

Mulvihill Structured Products



Mulvihill

Hybrid Income Funds



Semi-Annual Report 2004

**Mulvihill Premium *Canadian Bank Fund***

Premium Income Corporation

## Mulvihill Premium Canadian Bank Fund

### Message to Shareholders

We are pleased to present the Fund's interim financial statements for the six-month period ended April 30, 2004.

Equities in the financial services sector continued to appreciate during this period, allowing the Fund to maintain its multi-year record of paying double-digit returns to its Class A shareholders.

Preferred shareholders received \$0.45 per share in total distributions during the period. Class A shareholders received \$0.60 per share, comprised of \$0.40 in regular quarterly distributions and \$0.20 in special distributions beyond the target level. The Fund's net asset value per unit declined marginally from \$25.55 on October 31, 2003, to \$25.28 on April 30, 2004.

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 gross cost proceeds of \$4,264,000. The operations of the Fund for the six months ended April 30, 2004 reflect the increase in units issued and outstanding.

The TSX Diversified Banks Index rose 5.3 percent during the six-month period. Shares of the various banks advanced unevenly, but only Royal Bank of Canada failed to register a gain. The Canadian Imperial Bank of Commerce and The Bank of Nova Scotia achieved the highest returns.

Responding to weakening economic performance numbers and slow employment growth, the Bank of Canada made successive 25-basis-point interest rate cuts in January, March and April 2004. The lower rate environment now in effect is favorable for interest-sensitive equities.

Earnings growth is expected to continue for the banks going forward, aided by strong retail earnings, improving capital markets and better credit quality. Capital levels continue to support higher dividend payouts and share buybacks, adding further support to share prices.

Canadian banks continue to exhibit positive fundamentals, and conditions remain favorable for growth going forward.

We would like to take this opportunity to thank all shareholders for their continuing support.

May 2004

## 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 semi-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 semi-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 annual financial statements.

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.



David N. Middleton  
CFO  
Mulvihill Capital Management Inc.

May 2004

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Interim Statements of Financial Position

April 30, 2004 (Unaudited) and October 31, 2003 (Audited)

	2004	2003
<b>ASSETS</b>		
Investments at market value (average cost - \$220,178,515; 2003 - \$197,339,936)	<b>\$ 225,712,336</b>	\$ 206,226,648
Short-term investments (average cost - \$98,227,567; 2002 - \$119,640,605)	<b>97,636,260</b>	119,554,586
Due from brokers	–	4,747,200
Cash	<b>18,333</b>	33,923
Interest, dividends and other receivables	<b>1,531,465</b>	2,647,705
<b>TOTAL ASSETS</b>	<b>\$ 324,898,394</b>	<b>\$ 333,210,062</b>
<b>LIABILITIES</b>		
Due to brokers	<b>\$ 5,032,575</b>	\$ 9,404,480
Accrued liabilities	<b>314,191</b>	302,151
Share issue expenses payable	–	555,005
Redemptions payable	–	22,995
	<b>5,346,766</b>	<b>10,284,631</b>
Redeemable preferred shares	<b>189,576,000</b>	189,576,000
Unamortized premium on issue of preferred shares	<b>1,090,284</b>	1,174,152
	<b>196,013,050</b>	<b>201,034,783</b>
<b>EQUITY</b>		
Class A and Class B shares	<b>125,289,712</b>	125,289,712
Retained earnings	<b>3,595,632</b>	6,885,567
	<b>128,885,344</b>	<b>132,175,279</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 324,898,394</b>	<b>\$ 333,210,062</b>
<b>Number of units outstanding</b>	<b>12,638,400</b>	<b>12,638,400</b>
<b>Net Asset Value per Unit</b>		
Preferred share	<b>\$ 15.00</b>	\$ 15.00
Class A share	<b>10.28</b>	10.55
	<b>\$ 25.28</b>	<b>\$ 25.55</b>

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Interim Statements of Operations and Retained Earnings

For the six months ended April 30 (Unaudited)

	2004	2003
<b>REVENUE</b>		
Interest	\$ 2,068,606	\$ 556,053
Dividends	3,095,750	889,204
	<u>5,164,356</u>	<u>1,445,257</u>
Net realized gains on investments and options	10,528,826	3,292,599
<b>TOTAL REVENUE</b>	<u>15,693,182</u>	<u>4,737,856</u>
<b>EXPENSES</b>		
Management fees	1,460,246	440,622
Administrative and other expenses	185,470	414,024
GST and capital taxes	319,703	59,333
<b>TOTAL EXPENSES</b>	<u>1,965,419</u>	<u>913,979</u>
<b>Net Realized Income before Distributions</b>	<b>13,727,763</b>	<b>3,823,877</b>
Preferred share distributions	<u>(5,660,348)</u>	<u>(1,767,358)</u>
<b>Net Realized Income</b>	<b>8,067,415</b>	<b>2,056,519</b>
Change in unrealized appreciation/depreciation of investments and options during the period	(3,352,890)	5,708,391
Change in unrealized appreciation/depreciation of short-term investments during the period	(505,288)	(12,111)
	<u>(3,858,178)</u>	<u>5,696,280</u>
Amortization of premium on issue of preferred shares	83,868	–
<b>NET INCOME FOR THE PERIOD</b>	<b>\$ 4,293,105</b>	<b>\$ 7,752,799</b>
<b>RETAINED EARNINGS</b>		
Balance, beginning of period	\$ 6,885,567	\$ (2,083,241)
Net income for the period	4,293,105	7,752,799
Distributions on Class A shares	<u>(7,583,040)</u>	<u>(2,387,580)</u>
<b>BALANCE, END OF PERIOD</b>	<b>\$ 3,595,632</b>	<b>\$ 3,281,978</b>

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Interim Statements of Changes in Net Assets

For the six months ended April 30 (Unaudited)

	2004	2003
NET ASSETS, BEGINNING OF PERIOD	\$ 132,175,279	\$ 33,332,116
<b>Net Realized Income</b>		
before Distributions	13,727,763	3,823,877
<b>Amortization of premium on issue</b>		
of preferred shares	83,868	-
<b>Distributions</b>		
Preferred shares	(5,660,348)	(1,767,358)
Class A shares	(7,583,040)	(2,387,580)
	<b>(13,243,388)</b>	<b>(4,154,938)</b>
<b>Change in Unrealized Appreciation/ Depreciation of Investments, Options and Short-Term Investments during the Period</b>	<b>(3,858,178)</b>	5,696,280
<b>Changes in Net Assets during the Period</b>	<b>(3,289,935)</b>	5,365,219
NET ASSETS, END OF PERIOD	\$ 128,885,344	\$ 38,697,335
Distribution per Preferred Share	\$ 0.45	\$ 0.44
Distribution per Class A Share	\$ 0.60	\$ 0.60

#### Statement of Investments

April 30, 2004 (Unaudited)

	Par Value	Average Cost	Market Value
<b>SHORT-TERM INVESTMENTS</b>			
<b>Treasury Bills</b>			
Government of Canada - May 6, 2004	8,575,000	\$ 8,522,910	\$ 8,522,910
Government of Canada - June 30, 2004	15,980,000	15,900,692	15,900,692
Government of Canada - July 29, 2004	5,755,000	5,723,581	5,723,581
Government of Canada - August 26, 2004	15,420,000	15,297,161	15,297,161
<b>Total Treasury Bills</b>		<b>45,444,344</b>	<b>45,444,344</b>
<b>Bonds</b>			
Canada Mortgage & Housing Corporation - June 1, 2004	10,000,000	10,020,238	10,022,309
Export Development Corporation - June 18, 2004	42,000,000	42,762,985	42,169,607
<b>Total Bonds</b>		<b>52,783,223</b>	<b>52,191,916</b>
		<b>98,227,567</b>	<b>97,636,260</b>
<b>Accrued interest</b>			<b>1,161,496</b>
<b>TOTAL SHORT-TERM INVESTMENTS</b>		<b>\$ 98,227,567</b>	<b>\$ 98,797,756</b>

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Statement of Investments (continued)

April 30, 2004 (Unaudited)

	Number of Shares	Average Cost	Market Value
<b>INVESTMENTS</b>			
<b>Canadian Common Shares</b>			
Bank of Montreal	900,000	\$ 48,199,886	\$ 46,710,000
Canadian Imperial Bank of Commerce	620,000	39,767,498	41,657,800
Royal Bank of Canada	675,000	41,460,798	41,141,250
The Bank of Nova Scotia	1,360,000	45,308,932	47,804,000
The Toronto-Dominion Bank	1,110,000	47,457,951	49,372,800
<b>Total Canadian Common Shares</b>		<b>\$222,195,065</b>	<b>\$ 226,685,850</b>

	Number of Contracts	Proceeds	Market Value
<b>OPTIONS</b>			
<b>Written Cash Covered Put Options (100 shares per contract)</b>			
Bank of Montreal			
- June 2004 @ \$52	500	\$ (42,500)	\$ (46,511)
Canadian Imperial Bank of Commerce			
- June 2004 @ \$67	550	(52,800)	(64,023)
Royal Bank of Canada			
- May 2004 @ \$62	400	(19,000)	(41,175)
<b>Total Written Cash Covered Put Options</b>		<b>(114,300)</b>	<b>(151,709)</b>

<b>Written Covered Call Options (100 shares per contract)</b>			
Bank of Montreal			
- May 2004 @ \$54	750	(52,500)	(75)
Bank of Montreal			
- May 2004 @ \$58	750	(76,500)	-
Bank of Montreal			
- June 2004 @ \$55	500	(42,000)	(5,876)
Bank of Montreal			
- June 2004 @ \$56	500	(42,500)	(2,885)
Bank of Montreal			
- June 2004 @ \$57	1,500	(146,750)	(13,109)
Canadian Imperial Bank of Commerce			
- May 2004 @ \$67	750	(104,625)	(55,683)
Canadian Imperial Bank of Commerce			
- May 2004 @ \$71	500	(54,000)	(1,498)
Canadian Imperial Bank of Commerce			
- June 2004 @ \$69	750	(99,000)	(41,755)
Canadian Imperial Bank of Commerce			
- June 2004 @ \$71	500	(77,500)	(14,106)
Canadian Imperial Bank of Commerce			
- July 2004 @ \$68	750	(87,000)	(95,962)
Royal Bank of Canada			
- May 2004 @ \$64	750	(29,625)	(2,614)
Royal Bank of Canada			
- May 2004 @ \$66	750	(34,500)	(319)
Royal Bank of Canada			
- June 2004 @ \$63	500	(42,250)	(20,269)
Royal Bank of Canada			
- June 2004 @ \$64	1,000	(79,250)	(24,210)

# Mulvihill Premium Canadian Bank Fund

## Financial Statements

### Statement of Investments (continued)

April 30, 2004 (Unaudited)

	Number of Contracts	Proceeds	Market Value
INVESTMENTS (continued)			
OPTIONS (continued)			
<b>Written Covered Call Options</b> (100 shares per contract) (continued)			
The Bank of Nova Scotia			
- May 2004 @ \$69	800	(30,000)	(46,391)
The Bank of Nova Scotia			
- May 2004 @ \$71	2,000	(71,000)	(40,126)
The Bank of Nova Scotia			
- June 2004 @ \$37	1,000	(51,000)	(12,568)
The Bank of Nova Scotia			
- June 2004 @ \$71	1,000	(62,000)	(47,472)
The Bank of Nova Scotia			
- July 2004 @ \$36	1,000	(43,500)	(60,799)
The Bank of Nova Scotia			
- July 2004 @ \$37	1,000	(57,000)	(41,196)
The Toronto-Dominion Bank			
- May 2004 @ \$46	1,500	(171,000)	(47,669)
The Toronto-Dominion Bank			
- June 2004 @ \$45	500	(32,000)	(45,343)
The Toronto-Dominion Bank			
- June 2004 @ \$47	750	(72,000)	(21,112)
The Toronto-Dominion Bank			
- June 2004 @ \$48	1,000	(105,000)	(14,368)
The Toronto-Dominion Bank			
- July 2004 @ \$45	500	(45,000)	(59,194)
The Toronto-Dominion Bank			
- July 2004 @ \$46	1,000	(110,000)	(66,528)
The Toronto-Dominion Bank			
- July 2004 @ \$47	750	(84,750)	(40,678)
<b>Total Written Covered Call Options</b>		(1,902,250)	(821,805)
<b>TOTAL OPTIONS</b>		<b>\$ (2,016,550)</b>	<b>\$ (973,514)</b>
<b>TOTAL INVESTMENTS</b>		<b>\$220,178,515</b>	<b>\$225,712,336</b>

# Mulvihill Premium Canadian Bank Fund

## Notes to Financial Statements

April 30, 2004

### 1. Corporation Information

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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. Basis of Presentation

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The interim financial statements for the Fund have been prepared in accordance with Canadian generally accepted accounting standards (“GAAP”). However, not all disclosures required by GAAP for annual financial statements have been presented and, accordingly, these interim financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended October 31, 2003.

These interim financial statements follow the same accounting policies and method of application as the most recent financial statements for the year ended October 31, 2003.

### 3. Comparative Figures

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

### Statement of Portfolio Transactions

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A copy of the Statement of Portfolio Transactions (unaudited) for Mulvihill Premium Canadian Bank Fund for the period ended April 30, 2004 may be obtained without charge by writing to the Fund at 121 King St. W., Suite 2600, Toronto ON M5H 3T9.

## 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 *World Financial Split Corp.*

#### 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 *Bond Fund*

Mulvihill Canadian *Equity Fund*

Mulvihill Global *Equity Fund*

Mulvihill U.S. *Equity Fund*

Premium *Global Income Fund*

Premium *Canadian Income Fund*

### Head Office

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