

Flaherty & Crumrine Dynamic Preferred & Income Fund Inc
Form N-CSRS
July 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number 811-22762

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

(Exact name of registrant as specified in charter)

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Address of principal executive offices) (Zip code)

Donald F. Crumrine

Flaherty & Crumrine Incorporated

301 E. Colorado Boulevard, Suite 720

Pasadena, CA 91101

(Name and address of agent for service)

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

Date of fiscal year end: November 30

Date of reporting period: May 31, 2013

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The Report to Shareholders is attached herewith.

FLAHERTY & CRUMRINE DYNAMIC PREFERRED AND INCOME FUND

Dear Shareholder,

Welcome to the Flaherty & Crumrine Dynamic Preferred and Income Fund (DFP). Following a successful initial public offering in May, we are off to a good start building a quality portfolio of preferred securities.

It may seem unusual to be receiving a shareholder report dated only a few days after the IPO closing, but allow us to explain and provide a roadmap for communications you can expect to receive as a shareholder of DFP. The Fund's fiscal year ends on November 30 each year, so the semi-annual period is May 31. Even though the Fund is just getting started, we are required by law to produce a shareholder report for the short period that ended on May 31, 2013. Looking forward, you can expect shareholder reports for each fiscal quarter, with annual and semi-annual reports providing additional topics of discussion related to the portfolio and market conditions.

Most fixed-income (and equity) markets have softened in June, and the preferred securities market is no exception. Prices (and corresponding yields) of securities we purchased have been more attractive than we anticipated in May. No one wants to see net asset value (NAV) go down, but recent market weakness has presented an opportunity for the Fund to get invested at lower prices than expected, which should enhance longer-term total-return potential for the Fund.

While not quite feeling like a kid in a candy store, it is nice to have money to invest during market weakness. We very much believe preferred securities offer long-term value at current prices. There may be some volatility over coming quarters, as markets work their way through anticipated policy changes by the Federal Reserve, but credit quality and economic fundamentals of preferred security issuers remain positive.

The Fund's investment portfolio is taking shape much as we anticipated and at better prices than expected. As of June 28, we have invested all proceeds from the initial offering. Given market weakness in June, we have been more selective than usual in our purchases providing liquidity to sellers of preferred securities at prices we think are attractive. Due to this measured pace of investing, we are just now reaching a point of adding leverage to the Fund. Leverage will be added to the Fund in increments, consistent with the rate at which we are adding investments to the portfolio and subject to the limit of 33 1/3% of managed assets at the time of borrowing. We update leverage information each week on the website at www.preferredincome.com, including dollar amount and percentage of total net assets.

On June 24th, the Fund declared initial monthly dividends to shareholders of \$0.156 per share, beginning on July 31, 2013. At this monthly dividend rate, the annualized yield on initial offering price of \$25.00 is 7.49%. This is one way to quantify the market weakness we have described, and it illustrates the longer-term benefit lower prices can provide to shareholders in the form of higher monthly income.

Our long-term approach to managing your Fund is straightforward. Our investment process begins with our own internal credit research on each issuer we consider for the portfolio. We monitor new issue activity and record specific terms of each security in our own database. We keep that information at our fingertips for use in daily portfolio analysis and trading. We integrate credit and macroeconomic research with market knowledge to make investment decisions, always looking to balance credit, liquidity, call and interest-rate risks with return potential. When investing in preferred securities, we believe investors should be focused on avoiding strikeouts rather than hitting home runs as such, we much prefer consistent singles and doubles that are also producing attractive levels of income.

We have been managing preferred securities portfolios and closed-end Funds for a long time. We have published many short write-ups explaining our investment approach and offering thoughts on investing in preferred securities and closed-end Funds. Topics often include (but are not limited to) dividend policy, use of leverage, premiums and discounts on closed-end Funds, and the impact of interest rates on preferred securities. We have updated some of this research for shareholders of DFP and posted it on the Fund's website at www.preferredincome.com. In addition to these discussion topics, the website will be an ongoing source of timely and important information on your Fund, so we encourage all shareholders to visit it often. Shareholders may also contact Destra Capital Investments LLC, the Fund's shareholder servicing agent, at (877) 855-3434 for additional information about the Fund.

Once again, welcome to DFP.

Sincerely,

Donald F. Crumrine

Chairman

June 28, 2013

Robert M. Ettinger

President

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OVERVIEW

May 31, 2013 (Unaudited)

Fund Statistics

Net Asset Value	\$	23.76
Market Price	\$	25.00
Premium		5.22%
Yield on Market Price		N/A
Common Stock Shares Outstanding		18,004,198

Moody's Ratings

% of Net Assets

BBB	35.8%
BB	22.8%
Below BB	9.0%
Not Rated*	4.0%
Below Investment Grade**	16.8%

* Does not include net other assets and liabilities of 28.4%.

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

Industry Categories

% of Net Assets

Top 10 Holdings by Issuer

% of Net Assets

MetLife	5.6%
Wells Fargo & Company	4.9%
American International Group	4.9%
JPMorgan Chase	4.9%
Bank of America Corporation	4.9%
HSBC PLC	4.8%
Barclays Bank PLC	4.4%
BNP Paribas	4.3%
Royal Bank of Scotland PLC	4.1%
AgStar Financial Services ACA	4.0%

% of Net Assets***

Holdings Generating Qualified Dividend Income (QDI) for Individuals	37%
Holdings Generating Income Eligible for the Corporate Dividends Received Deduction (DRD)	19%

*** 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.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS

May 31, 2013 (Unaudited)

Shares/\$ Par		Value
Preferred Securities 69.5%		
Banking 43.6%		
16,750	AgStar Financial Services ACA, 6.75% Pfd., 144A****	\$ 16,896,563*
	Bank of America:	
\$ 11,000,000	Bank of America Corporation, 8.00%	12,598,674*
\$ 7,110,000	Bank of America Corporation, 8.125%	8,160,467*
	Barclays Bank PLC:	
\$ 9,062,000	Barclays Bank PLC, 6.278%	9,001,810** ⁽¹⁾
\$ 8,972,000	Barclays Bank PLC, 7.434%, 144A****	9,869,200** ⁽¹⁾
\$ 17,300,000	BNP Paribas, 7.195%, 144A****	18,489,375** ⁽¹⁾
	Goldman Sachs Group:	
\$ 7,500,000	Goldman Sachs, Capital I, 6.345% 02/15/34	7,732,290
	HSBC PLC:	
\$ 13,858,000	HSBC Capital Funding LP, 10.176%, 144A****	20,613,775 ⁽¹⁾
160,000	ING Groep NV, 6.375% Pfd.	3,971,200** ⁽¹⁾
\$ 18,000,000	JPMorgan Chase & Company, 7.90%, Series 1	21,036,762*
\$ 9,022,000	Lloyds Banking Group PLC, 6.657%, 144A****	8,683,675** ⁽¹⁾
87,500	PNC Financial Services, 6.125% Pfd., Series P	2,416,006*
\$ 6,125,000	RaboBank Nederland, 11.00%, 144A****	8,259,648 ⁽¹⁾
	Royal Bank of Scotland:	
\$ 4,825,000	RBS Capital Trust II, 6.425% 12/29/49	4,571,688** ⁽¹⁾
525,000	Royal Bank of Scotland Group PLC, 7.25% Pfd.	13,135,500** ⁽¹⁾
\$ 18,000,000	Wells Fargo & Company, 7.98%, Series K	21,116,250*
		186,552,883
Financial Services 1.2%		
\$ 4,780,000	American Express Co., 6.80% 09/01/66	5,240,075
		5,240,075
Insurance 19.3%		
	American International Group:	
\$ 4,000,000	American General Institutional Capital A, 7.57% 12/01/45, 144A****	4,985,068
\$ 7,100,000	American General Institutional Capital B, 8.125% 03/15/46, 144A****	9,504,003
\$ 5,000,000	American International Group, Inc., 8.175% 05/15/58	6,575,000
\$ 7,550,000	AXA SA, 6.379%, 144A****	7,663,250** ⁽¹⁾
\$ 13,000,000	Lincoln National Corporation, 7.00% 05/17/66	13,585,000
	MetLife:	
\$ 3,759,000	MetLife, Inc., 10.75% 08/01/39	6,047,291
\$ 12,700,000	MetLife Capital Trust X, 9.25% 04/08/38, 144A****	18,034,000

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2013 (Unaudited)

Shares/\$ Par		Value
Preferred Securities (Continued)		
Insurance (Continued)		
\$ 9,070,000	Prudential Financial Inc., 8.875% 06/15/38	\$ 11,314,825
	XL Group PLC:	
\$ 5,000,000	XL Capital Ltd., 6.50%, Series E	5,037,500 ⁽¹⁾
		82,745,937
Utilities 0.8%		
	PPL Corp:	
\$ 3,180,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	3,389,553
		3,389,553
Energy 3.9%		
\$ 4,525,000	DCP Midstream LLC, 5.85% 05/21/43, 144A****	4,558,938
\$ 4,000,000	Enbridge Energy Partners LP, 8.05% 10/01/37	4,666,528
	Enterprise Products Partners:	
\$ 3,675,000	Enterprise Products Partners, 7.034% 01/15/68	4,267,270
\$ 1,165,000	Enterprise Products Partners, 7.00% 06/01/67	1,268,186
\$ 1,630,000	Enterprise Products Partners, 8.375% 08/01/66, Series A	1,877,861
		16,638,783
Miscellaneous Industries 0.7%		
\$ 3,000,000	Textron Financial Corporation, 6.00% 02/15/67, 144A****	2,775,000
		2,775,000
	Total Preferred Securities (Cost \$298,531,555)	297,342,231
Corporate Debt Securities 2.1%		
Banking 2.1%		
\$ 6,556,000	Goldman Sachs Group, Inc., 6.75% 10/01/37, Sub Notes	7,172,159
65,000	Texas Capital Bancshares Inc., 6.50% 09/21/42	1,647,347
		8,819,506
	Total Corporate Debt Securities (Cost \$8,884,978)	8,819,506

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

May 31, 2013 (Unaudited)

Shares/\$ Par		Value
Money Market Fund 35.8%		
	BlackRock Liquidity Funds:	
153,112,112	T-Fund	\$ 153,112,112
	Total Money Market Fund (Cost \$153,112,112)	153,112,112
Total Investments (Cost \$460,528,645***)		107.4% 459,273,849
Other Assets And Liabilities (Net)		(7.4)% (31,549,093)
Total Managed Assets		100.0% \$ 427,724,756
Total Net Assets Available To Common Stock		\$ 427,724,756

* 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 May 31, 2013, these securities amounted to \$130,332,495 or 30.5% of total managed assets.

(1) 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

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENT OF ASSETS AND LIABILITIES

May 31, 2013 (Unaudited)

ASSETS:

Investments at value (Cost \$460,528,645)	\$ 459,273,849
Receivable for investments sold	2,663,653
Dividends and interest receivable	4,784,270
Total Assets	466,721,772

LIABILITIES:

Offering cost payable	\$ 900,000
Payable for investments purchased	38,066,585
Investment advisory fee payable	18,849
Administration, Transfer Agent and Custodian fees payable	2,817
Servicing Agent fees payable	4,228
Professional fees payable	1,357
Directors fees payable	774
Accrued expenses and other payables	2,406
Total Liabilities	38,997,016

NET ASSETS AVAILABLE TO COMMON STOCK \$ 427,724,756

NET ASSETS AVAILABLE TO COMMON STOCK consist of:

Undistributed net investment income	\$ 32,633
Accumulated net realized loss on investments sold	(3,098)
Unrealized depreciation of investments	(1,254,796)
Par value of Common Stock	180,042
Paid-in capital in excess of par value of Common Stock	428,769,975
Total Net Assets Available to Common Stock	\$ 427,724,756

NET ASSET VALUE PER SHARE OF COMMON STOCK:

Common Stock (18,004,198 shares outstanding)	\$ 23.76
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The accompanying notes are an integral part of the financial statements.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENT OF OPERATIONS

For the Period from May 29, 2013* through May 31, 2013 (Unaudited)

INVESTMENT INCOME:	
Dividends	\$ 135
Interest	62,929
 Total Investment Income	 63,064
EXPENSES:	
Investment advisory fees	\$ 18,849
Administrators fees	2,537
Servicing Agent fees	4,228
Professional fees	1,357
Insurance expenses	887
Transfer Agent fees	220
Directors fees	774
Custodian fees	60
Compliance fees	306
Other	1,213
 Total Expenses	 30,431
NET INVESTMENT INCOME	32,633
 REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS	
Net realized loss on investments sold during the period	(3,098)
Change in net unrealized appreciation/(depreciation) of investments	(1,254,796)
 NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	 (1,257,894)
 NET DECREASE IN NET ASSETS TO COMMON STOCK RESULTING FROM OPERATIONS	 \$ (1,225,261)

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

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK

	For the Period from May 29, 2013* through May 31, 2013 (Unaudited)
OPERATIONS:	
Net investment income	\$ 32,633
Net realized gain/(loss) on investments sold during the period	(3,098)
Change in net unrealized appreciation/(depreciation) of investments	(1,254,796)
Net decrease in net assets resulting from operations	(1,225,261)
FUND SHARE TRANSACTIONS:	
Increase from Common Stock transactions	429,750,000
Decrease due to Cost of Common Stock Offering	(900,000)
Net increase in net assets available to Common Stock resulting from Fund share transactions	428,850,000
NET INCREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	\$ 427,624,739
NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period	\$ 100,017
Net increase in net assets during the period	427,624,739
End of period (including undistributed net investment income of \$32,633)	\$ 427,724,756

* Commencement of operations.

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

FINANCIAL HIGHLIGHTS**For a Common Stock share outstanding throughout each period**

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

	For the period from May 29, 2013⁽¹⁾ through May 31, 2013 (Unaudited)
PER SHARE OPERATING PERFORMANCE:	
Net asset value, beginning of period	\$ 23.83 ⁽²⁾
INVESTMENT OPERATIONS:	
Net investment income	0.00 ⁽³⁾
Net realized and unrealized gain/(loss) on investments	(0.07)
Total from investment operations	(0.07)
Net asset value, end of period	\$ 23.76
Market value, end of period	\$ 25.00
Total investment return based on net asset value ^{*(4)}	(0.29%) ^{***}
Total investment return based on market value ^{*(4)}	0.00% ^{***}
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:	
Total net assets, end of period (in 000's)	\$ 427,725
Operating expenses	0.86%**
Net investment income	0.93%**
SUPPLEMENTAL DATA:	
Portfolio turnover rate	1% ^{***}

* Assumes reinvestment of distributions at the price obtained by the Fund's Dividend Reinvestment and Cash Purchase Plan.

** Annualized.

*** Not Annualized.

The net investment income ratios reflect income net of operating expenses.

(1) Commencement of operations.

(2) Net asset value at beginning of period reflects the deduction of the sales load of \$1.125 per share and offering costs of \$0.05 per share paid by the shareholder from the \$25.00 offering price.

(3) Per share amount was less than \$0.005.

(4) Total return on net asset value is calculated assuming a purchase at the offering price of \$25.00 on the inception date of trading (May 23, 2013) less the sales load of \$1.125 and offering costs of \$0.05 and the ending net asset value per share. Total return on market value is calculated assuming a purchase at the offering price of \$25.00 on the inception date of trading (May 23, 2013) and the sale at the current market price on the last day of the period. Total return on net asset value and total return on market value are not computed on an annualized basis.

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

FINANCIAL HIGHLIGHTS (Continued)

Per Share of Common Stock (Unaudited)

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price⁽¹⁾
May 31, 2013	N/A	\$ 23.76	\$ 25.00	N/A

⁽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.

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Organization

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated (the Fund) was incorporated as a Maryland corporation on October 10, 2012, and commenced operations on May 29, 2013 as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's investment objective is to seek total return, with an emphasis on high current income.

2. Significant Accounting Policies

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

Portfolio valuation: The net asset value of the Fund's Common Stock is determined by the Fund's Administrator daily in accordance with the policies and procedures approved by the Board of Directors of the Fund. It is determined by dividing the value of the Fund's net assets available to Common Stock by the number of shares of Common Stock outstanding. The value of the Fund's net assets available to Common Stock is deemed to equal the value of the Fund's total assets less (i) the Fund's liabilities and (ii) the aggregate liquidation value of any outstanding preferred stock.

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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

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

Fair Value Measurements: The Fund has performed an analysis of all existing investments and derivative instruments 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 May 31, 2013 is as follows:

	Total Value at May 31, 2013	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	\$ 186,552,883	\$ 117,340,199	\$ 69,212,684	\$
Financial Services	5,240,075		5,240,075	
Insurance	82,745,937	42,703,791	40,042,146	
Utilities	3,389,553	3,389,553		
Energy	16,638,783	6,544,389	10,094,394	
Miscellaneous Industries	2,775,000		2,775,000	
Corporate Debt Securities	8,819,506	8,819,506		
Money Market Fund	153,112,112	153,112,112		
Total Investments	\$ 459,273,849	\$ 331,909,550	\$ 127,364,299	\$

During the reporting period, there were no transfers 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 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

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

sale prices for securities in the Fund's portfolio, and market information obtained by the Adviser as a function of being an active participant in the markets.

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.

Securities transactions and investment income: Securities transactions are recorded as of the trade date. Realized gains and losses from securities sold are recorded on the specific identified cost basis. Dividend income is recorded on ex-dividend dates. Interest income is recorded on the accrual basis. The Fund also amortizes premiums and accretes discounts on fixed income securities using the effective yield method.

Options: Purchases of options are recorded as an investment, the value of which is marked-to-market at each valuation date. When the Fund enters into a closing sale transaction, the Fund will record a gain or loss depending on the difference between the purchase and sale price.

When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market at each valuation date. When a written option expires, the Fund realizes a gain equal to the amount of the premium originally received. When the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of the closing purchase transaction exceeds the premium received when the option was written) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When a call option is exercised, the Fund realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are increased by the amount of the premium originally received. When a put option is exercised, the amount of the premium originally received will reduce the cost of the security which the Fund purchased upon exercise.

Repurchase agreements: The Fund may engage in repurchase agreement transactions. The Fund's investment adviser reviews and approves the eligibility of the banks and dealers with which the Fund may enter into repurchase agreement transactions. The value of the collateral underlying such transactions is at least equal at all times to the total amount of the repurchase obligations, including interest. The Fund maintains possession of the collateral through its custodian and, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. There is the possibility of loss to the Fund in the event the Fund is delayed or prevented from exercising its rights to dispose of the collateral securities.

Federal income taxes: The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under subchapter M of the Internal Revenue Code of 1986, as amended, applicable to regulated investment companies and intends to distribute substantially all of its taxable net investment income to its shareholders. Therefore, no federal income tax provision is required.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

Management has analyzed the uncertainty of the Fund's tax positions, and has concluded that no provision for federal income tax is required in the Fund's financial statements. The Fund's major tax jurisdictions are federal and California. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Dividends and distributions to shareholders: The Fund expects to declare dividends on a monthly basis to shareholders of Common Stock (Shareholders). Distributions to Shareholders are recorded on the ex-dividend date. Any net realized short-term capital gains will be distributed to Shareholders at least annually. Any net realized long-term capital gains may be distributed to Shareholders at least annually or may be retained by the Fund as determined by the Fund's Board of Directors. Capital gains retained by the Fund are subject to tax at the capital gains corporate tax rate. Subject to the Fund qualifying as a regulated investment company, any taxes paid by the Fund on such net realized long-term capital gains may be used by the Fund's Shareholders as a credit against their own tax liabilities. The Fund may pay distributions in excess of the Fund's net investment company taxable income and this excess would be a tax-free return of capital distributed from the Fund's assets.

Income and capital gain distributions are determined and characterized in accordance with income tax regulations which may differ from U.S. GAAP. These differences are primarily due to (1) differing treatments of income and gains on various investment securities held by the Fund, including timing differences, (2) the attribution of expenses against certain components of taxable investment income, and (3) federal regulations requiring proportionate allocation of income and gains to all classes of shareholders.

Distributions from net realized gains for book purposes may include short-term capital gains, which are included as ordinary income for tax purposes, and may exclude amortization of premium and discount on certain fixed income securities, which are not reflected in ordinary income for tax purposes. The tax character of distributions paid during 2013 was as follows:

	Distributions paid in fiscal year 2013	
	Ordinary Income	Long-Term Capital Gains
Common Stock	N/A	N/A

Excise tax: The Internal Revenue Code of 1986, as amended, imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year at least (1) 98% of the sum of its net investment income for that year and 98.2% of its capital gains (both long-term and short term) for its fiscal year and (2) certain undistributed amounts from previous years.

Additional Accounting Standards: In June 2013, the Financial Accounting Standards Board (the FASB) issued guidance that creates a two-tiered approach to assess whether an entity is an investment company. The guidance will also require an investment company to measure noncontrolling ownership interests in other investment companies at fair value and will require additional disclosures relating to investment company status, any changes thereto and information about financial support provided or

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

contractually required to be provided to any of the investment company's investees. The guidance is effective for financial statements with fiscal years beginning on or after December 15, 2013 and interim periods within those fiscal years. Management is evaluating the impact of this guidance on the Fund's financial statement disclosures.

3. Derivative Instruments

The Fund intends to use derivatives primarily to economically hedge against risks in the portfolio, namely interest rate risk and credit risk. The Fund may use options on treasury futures contracts for the purpose of economically hedging against a significant increase in long-term interest rates. If the strategy is employed, the Fund would purchase put options on treasury futures contracts that would increase in value if long-term interest rates increased significantly, offsetting some of the related decline in portfolio asset values. The Fund may also purchase and write call options on treasury futures contracts to supplement the put option strategy and also to reduce the overall cost of the interest rate hedge (by earning premiums from the net sale of call options).

The Fund has the authority to use other derivatives for hedging or to increase expected return, but has not employed any of these derivatives to-date and does not anticipate broad use of these derivatives in the near future (although this may change without advance notice). Other approved derivatives strategies include: buying and selling credit default swaps, interest rate swaps and options thereon (swaptions), and options on securities. Accounting policies for specific derivatives, including the location of these items in the financial statements, are included in Note 2 as appropriate. No assurance can be given that such use of derivatives will achieve their desired purposes or, in the case of hedging, will result in an overall reduction of risk to the Fund.

The Fund did not use any derivatives during the period ended May 31, 2013.

Options on Financial Futures Contracts: When the interest rate hedging strategy is employed, the Fund intends to use options on financial futures contracts in much the same way as described above. The risk associated with purchasing options, and therefore the maximum loss the Fund would incur, is limited to the purchase price originally paid. The risk in writing a call option is that the Fund may forego the opportunity for profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised.

4. Investment Advisory Fee, Administration Fee, Transfer Agent Fee, Custodian Fee, Directors' Fees and Chief Compliance Officer Fee

Flaherty & Crumrine Incorporated (the Adviser) serves as the Fund's investment adviser. The Fund pays the Adviser a monthly fee at an annual rate of 0.575% of the value of the Fund's average daily managed assets up to \$200 million and 0.50% of the Fund's average daily managed assets of \$200 million or more. For purposes of calculating such a fee, managed assets means the Fund's net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation

preference of preferred stock issued by the Fund, if any, and the proceeds of any reverse repurchase agreements entered into by the Fund.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

Destra Capital Investments LLC (the Servicing Agent) serves as the Fund's shareholder servicing agent. As compensation for its services, the Fund pays the Servicing Agent a fee computed and paid monthly at the annual rate of 0.12% of the Fund's average daily net assets through the first year of the Fund's agreement with the Servicing Agent and 0.10% of the Fund's average daily net assets for the remainder of the term of the agreement. For these purposes, Average Net Assets are the average daily net assets available to the Fund's common shareholders.

BNY Mellon Investment Servicing (US) Inc. (BNY Mellon) serves as the Fund's administrator (the Administrator). As Administrator, BNY Mellon calculates the net asset value of the Fund's shares attributable to Common Stock and generally assists in all aspects of the Fund's administration and operation. As compensation for BNY Mellon's services as Administrator, the Fund pays BNY Mellon a monthly fee at an annual rate of 0.10% of the first \$200 million of the Fund's average daily total managed assets, 0.04% of the next \$300 million of the Fund's average daily total managed assets, 0.03% of the next \$500 million of the Fund's average daily total managed assets and 0.02% of the Fund's average daily total managed assets above \$1 billion. For purposes of calculating such fee, the Fund's total managed assets means the total assets of the Fund (including any assets attributable to any Fund auction rate preferred stock that may be outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt, if any, representing financial leverage).

BNY Mellon also serves as the Fund's Common Stock dividend-paying agent and registrar (the Transfer Agent). As compensation for BNY Mellon's services as Transfer Agent, the Fund pays BNY Mellon a monthly fee in the amount of \$1,500.

The Bank of New York Mellon (the Custodian) serves as the Fund's Custodian. As compensation for the Custodian's services as custodian, the Fund pays the Custodian a monthly fee at the annual rate of 0.01% of the first \$200 million of the Fund's average daily total managed assets, 0.008% of the next \$300 million of the Fund's average daily total managed assets, 0.006% of the next \$500 million of the Fund's average daily total managed assets and 0.005% of the Fund's average daily total managed assets above \$1 billion. For purposes of calculating such fee, the Fund's total managed assets means the total assets of the Fund (including any assets attributable to any Fund auction rate preferred stock that may be outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt, if any, representing financial leverage).

The Fund currently pays each Director who is not a director, officer or employee of the Adviser a fee of \$9,000 per annum, plus \$750 for each in-person meeting of the Board of Directors or Audit Committee, \$500 for each in-person meeting of the Nominating Committee, and \$250 for each telephone meeting. The Audit Committee Chairman receives an additional annual fee of \$3,000. The Fund also reimburses all Directors for travel and out-of-pocket expenses incurred in connection with such meetings.

The Fund currently pays the Adviser a fee of \$35,000 per annum for Chief Compliance Officer services and reimburses out-of-pocket expenses incurred in connection with providing services in this role.

Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

5. Purchases and Sales of Securities

For the period ended May 31, 2013, the cost of purchases and proceeds from sales of securities, excluding short-term investments, aggregated \$310,064,789 and \$2,615,625, respectively.

At May 31, 2013, the aggregate cost of securities for federal income tax purposes was \$460,528,645, the aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost was \$267,173 and the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value was \$1,521,969.

6. Common Stock

At May 31, 2013, 240,000,000 shares of \$0.01 par value Common Stock were authorized.

At May 31, 2013, there were 18,004,198 shares of Common Stock issued and outstanding.

Organization Expenses and Costs of the Common Stock Offering: Organization expenses relating to organizing the Fund of \$86,350 have been paid by the Adviser. Costs of the Common Stock offering were estimated to be approximately \$900,000. The Adviser has also agreed to pay offering costs (excluding sales charges) that exceed \$0.05 per share. Costs of the Common Stock offering up to \$0.05 per share and sales charges will be borne by the Fund and its shareholders and are accounted for as a reduction to paid-in capital. Based on the initial offering of 18,000,000 shares, \$900,000 of the offering costs will be borne by the Fund.

Common Stock transactions are reflected in the following table:

	Period Ended 05/31/13 (Fund Inception to Date)			
	Shares	Gross Amount	Sales Load	Net Amount
Beginning Capitalization	4,198	\$ 100,017	\$	\$ 100,017
Initial Public Offering on 05/29/13	18,000,000	450,000,000	20,250,000	429,750,000
Total	18,004,198	\$ 450,100,017	\$ 20,250,000	\$ 429,850,017

7. Preferred Stock

The Fund has the authority to issue 10,000,000 shares of \$0.01 par value preferred stock. The Fund does not currently have any issued and outstanding shares of preferred stock.

8. Portfolio Investments, Concentration and Investment Quality

Under normal market conditions, the Fund invests at least 80% of its managed assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred stock, hybrid and trust preferred securities that have characteristics of both equity and debt securities, convertible securities, subordinated debt, and senior debt. Managed assets means the Fund's net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock issued by the Fund, if any, and the proceeds of any reverse repurchase agreements entered into by the Fund. Also, under normal market conditions, the Fund

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NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

will invest more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers, and real estate investment trust (REIT) industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. The Fund's portfolio may therefore be subject to greater risk and market fluctuation than a portfolio of securities representing a broader range of investment alternatives.

The Fund will invest at least 80% of its managed assets in (a) investment grade quality securities or (b) below investment grade quality securities of companies with investment grade senior unsecured debt outstanding, in either case determined at the time of purchase. Consequently, the Fund may invest up to 20% of its managed assets in securities of companies with below investment grade quality senior unsecured debt outstanding. In addition, the Fund may invest in unrated securities that the Fund's investment adviser deems to be comparable in quality to rated issues in which the Fund is authorized to invest.

The Fund may invest up to 15% of its managed assets in common stocks, and up to 100% of its managed assets in securities of non-U.S. companies. Investments may include U.S. dollar-denominated securities and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States.

The Fund may employ certain investment techniques in accordance with its fundamental investment policies. These may include the use of when-issued and delayed delivery transactions. Securities purchased or sold on a when-issued or delayed delivery basis may be settled within 45 days after the date of the transaction. The Fund may also enter into transactions, in accordance with its investment policies, involving short sales of securities and purchases of securities on margin. Such transactions may expose the Fund to credit and market valuation risk greater than that associated with regular trade settlement procedures.

9. Subsequent Events

Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued, and has determined that there was the following subsequent event:

On June 24, 2013, the Board of Directors declared its initial monthly dividend of \$0.156 per share. The Board of Directors also declared the Fund's monthly dividend for August 2013 and September 2013 in the amount of \$0.156 per share. The Fund issued a press release on June 24, 2013 concerning the dividend declarations.

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ADDITIONAL INFORMATION (Unaudited)

Dividend Reinvestment and Cash Purchase Plan

Under the Fund's Dividend Reinvestment and Cash Purchase Plan (the Plan), a shareholder whose Common Stock is registered in his or her own name will have all distributions reinvested automatically by BNY Mellon as agent under the Plan, unless the shareholder elects to receive cash. Registered shareholders may elect to receive cash by contacting BNY Mellon at the number provided below. If shares are registered in the name of a broker-dealer or other nominee (that is, in street name) and the broker or nominee participates in the Pl