



## Hybrid Income Funds



Annual Report 2003

*Mulvihill Premium Canadian Bank Fund*

Premium Income Corporation





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## Message to Shareholders

We are pleased to present the Fund's financial statements for the fiscal year ended October 31, 2003. This year's highlights include the extension of the Fund to November 1, 2010 and the Treasury offering in the fourth quarter with total proceeds of \$226.5 million.

Reversing last year's decline, the value of equities in the financial services sector showed strong appreciation during fiscal 2003. This enabled the Fund to further extend its outstanding record of paying double-digit returns to its Class A shareholders.

Preferred shareholders received approximately \$0.89 per share in total distributions for the year. Class A shareholders received \$1.20 per share, comprised of \$0.80 in regular distributions and \$0.40 in special distributions. The underlying net asset value of the Fund's Class A shares increased from \$8.38 on October 31, 2002, to \$10.55 on October 31, 2003.

On May 16, 2003, the Fund announced that shareholders had approved an extension of the life of the Fund for another seven years. Both Class A and Preferred shareholders retain their original rights, and now participate in the performance of the Fund's underlying bank share portfolio until the new redemption date of November 1, 2010.

On September 22, 2003, the Fund filed a final prospectus for a treasury offering of 8,500,000 Preferred shares at \$15.65 per share, and 8,500,000 Class A shares at \$11.00 per share. The offering, which was for a total of \$226,525,000, closed on September 29, 2003. On October 7, 2003, the Fund issued an additional 160,000 units for a total of \$4,264,000. The proceeds from the offering resulted in an increase in cash and cash equivalents held at year end.

Class A shares on the TSX closed at \$11.40 on October 31, 2003, while Preferred shares closed at \$16.09. These figures compare with closing prices of \$10.24 for Class A shares and \$15.07 for preferred shares on October 31, 2002.

Investor interest in the financial services sector has now fully revived, and the outlook is positive for the year to come. We would like to thank all shareholders for their continued support.



John P. Mulvihill  
President  
Mulvihill Capital Management Inc.

## Investment Objectives

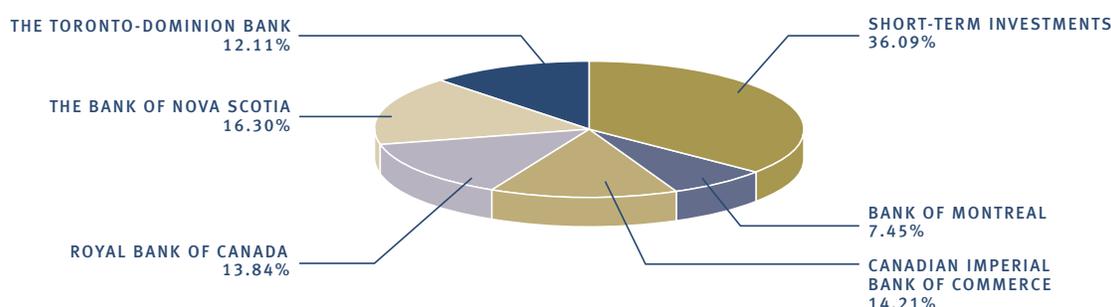
The Fund's investment objectives are (i) to provide Preferred shareholders with cumulative preferential quarterly cash dividends of \$0.22 per quarter; (ii) to provide Class A shareholders with all excess realized income of the Fund at each fiscal year end; and (iii) to return, at a minimum, the original issue prices to holders of both Preferred shares and Class A shares upon windup on November 1, 2010. The Fund has a dividend policy on the Class A shares of \$0.20 per quarter.

## Investment Strategy

The Fund achieves its investment objectives by investing its net assets in a portfolio consisting primarily of common shares issued by Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank. To generate additional returns above the dividend income generated by the portfolio, the Fund writes covered call options in respect of all or part of the securities in the Portfolio. From time to time, the Fund may hold a portion of its assets in cash equivalents, which may be utilized to provide cover in respect of the writing of cash covered put positions.

## Asset Mix

October 31, 2003



## Distribution History

INCEPTION DATE: OCTOBER 1996	CLASS A REGULAR DISTRIBUTION	CLASS A SPECIAL DISTRIBUTION	TOTAL CLASS A DISTRIBUTION	REGULAR PREFERRED DISTRIBUTION
Total for 1997	\$ 0.80	\$ 1.90	\$ 2.70	\$ 0.877800
Total for 1998	0.80	0.50	1.30	0.884300
Total for 1999	0.80	0.40	1.20	0.888610
Total for 2000	0.80	0.60	1.40	0.880033
Total for 2001	0.80	1.35	2.15	0.884226
Total for 2002	0.80	0.60	1.40	0.884170
January 2003	0.20	0.10	0.30	0.221343
April 2003	0.20	0.10	0.30	0.222795
July 2003	0.20	0.10	0.30	0.222022
October 2003	0.20	0.10	0.30	0.226635
Total for 2003	0.80	0.40	1.20	0.892795
<b>Total Distributions to Date</b>	<b>\$ 5.60</b>	<b>\$ 5.75</b>	<b>\$ 11.35</b>	<b>\$ 6.191934</b>

**Eligible Holdings:**

- Bank of Montreal
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- The Bank of Nova Scotia
- The Toronto-Dominion Bank

**Trading History**

October 30, 1996 to October 31, 2003



**Commentary**

The Toronto Stock Exchange’s Financial Services Index rose over 35 percent during the fiscal year, substantially outperforming the S&P/TSX Composite Index, which increased 26.8% for the period. Only the Information Technology Index showed stronger growth, reflecting the rebound of this sector from deep lows.

All of the “big five” banks delivered positive returns for the year, with Canadian Imperial Bank of Commerce and The Toronto-Dominion Bank recording the largest gains. The banks’ economic fundamentals are healthy in all respects, and earnings growth is expected to continue as credit quality and capital market conditions improve further.

After raising interest rates by 50 basis points early in the year, the Bank of Canada then reversed its course and implemented cuts of 25 points in July and September. This was a response to the temporary setbacks of the SARs outbreak and the Ontario electricity blackout, as well as the sharp rise in the Canadian dollar. The lower interest rate environment now in place should provide support for the interest-sensitive banking sector.

With strong capital positions supporting higher dividend payouts and share buybacks, along with leverage to improved credit quality and better capital markets, the financial services sector is well positioned going forward.



## Management's Responsibility for Financial Reporting

This report has been prepared in accordance with the Accounting Standards Board guidelines.

The accompanying financial statements of Premium Income Corporation (operating as Mulvihill Premium Canadian Bank Fund) (the "Fund") and all the information in this annual report are the responsibility of the management of Mulvihill Capital Management Inc., (the "Manager"), and have been approved by the Board of Directors (the "Board").

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 2 of the financial statements. The financial statements have been audited by Deloitte & Touche LLP on behalf of the shareholders.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Audit Committee meets periodically with management and external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the external auditors' report. Deloitte & Touche LLP has full and unrestricted access to the Audit Committee and Board of Directors.



John P. Mulvihill  
President  
Mulvihill Capital Management Inc.  
November 14, 2003



David N. Middleton  
CFO  
Mulvihill Capital Management Inc.

To the Shareholders

We have audited the accompanying statement of investments of Premium Income Corporation (operating as Mulvihill Premium Canadian Bank Fund) (the "Fund") as at October 31, 2003, the statements of financial position as at October 31, 2003 and 2002, the statements of operations and retained earnings (deficit), of changes in net assets and of changes in investments for the years then ended, and the statements of financial highlights for each of the years in the five-year period ended October 31, 2003. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund and its investments as at the dates indicated above, and the results of its operations, the changes in its net assets, the changes in its investments and the financial highlights for the periods indicated above, in accordance with Canadian generally accepted accounting principles.

The logo for Deloitte & Touche LLP is written in a stylized, cursive script. The word "Deloitte" is followed by an ampersand and "Touche", with "LLP" at the end. A horizontal line is drawn above the "Touche" portion of the signature.

Chartered Accountants  
Toronto, Ontario  
November 14, 2003

Statements of Financial Position

October 31, 2003 and 2002

	2003	2002
<b>ASSETS</b>		
Investments at market value (average cost - \$197,339,936; 2002 - \$70,861,865)	\$ 206,226,648	\$ 64,157,713
Short-term investments (average cost - \$119,640,605; 2002 - \$28,114,204)	119,554,586	28,126,315
Cash	33,923	5,522
Interest, dividends and other receivables	2,647,705	824,764
Due from brokers	4,747,200	-
<b>TOTAL ASSETS</b>	<b>\$ 333,210,062</b>	<b>\$ 93,114,314</b>
<b>LIABILITIES</b>		
Due to brokers	\$ 9,404,480	\$ -
Share issue expenses payable	555,005	-
Accrued liabilities	302,151	92,698
Redemptions payable	22,995	-
	<b>10,284,631</b>	<b>92,698</b>
Redeemable preferred shares (Note 4)	189,576,000	59,689,500
Unamortized premium on issue of preferred shares (Note 4)	1,174,152	-
	<b>201,034,783</b>	<b>59,782,198</b>
<b>EQUITY</b>		
Class A and Class B shares (Note 4)	125,289,712	35,415,357
Retained earnings (deficit)	6,885,567	(2,083,241)
	<b>132,175,279</b>	<b>33,332,116</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 333,210,062</b>	<b>\$ 93,114,314</b>
<b>Net Asset Value per Unit</b>		
Preferred share	\$ 15.00	\$ 15.00
Class A share	10.55	8.38
	<b>\$ 25.55</b>	<b>\$ 23.38</b>

On Behalf of the Board of Directors

  
John P. Mulvihill, Director

  
Robert W. Korthals, Director

## Statements of Operations and Retained Earnings (Deficit)

Years ended October 31, 2003 and 2002

	2003	2002
<b>REVENUE</b>		
Interest	\$ 1,381,639	\$ 794,692
Dividends	2,249,216	2,176,069
	<b>3,630,855</b>	<b>2,970,761</b>
Net realized gains on investments and options	5,810,126	7,185,909
Net realized gains on short-term investments	17,991	355
<b>TOTAL REVENUE</b>	<b>9,458,972</b>	<b>10,157,025</b>
<b>EXPENSES (Note 5)</b>		
Management fees	1,073,462	933,728
Administrative and other expenses	136,302	129,066
Custodian fees	49,487	28,977
GST and capital taxes	126,184	155,639
<b>TOTAL EXPENSES</b>	<b>1,385,435</b>	<b>1,247,410</b>
<b>Realized Income before Income Taxes, Special Resolution and Preferred Share Transactions</b>	<b>8,073,537</b>	<b>8,909,615</b>
Income tax expense (Note 6)	-	(70,280)
Special resolution expense (Note 4)	(1,722,923)	-
<b>Net Realized Income before Preferred Share Transactions</b>	<b>6,350,614</b>	<b>8,839,335</b>
Preferred share distributions (Note 7)	(5,515,358)	(3,518,378)
<b>Net Realized Income</b>	<b>835,256</b>	<b>5,320,957</b>
Change in net unrealized appreciation (depreciation) of investments and options during the year	15,590,864	(7,219,060)
Change in net unrealized appreciation (depreciation) of short-term investments during the year	(98,130)	(10,843)
	<b>15,492,734</b>	<b>(7,229,903)</b>
Amortization of premium on issue of preferred shares (Note 4)	13,978	-
	<b>15,506,712</b>	<b>(7,229,903)</b>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<b>\$ 16,341,968</b>	<b>\$ (1,908,946)</b>
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance, beginning of year	\$ (2,083,241)	\$ 5,396,725
Net income (loss) for the year	16,341,968	(1,908,946)
Distributions on Class A shares	(7,373,160)	(5,571,020)
<b>BALANCE, END OF YEAR</b>	<b>\$ 6,885,567</b>	<b>\$ (2,083,241)</b>

### Statements of Changes in Net Assets

Years ended October 31, 2003 and 2002

	2003	2002
NET ASSETS, BEGINNING OF YEAR	\$ 33,332,116	\$ 40,812,082
<b>Net Realized Income before Preferred Share Transactions</b>	<b>6,350,614</b>	<b>8,839,335</b>
<b>Class A Share Capital Transactions</b>		
Proceeds from shares issued, net of issue costs (Note 4)	89,883,850	-
Amounts paid for shares redeemed	(9,495)	-
	<b>89,874,355</b>	<b>-</b>
Amortization of premium on issue of preferred shares (Note 4)	13,978	-
<b>Distributions (Note 7)</b>		
Preferred shares	(5,515,358)	(3,518,378)
Class A shares	(7,373,160)	(5,571,020)
	<b>(12,888,518)</b>	<b>(9,089,398)</b>
Change in net unrealized appreciation (depreciation) of investments, options and short-term investments during the year	15,492,734	(7,229,903)
<b>Change in Net Assets during the Year</b>	<b>98,843,163</b>	<b>(7,479,966)</b>
NET ASSETS, END OF YEAR	\$ 132,175,279	\$ 33,332,116

### Statements of Changes in Investments

Years ended October 31, 2003 and 2002

	2003	2002
INVESTMENTS AT MARKET VALUE, BEGINNING OF YEAR	\$ 64,157,713	\$ 74,068,473
Unrealized appreciation (depreciation) of investments, beginning of year	(6,704,152)	514,908
<b>Investments at Cost, beginning of Year</b>	<b>70,861,865</b>	<b>73,553,565</b>
<b>Cost of Investments Purchased during the Year</b>	<b>238,684,216</b>	<b>38,540,253</b>
<b>Cost of Investments Sold during the Year</b>		
Proceeds from sales	118,016,271	48,417,862
Net realized gains on sales	5,810,126	7,185,909
	<b>112,206,145</b>	<b>41,231,953</b>
<b>Investments at cost, end of year</b>	<b>197,339,936</b>	<b>70,861,865</b>
Unrealized appreciation (depreciation) of investments, end of year	8,886,712	(6,704,152)
INVESTMENTS AT MARKET VALUE, END OF YEAR	\$ 206,226,648	\$ 64,157,713

## Statement of Investments

October 31, 2003

	Par Value/ Number of Shares	Average Cost	Market Value	% of Portfolio
<b>SHORT-TERM INVESTMENTS</b>				
<b>Treasury Bills</b>				
Government of Canada - February 12, 2004	2,850,000	\$ 2,828,112	\$ 2,828,112	2.3 %
<b>Bankers Acceptance</b>				
The Bank of Nova Scotia - December 5, 2003	4,000,000	3,942,560	3,942,560	3.2 %
<b>Bonds</b>				
Canada Mortgage & Housing Corporation - December 1, 2003	1,943,000	1,946,375	1,946,119	
Canada Mortgage & Housing Corporation - June 1, 2004	14,000,000	14,197,758	14,191,324	
Export Development Corporation - June 18, 2004	95,000,000	96,725,800	96,646,471	
<b>Total Bonds</b>		<b>112,869,933</b>	<b>112,783,914</b>	<b>92.6 %</b>
<b>Accrued interest</b>			<b>2,311,336</b>	<b>1.9 %</b>
<b>TOTAL SHORT-TERM INVESTMENTS</b>		<b>\$ 119,640,605</b>	<b>\$ 121,865,922</b>	<b>100.0 %</b>

## INVESTMENTS

## Canadian Common Shares

Bank of Montreal	500,000	\$ 23,550,410	\$ 24,665,000	12.0 %
Canadian Imperial Bank of Commerce	795,000	44,852,269	47,071,950	22.8 %
Royal Bank of Canada	722,200	43,262,008	45,845,256	22.2 %
The Bank of Nova Scotia	825,000	51,888,962	54,012,750	26.2 %
The Toronto-Dominion Bank	915,000	35,806,937	40,131,900	19.4 %
<b>Total Canadian Common Shares</b>		<b>\$ 199,360,586</b>	<b>\$ 211,726,856</b>	<b>102.6 %</b>

	Number of Contracts	Proceeds	Market Value	% of Portfolio
<b>OPTIONS</b>				
<b>Written Cash Covered Put Options</b> (100 shares per contract)				
Canadian Imperial Bank of Commerce - November 2003 @ \$55	700	\$ (53,550)	\$ (3)	
Canadian Imperial Bank of Commerce - November 2003 @ \$58	400	(15,200)	(19,656)	
The Bank of Nova Scotia - December 2003 @ \$65	750	(55,875)	(48,465)	
<b>Total Written Cash Covered Put Options</b>		<b>(124,625)</b>	<b>(68,124)</b>	<b>0.0 %</b>
<b>Written Covered Call Options</b> (100 shares per contract)				
Bank of Montreal - November 2003 @ \$47	500	(28,250)	(112,393)	
Bank of Montreal - November 2003 @ \$48	400	(23,200)	(62,085)	
Bank of Montreal - December 2003 @ \$47	500	(37,750)	(126,054)	
Bank of Montreal - December 2003 @ \$48	900	(66,200)	(172,952)	
Bank of Montreal - December 2003 @ \$50	500	(36,500)	(41,316)	
Canadian Imperial Bank of Commerce - November 2003 @ \$57	300	(36,000)	(67,591)	
Canadian Imperial Bank of Commerce - November 2003 @ \$58	1400	(152,600)	(217,012)	
Canadian Imperial Bank of Commerce - December 2003 @ \$57	1850	(233,650)	(543,077)	
Canadian Imperial Bank of Commerce - December 2003 @ \$58	600	(78,600)	(125,486)	
Canadian Imperial Bank of Commerce - December 2003 @ \$60	500	(51,500)	(53,334)	

Statement of Investments (continued)

October 31, 2003

	Number of Contracts	Proceeds	Market Value	% of Portfolio
OPTIONS (continued)				
<b>Written Covered Call Options</b> (100 shares per contract) (continued)				
Royal Bank of Canada - November 2003 @ \$60	1450	(121,300)	<b>(514,743)</b>	
Royal Bank of Canada - November 2003 @ \$61	1000	(91,000)	<b>(264,250)</b>	
Royal Bank of Canada - November 2003 @ \$65	500	(33,000)	<b>(14,631)</b>	
Royal Bank of Canada - December 2003 @ \$60	750	(77,625)	<b>(282,592)</b>	
Royal Bank of Canada - December 2003 @ \$61	600	(65,400)	<b>(193,840)</b>	
The Bank of Nova Scotia - November 2003 @ \$63	300	(27,900)	<b>(69,234)</b>	
The Bank of Nova Scotia - November 2003 @ \$64	1200	(84,800)	<b>(208,967)</b>	
The Bank of Nova Scotia - November 2003 @ \$66	500	(44,500)	<b>(28,284)</b>	
The Bank of Nova Scotia - December 2003 @ \$64	1200	(111,900)	<b>(264,336)</b>	
The Bank of Nova Scotia - December 2003 @ \$65	1000	(96,000)	<b>(178,084)</b>	
The Bank of Nova Scotia - December 2003 @ \$67	250	(23,250)	<b>(13,235)</b>	
The Bank of Nova Scotia - January 2004 @ \$68	600	(66,600)	<b>(48,000)</b>	
The Toronto-Dominion Bank - November 2003 @ \$39	500	(29,000)	<b>(243,241)</b>	
The Toronto-Dominion Bank - November 2003 @ \$40	1250	(81,000)	<b>(498,010)</b>	
The Toronto-Dominion Bank - December 2003 @ \$39	1350	(122,850)	<b>(626,663)</b>	
The Toronto-Dominion Bank - December 2003 @ \$40	1050	(75,650)	<b>(462,674)</b>	
<b>Total Written Covered Call Options</b>		<b>(1,896,025)</b>	<b>(5,432,084)</b>	<b>(2.6)%</b>
TOTAL OPTIONS		<b>\$ (2,020,650)</b>	<b>\$ (5,500,208)</b>	
TOTAL INVESTMENTS		<b>\$197,339,936</b>	<b>\$206,226,648</b>	<b>100.0%</b>

Statements of Financial Highlights

Years ended October 31

	2003	2002	2001	2000	1999
DATA PER CLASS A SHARE					
<b>Net Asset Value, Beginning of Year</b>	<b>\$ 8.38</b>	\$ 10.26	\$12.35	\$ 8.77	\$ 9.06
INCOME FROM INVESTMENT OPERATIONS					
Net investment income (loss)	<b>(1.05)</b>	(0.47)	(0.25)	(0.21)	(0.32)
Net gain (loss) on investments and options	<b>4.42</b>	(0.01)	0.31	5.19	1.23
<b>Total from Investment Operations</b>	<b>3.37</b>	<b>(0.48)</b>	<b>0.06</b>	<b>4.98</b>	<b>0.91</b>
DISTRIBUTION TO SHAREHOLDERS					
From net realized gain on sale of investments and options	<b>(1.14)</b>	(1.40)	(2.15)	(1.40)	(1.20)
From taxable income	<b>(0.06)</b>				
<b>Total Distribution</b>	<b>(1.20)</b>	<b>(1.40)</b>	<b>(2.15)</b>	<b>(1.40)</b>	<b>(1.20)</b>
<b>Net Asset Value, End of Year</b>	<b>\$ 10.55</b>	\$ 8.38	\$ 10.26	\$12.35	\$ 8.77
RATIOS/SUPPLEMENTAL DATA					
Total net assets, end of year (\$millions)	<b>\$ 132.2</b>	\$ 33.3	\$ 40.8	\$ 49.1	\$ 35.1
Management expense ratio excluding special resolution expense	<b>1.17%</b>	1.20%	1.23%	1.17%	1.22%
Management expense ratio including special resolution expense	<b>2.62%</b>	1.20%	1.23%	1.17%	1.22%
Portfolio turnover rate	<b>222%</b>	63%	75%	98%	62%
Annual rate of return	<b>40.2%</b>	(4.7)%	0.5%	56.8%	10.0%
Average net assets (\$millions)	<b>\$ 47.3</b>	\$ 44.6	\$ 49.2	\$ 40.4	\$ 39.4

## 1. Corporate Information

Premium Income Corporation (the "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. All shares outstanding on November 1, 2010 will be redeemed by the Fund on that date.

The Fund operates under the registered name Mulvihill Premium Canadian Bank Fund.

The Fund invests in a portfolio consisting principally of common shares of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank.

To generate additional returns above the dividend income earned on the portfolio, the Fund will from time to time write covered call options in respect of all or part of the common shares in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. The Fund may also use put options to preserve the value of the portfolio where appropriate. From time to time, the portfolio may include debt securities having a remaining term to maturity of less than one year issued or guaranteed by the government of Canada or a province or short-term commercial paper issued by one or more of the Banks.

## 2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The following is a summary of the significant accounting principles:

### Investment valuation policies

Investments and short-term bonds are recorded in the financial statements at their market value at the end of the period, determined as follows:

Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices.

Listed options are valued at market values as reported on recognized exchanges. Over-the-counter options are valued using an appropriate valuation model.

Short-term investments excluding short-term bonds are valued at cost plus accrued interest which approximates market values.

### Policies for the recognition of investment appreciation, investment depreciation and income

Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis.

Option fees received are deferred and included in investments on the statement of financial position so long as the options are outstanding. Any difference resulting from revaluation is included in unrealized appreciation or depreciation of investments.

Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned.

## Policies for recognition of premium on Preferred shares

Premium on Preferred shares is amortized over the remaining life of the Fund. The premium on Preferred shares retracted will be recognized on the date they are retracted.

## 3. Statements of Financial Highlights

The following explanatory notes pertain to the Statements of Financial Highlights:

(a) Net asset value per unit is calculated as (i) the aggregate value of the assets of the Fund, less (ii) the aggregate value of the liabilities of the Fund including any distributions declared and not paid that are payable to shareholders on or before such date and excluding any unamortized premium on issue of Preferred shares, less (iii) the stated capital of the Class B shares of \$1,000, divided by the number of units outstanding.

The net asset value per Class A share is the net asset value per unit less the lessor of (i) \$15.00, or (ii) the net asset value per unit.

(b) Net investment income (loss) per Class A share consists of interest and dividend revenue less expenses, including Preferred share distributions, and is calculated based on the weighted average number of Class A shares outstanding during the year.

(c) Net gain (loss) on investments and options per Class A share includes the impact of timing of shareholder transactions.

(d) Distributions to Class A shareholders are based on the number of Class A shares outstanding on the record date for each distribution.

(e) Management expense ratio is the ratio of all fees and expenses, including GST and capital taxes but excluding income taxes and preferred share distributions, charged to the Fund to average net assets, including redeemable Preferred shares.

(f) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of portfolio securities during the year.

(g) Annual rate of return represents the historical annual total rate of return of an investment in a Class A share for the year, assuming reinvestment of current year distributions.

## 4. Share Capital

The Fund is authorized to issue an unlimited number of Preferred shares and Class A shares and 1,000 Class B shares.

On May 16, 2003 the shareholders of the Fund approved a special resolution to extend the life of the Fund for an additional seven years to November 1, 2010. The resolution extended the participation of holders of Class A shares and Preferred shares in the performance of the Fund's underlying portfolio of Canadian Bank shares beyond the original redemption date of November 1, 2003 while maintaining the rights originally provided to shareholders. Costs of \$1,722,923 were incurred in connection with the special resolution.

On September 22, 2003, the Fund issued 8,500,000 units for total gross cash proceeds of \$226,525,000. On October 7, 2003, the Fund issued an additional 160,000 units for total gross cost proceeds of \$4,264,000. Costs of \$4,440,870 for Preferred shares and \$5,376,150 for Class A shares were incurred in connection with these offerings and have been charged to equity. The Preferred shares were issued at a premium of \$1,188,130 net of issue costs. This premium will be amortized over the remaining life of the Fund.

Preferred shares and Class A shares may be surrendered at any time for retraction at specified retraction amounts. Holders of Preferred shares and Class A shares may concurrently retract one Preferred share and one Class A share on an October 31 valuation date at their net asset values. Shares retracted at any other valuation date or not retracted concurrently at an October 31 valuation date will be retracted at a discount to net asset value. Under the terms of a Recirculation Agreement, the Fund may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares and Class A shares tendered for retraction. The Preferred shares rank in priority to the Class A shares and the Class A shares rank in priority to the Class B shares with respect to the payment of dividends and repayment of capital on the dissolution, liquidation or winding up of the Fund.

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of \$1.00 per share.

Class B shares are entitled to one vote per share. Preferred shares and Class A shares are entitled to vote on certain shareholder matters.

The Fund's Preferred shares have been classified as liabilities in accordance with the accounting requirements of The Canadian Institute of Chartered Accountants. Accordingly, net income for the year is stated after Preferred share distributions.

A net of 900 (2002 - nil) each of Preferred shares and Class A shares were redeemed during the year.

**Issued and Outstanding**

	2003	2002
12,638,400 Preferred shares (2002 - 3,979,300)	\$ 189,576,000	\$ 59,689,500
12,638,400 Class A shares (2002 - 3,979,300)	\$ 125,288,712	\$ 35,414,357
1,000 Class B shares (2002 - 1,000)	1,000	1,000
	\$ 125,289,712	\$ 35,415,357

**5. Management Fees and Expenses**

The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the custodian and manager in the ordinary course of business relating to the Fund's operations.

Fees are paid to Mulvihill Capital Management Inc. ("MCM") under the

terms of an investment management agreement and to Mulvihill Fund Services Inc. ("Mulvihill") under the terms of a management agreement. The fees are comprised of monthly fees calculated at 1/12 of 0.80% and 1/12 of 0.10%, respectively, of the net assets of the Fund at each month end, including the redeemable Preferred shares.

**6. Income Taxes**

The Fund is a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to a tax of 33 1/3% under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends. The Fund is also subject to tax on the amount of its interest income that is not offset by operating expenses and share issue expenses.

The Fund is also a "financial intermediary corporation" as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

Under the dividend policy of the Fund, premiums received in respect of written options that are still outstanding at year end are not to be distributed in the year to the shareholders. The premiums retained by the Fund are subject to a refundable tax at 36.6%. This tax was nil for 2003 (2002 - \$37,390).

**7. Distributions – Preferred Shares**

Distributions per Preferred share paid during the year were allocated as follows:

	2003	2002	2001	2000	1999
Capital gains dividends	\$0.3029	\$0.3404	\$0.3412	\$0.3673	\$0.4101
Taxable dividends	\$0.5899	0.5438	0.5430	0.5127	0.4785
	\$0.8928	\$0.8842	\$0.8842	\$0.8800	\$0.8886

Preferred shares are entitled to a cumulative preferential quarterly dividend of \$0.215625 per share payable on the last day of January, April, July and October in each year. To the extent that a quarterly dividend is a capital gains dividend funded by net realized capital gains or option premiums, holders of Preferred shares will receive an additional capital gains dividend of \$0.068 for each \$1.00 of Preferred share dividend so funded.

**8. Commissions**

Total commissions paid in 2003 in connection with portfolio transactions were \$230,245 (2002 - \$58,129).

## 9. Financial Instruments and Risk Management

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The value of the Fund's assets and liabilities is affected by changes in interest rates and equity markets. The Fund manages these risks through the use of various risk limits and trading strategies. The Fund's assets and liabilities are included in the statements of financial position at market value.

## 10. Comparative Figures

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Certain comparative figures have been reclassified to conform with current presentation.

## 11. Statement of Portfolio Transactions

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The Fund will provide, without charge, a Statement of Portfolio Transactions (unaudited) upon written request by any shareholder to the Fund at 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9.

## Statement of Corporate Governance Practices

The Board of Directors (the "Board") bear responsibility for the stewardship of Premium Income Corporation (operating as Mulvihill Premium Canadian Bank Fund) (the "Fund"). Stewardship includes responsibility for the adoption of a strategic planning process, the identification of the principal risks of the Fund and ensuring the implementation of appropriate systems to manage these risks, succession planning, communications policy, and the integrity of the Fund's internal control and management information systems.

The Board consists of five directors, three of whom are independent of the Fund. The Board believes that the number of directors is appropriate for the Fund and only directors independent of the Fund are compensated. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective director. Individual directors may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Board.

To assist the Board in its monitoring of the Fund's financial reporting and disclosure, the Board has established, and hereby continues the existence of, a committee of the Board known as the Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Fund. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the external auditor, oversight of management's reporting on internal control and oversight of the Fund's compliance with tax and securities laws and regulations. The Audit Committee has direct communication channels with the external auditors to discuss and review specific issues as appropriate.

The Board is responsible for developing the Fund's approach to governance issues and, together with the Investment Manager, is evolving a best practices governance procedure.

The Fund maintains an Investor Relations line and web site to respond to inquiries from shareholders. Our Statement of Corporate Governance Practices will be posted on our website at [www.mulvihill.com](http://www.mulvihill.com).

## Mulvihill Capital Management Inc.

Mulvihill Capital Management is a leading independent investment manager responsible for managing more than \$3.2 billion in segregated and pooled funds on behalf of institutional and high net worth clients. Founded by Canada Trust in 1985, Mulvihill Capital Management emerged in 1995 as an independent company. Today, Mulvihill is managed by a cohesive team of senior managers and owners who have worked together for more than a decade. Our scale and independent structure allow us to provide our clients with a uniquely customized approach to asset management.

Mulvihill Capital Management operates three main lines of business:

- Mulvihill Institutional Asset Management → provides asset growth management of pension funds, corporations, management companies, endowment foundations and mutual funds with a wide variety of investment mandates. Our reputation has been built on the ability to provide customized portfolios that meet the stated needs of our clients.
- Mulvihill Wealth Management → offers a comprehensive specialized approach tailored to a client's personal investment strategies. Personalized service and customized reporting ensure that our clients are fully aware of the progress they are making.
- Mulvihill Structured Products → is responsible for the development and management of Mulvihill Hybrid Income Funds tailored to meet very specific investment objectives. Assets are generally managed to meet absolute rather than relative returns.

Mulvihill's Hybrid Income Funds are exchange-traded, equity-based funds that are enhanced by virtue of their broad distribution, special structure and performance characteristics. The Hybrid Income Funds are prime examples of our customized approach to asset management.

MULVIHILL HYBRID INCOME FUNDS	SYMBOL	HIGH	LOW
<b>MULVIHILL PLATINUM</b>			
Mulvihill Pro-AMS U.S. Fund	PAM.UN	\$ 20.56	\$ 18.79
Mulvihill Pro-AMS RSP Fund	PR.UN	\$ 19.78	\$ 18.15
Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund	PRC.UN	\$ 20.70	\$ 17.45
Mulvihill Pro-AMS 100 Plus (U.S. \$) Fund	PRU.U	\$ 19.90 USD	\$ 15.40 USD
Mulvihill Pro-AMS RSP Split Share Fund	SPL.A/SPL.B	\$ 9.50/\$ 17.24	\$ 7.78/\$ 14.30
<b>MULVIHILL PREMIUM</b>			
Mulvihill Premium Canadian Fund	FPI.UN	\$ 20.20	\$ 17.47
Mulvihill Premium U.S. Fund	FPU.UN	\$ 14.55	\$ 12.36
Mulvihill Premium Oil & Gas Fund	FPG.UN	\$ 9.26	\$ 8.13
Mulvihill Premium 60 Plus Fund	SIX.UN	\$ 20.47	\$ 17.91
Mulvihill Premium Global Plus Fund	GIP.UN	\$ 13.90	\$ 11.82
Mulvihill Premium Canadian Bank Fund	PIC.A/PIC.PR.A	\$ 12.65/\$ 16.50	\$ 9.22/\$ 15.00
Mulvihill Premium Split Share Fund	MUH.A/MUH.PR.A	\$ 11.19/\$ 16.00	\$ 7.71/\$ 15.00
Mulvihill Premium Global Telecom Fund	GT.A/GT.PR.A	\$ 2.35/\$ 11.66	\$ 1.08/\$ 9.60
<b>MULVIHILL SUMMIT</b>			
Mulvihill Summit Digital World Fund	DWT.UN	\$ 4.05	\$ 3.25

#### Board of Directors

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**John P. Mulvihill**  
Chairman & President,  
Mulvihill Capital Management Inc.

**David N. Middleton**  
Vice President, Finance & CFO,  
Mulvihill Capital Management Inc.

**Michael M. Koerner\***  
Corporate Director

**Robert W. Korthals\***  
Corporate Director

**C. Edward Medland\***  
President, Beauwood Investments Inc.

\*Audit Committee

#### Information

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##### Auditors:

Deloitte & Touche LLP  
BCE Place  
181 Bay Street, Suite 1400  
Toronto, Ontario M5J 2V1

##### Transfer Agent:

Computershare  
100 University Avenue, 8th Floor  
Toronto, Ontario M5J 2Y1

##### Shares Listed:

Toronto Stock Exchange  
trading under  
PIC.A, PIC.PR.A

##### Custodian:

Royal Trust  
Royal Trust Tower  
77 King Street West, 11th Floor  
Toronto, Ontario M5W 1P9

Visit our website at [www.mulvihill.com](http://www.mulvihill.com) for additional information on all Mulvihill Hybrid Income Funds.

#### Hybrid Income Funds

##### Managed by Mulvihill Structured Products

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##### Mulvihill Platinum

Mulvihill Pro-AMS *U.S. Fund*  
Mulvihill Pro-AMS *RSP Fund*  
Mulvihill Pro-AMS *100 Plus (Cdn \$) Fund*  
Mulvihill Pro-AMS *100 Plus (U.S. \$) Fund*  
Mulvihill Pro-AMS *RSP Split Share Fund*

##### Mulvihill Premium

Mulvihill Premium *Canadian Fund*  
Mulvihill Premium *U.S. Fund*  
Mulvihill Premium *Oil & Gas Fund*  
Mulvihill Premium *60 Plus Fund*  
Mulvihill Premium *Canadian Bank Fund*  
Mulvihill Premium *Global Plus Fund*  
Mulvihill Premium *Split Share Fund*  
Mulvihill Premium *Global Telecom Fund*

##### Mulvihill Summit

Mulvihill Summit *Digital World Fund*

##### Mutual Funds Managed by Mulvihill Capital Management

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Mulvihill Canadian *Money Market Fund*  
Mulvihill Canadian *Equity Fund*  
Mulvihill Canadian *Bond Fund*  
Mulvihill Global *Equity Fund*  
Mulvihill U.S. *Equity Fund*  
Premium *Global Income Fund*  
Premium *Canadian Income Fund*

##### Head Office:

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**Mulvihill Structured Products**

Investor Relations

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