31, 2014 is as follows:

|                                     | Total<br>Value at<br>August 31, 2014 | Level 1<br>Quoted<br>Price | Level 2<br>Significant<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
|-------------------------------------|--------------------------------------|----------------------------|--|--|
| <b>Preferred Securities</b>         |                                      |                            |  |  |
| Banking                             | \$ 373,802,851                       | \$ 315,429,209             | \$ 58,373,642                                  | \$   |
| Financial Services                  | 16,120,715                           | 16,120,715                 |  |  |
| Insurance                           | 199,433,333                          | 156,823,907                | 42,609,426                                     |  |
| Utilities                           | 35,497,502                           | 22,955,227                 | 12,542,275                                     |  |
| Energy                              | 18,220,594                           | 4,520,000                  | 13,700,594                                     |  |
| Real Estate Investment Trust (REIT) | 48,271,196                           | 48,271,196                 |  |  |
| <b>Corporate Debt Securities</b>    |                                      |                            |  |  |
| Banking                             | 6,348,941                            | 5,447,517                  | 901,424  |  |
| Financial Services                  | 1,003,331                            | 1,003,331                  |  |  |
| Communication                       | 1,652,838                            | 1,652,838                  |  |  |
| Money Market Fund                   | 6,578,512                            | 6,578,512                  |  |  |
| <b>Total Investments</b>            | <b>\$ 706,929,813</b>                | <b>\$ 578,802,452</b>      | <b>\$ 128,127,361</b>                          | <b>\$</b>  |

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

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

During the reporting period, securities with an aggregate market value of \$21,754,625 were transferred into Level 1 from Level 2. During the reporting period, there were no transfers into Level 2 from Level 1.

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

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

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**Directors**

Donald F. Crumrine, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

**Officers**

Donald F. Crumrine, CFA

Chief Executive Officer

Robert M. Ettinger, CFA

President

R. Eric Chadwick, CFA

Chief Financial Officer,

Vice President and Treasurer

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Vice President and

Assistant Treasurer

Roger Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

**Investment Adviser**

Flaherty & Crumrine Incorporated

e-mail: flaherty@pfdincome.com

**Servicing Agent**

Destra Capital Investments LLC

1-877-855-3434

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

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

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

P.O. Box 30170

College Station, TX 77842-3170

1-866-351-7446

**This report is sent to shareholders of Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.**

Quarterly

Report

August 31, 2014

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