

Mulvihill Structured Products



Mulvihill

Hybrid Income Funds



Semi-Annual Report 2005

**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, 2005.

Continued strong appreciation in bank stocks has allowed the Fund to further extend its record of paying double-digit returns to shareholders. Preferred shareholders received distributions of \$0.438543 per share for this period, while 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 underlying net asset value of the Fund's Class A shares declined from \$10.96 on October 31, 2004, to \$10.62 on April 30, 2005. The trading prices on the TSX of both preferred and Class A shares were little changed during the period.

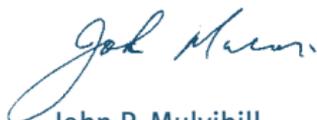
The S&P/TSX Diversified Banks Index climbed 7.5 percent during the six-month period, as compared with the S&P/TSX Composite Index, which gained 6.6 percent. Four of the Big Five banks showed gains, led by the Royal Bank of Canada's 19.3 percent advance. Only Bank of Montreal remained stalled with a slight decline for the period. Unfortunately, the Fund was underweight in Royal Bank of Canada shares when first-quarter earnings exceeded analysts' expectations and caused those shares to surge.

The Canadian banking sector continues to show strong retail profitability, lower loan loss provisions, better capital markets and trading revenues. In addition to these strong performance factors, higher dividend payout ratios and share buyback programs are adding further impetus to rising equity values.

Due to weakness in some industrial sectors and the impact of the higher Canadian dollar, the Bank of Canada is maintaining a relatively low interest rate environment. Low rates are generally beneficial for banking operations, and will provide continuing support for bank equity prices in the months to come.

The fundamental strength and defensive nature of the banking sector is maintaining strong investor support for bank equities. While growth may slow somewhat throughout 2005, favorable economic conditions should make retail banking a continuing source of earnings gains. The outlook is therefore positive for the balance of this fiscal year.

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



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

May 2005

## Management's Responsibility for Financial Reporting

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 Fund Services 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 the Board.



John P. Mulvihill  
Director  
Mulvihill Fund Services Inc.



Sheila S. Szela  
Director  
Mulvihill Fund Services Inc.

May 2005

# Mulvihill Premium Canadian Bank Fund

## Financial Statements

### Interim Statements of Financial Position

April 30, 2005 (Unaudited) and October 31, 2004 (Audited)

	2005	2004
<b>ASSETS</b>		
Investments at market value (average cost - \$346,820,953; 2004 - \$343,667,174)	<b>\$ 358,194,822</b>	\$ 364,035,243
Short-term investments (average cost - \$131,043,614; 2004 - \$129,431,429)	<b>131,043,614</b>	129,405,435
Cash	<b>770,762</b>	451,898
Interest, dividends and other receivables	<b>536,241</b>	3,446,713
<b>TOTAL ASSETS</b>	<b>\$ 490,545,439</b>	<b>\$ 497,339,289</b>
<b>LIABILITIES</b>		
Accrued liabilities	<b>\$ 425,599</b>	\$ 444,360
Share issue expenses payable	<b>69,992</b>	297,102
	<b>495,591</b>	<b>741,462</b>
Redeemable preferred shares	<b>286,893,690</b>	286,893,690
Unamortized premium on issue of preferred shares	<b>1,755,284</b>	1,914,855
	<b>289,144,565</b>	<b>289,550,007</b>
<b>EQUITY</b>		
Class A and Class B shares	<b>194,073,151</b>	194,073,151
Retained earnings	<b>7,327,723</b>	13,716,131
	<b>201,400,874</b>	<b>207,789,282</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 490,545,439</b>	<b>\$ 497,339,289</b>
<b>Number of Units Outstanding</b>	<b>19,126,246</b>	<b>19,126,246</b>
<b>Net Asset Value per Unit</b>		
Preferred share	<b>\$ 15.00</b>	\$ 15.00
Class A share	<b>10.62</b>	10.96
	<b>\$ 25.62</b>	<b>\$ 25.96</b>

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Interim Statements of Operations and Retained Earnings

For the six months ended April 30 (Unaudited)

	2005	2004
<b>REVENUE</b>		
Interest	\$ 1,862,289	\$ 2,068,606
Dividends	5,888,275	3,095,750
	7,750,564	5,164,356
Net Realized Gains on Investments	17,146,856	10,528,826
<b>TOTAL REVENUE</b>	<b>24,897,420</b>	<b>15,693,182</b>
<b>EXPENSES</b>		
Management fees	2,194,385	1,460,246
Administrative and other expenses	248,827	185,470
Goods and services tax and capital tax	170,552	319,703
<b>TOTAL EXPENSES</b>	<b>2,613,764</b>	<b>1,965,419</b>
<b>Net Realized Income before Preferred Share Transactions</b>	<b>22,283,656</b>	<b>13,727,763</b>
Preferred share distributions	(8,387,681)	(5,660,348)
<b>Net Realized Income</b>	<b>13,895,975</b>	<b>8,067,415</b>
Change in unrealized appreciation of investments during the period	(8,994,200)	(3,352,890)
Change in unrealized depreciation of short-term investments during the period	25,994	(505,288)
	(8,968,206)	(3,858,178)
Amortization of premium on issue of preferred shares	159,571	83,868
<b>NET INCOME FOR THE PERIOD</b>	<b>\$ 5,087,340</b>	<b>\$ 4,293,105</b>
<b>NET INCOME PER CLASS A SHARE</b> (based on the average number of units outstanding during the period of 19,146,246; 2004 - 12,638,400)		
	<b>\$ 0.27</b>	<b>\$ 0.34</b>
<b>RETAINED EARNINGS</b>		
Balance, beginning of period	\$ 13,716,131	\$ 6,885,567
Net income for the period	5,087,340	4,293,105
Distributions on Class A shares	(11,475,748)	(7,583,040)
<b>BALANCE, END OF PERIOD</b>	<b>\$ 7,327,723</b>	<b>\$ 3,595,632</b>

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Interim Statements of Changes in Net Assets

For the six months ended April 30 (Unaudited)

	2005	2004
NET ASSETS, BEGINNING OF PERIOD	<b>\$ 207,789,282</b>	<b>\$ 132,175,279</b>
<b>Net Realized Income before Preferred Share Transactions</b>	<b>22,283,656</b>	<b>13,727,763</b>
<b>Amortization of Premium on Issue of Preferred Shares</b>	<b>159,571</b>	<b>83,868</b>
<b>Distributions</b>		
Preferred shares	<b>(8,387,681)</b>	(5,660,348)
Class A shares	<b>(11,475,748)</b>	(7,583,040)
	<b>(19,863,429)</b>	<b>(13,243,388)</b>
<b>Change in Unrealized Appreciation/ Depreciation of Investments and Short-Term Investments during the Period</b>	<b>(8,968,206)</b>	<b>(3,858,178)</b>
<b>Changes in Net Assets during the Period</b>	<b>(6,388,408)</b>	<b>(3,289,935)</b>
NET ASSETS, END OF PERIOD	<b>\$ 201,400,874</b>	<b>\$ 128,885,344</b>
Distribution per Preferred Share	<b>\$ 0.44</b>	\$ 0.45
Distribution per Class A Share	<b>\$ 0.60</b>	\$ 0.60

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Interim Statements of Changes in Investments

For the six months ended April 30, 2005 (Unaudited)

	2005	2004
INVESTMENTS AT MARKET VALUE, BEGINNING OF PERIOD	<b>\$ 364,035,243</b>	<b>\$ 206,226,648</b>
Unrealized appreciation of investments, beginning of period	<b>(20,368,069)</b>	(8,886,712)
<b>Investments at Cost, Beginning of Period</b>	<b>343,667,174</b>	<b>197,339,936</b>
<b>Cost of Investments Purchased during the Period</b>	<b>256,527,427</b>	<b>214,005,823</b>
<b>Cost of Investments Sold during the Period</b>		
Proceeds from sales	<b>270,520,504</b>	201,696,070
Net realized gains on sales	<b>17,146,856</b>	10,528,826
	<b>253,373,648</b>	<b>191,167,244</b>
<b>Investments at Cost, End of Period</b>	<b>346,820,953</b>	<b>220,178,515</b>
Unrealized appreciation of investments, end of period	<b>11,373,869</b>	5,533,821
INVESTMENTS AT MARKET VALUE, END OF PERIOD	<b>\$ 358,194,822</b>	<b>\$ 225,712,336</b>

# Mulvihill Premium Canadian Bank Fund

## Financial Statements

### Statement of Investments

April 30, 2005 (Unaudited)

	Par Value/ Number of Shares	Average Cost	Market Value
<b>SHORT-TERM INVESTMENTS</b>			
<b>Treasury Bills</b>			
Government of Canada - June 30, 2005	69,010,000	\$ 68,515,942	\$ 68,515,942
Government of Canada - July 28, 2005	61,010,000	60,563,620	60,563,620
Government of Canada - August 25, 2005	1,980,000	1,964,052	1,964,052
<b>Total Treasury Bills</b>		<b>131,043,614</b>	<b>131,043,614</b>
<b>Accrued Interest</b>			<b>297,291</b>
<b>TOTAL SHORT-TERM INVESTMENTS</b>		<b>\$131,043,614</b>	<b>\$ 131,340,905</b>

### INVESTMENTS

#### Canadian Common Shares

Bank of Montreal	1,375,000	\$ 75,794,481	\$ 77,893,750
Canadian Imperial Bank of Commerce	700,000	49,376,715	52,325,000
Royal Bank of Canada	565,000	41,632,700	42,346,750
The Bank of Nova Scotia	2,335,000	90,586,838	93,376,650
The Toronto-Dominion Bank	1,925,000	91,780,848	96,904,500
<b>Total Canadian Common Shares</b>		<b>\$349,171,582</b>	<b>\$ 362,846,650</b>

	Number of Contracts	Average Cost	Market Value
<b>Purchased Put Options (100 shares per contract)</b>			
Bank of Montreal - June 2005 @ \$53	1,320	\$ 79,200	\$ 12,106
Bank of Montreal - July 2005 @ \$53	1,350	97,200	17,034
Bank of Montreal - August 2005 @ \$53	1,560	125,160	36,047
Canadian Imperial Bank of Commerce - June 2005 @ \$67	1,260	133,560	4,774
Canadian Imperial Bank of Commerce - July 2005 @ \$68	1,250	155,625	20,939
Canadian Imperial Bank of Commerce - July 2005 @ \$70	1,250	106,625	49,069
Royal Bank of Canada - June 2005 @ \$70	1,000	91,500	6,330
Royal Bank of Canada - July 2005 @ \$69	1,000	123,000	8,916
The Bank of Nova Scotia - June 2005 @ \$37	2,060	76,220	3,735
The Bank of Nova Scotia - July 2005 @ \$38	2,100	142,800	43,424
The Bank of Nova Scotia - August 2005 @ \$37	1,670	81,010	19,916

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Statement of Investments (continued)

April 30, 2005 (Unaudited)

	Number of Contracts	Average Cost/ Proceeds	Market Value
INVESTMENTS (continued)			
<b>Purchased Put Options</b> (100 shares per contract) (continued)			
The Toronto-Dominion Bank - June 2005 @ \$49	1,925	140,525	<b>33,791</b>
The Toronto-Dominion Bank - July 2005 @ \$48	1,990	171,140	<b>19,215</b>
The Toronto-Dominion Bank - August 2005 @ \$48	1,315	79,426	<b>14,971</b>
<b>Total Purchased Put Options</b>		<b>\$ 1,602,991</b>	<b>\$ 290,267</b>

#### **Written Cash Covered Put Options** (100 shares per contract)

Canadian Imperial Bank of Commerce - May 2005 @ \$72	(1,000)	\$ (49,500)	<b>\$ (16,680)</b>
Royal Bank of Canada - May 2005 @ \$72	(1,000)	(43,000)	<b>(13,000)</b>
The Bank of Nova Scotia - May 2005 @ \$39	(1,000)	(40,000)	<b>(170)</b>
The Toronto-Dominion Bank - May 2005 @ \$50	(1,000)	(49,000)	<b>(19,700)</b>
<b>Total Written Cash Covered Put Options</b>		<b>\$ (181,500)</b>	<b>\$ (49,550)</b>

#### **Written Covered Call Options** (100 shares per contract)

Bank of Montreal - May 2005 @ \$55	(1,500)	\$ (67,500)	<b>\$ (325,621)</b>
Bank of Montreal - May 2005 @ \$56	(4,250)	(341,750)	<b>(364,129)</b>
Bank of Montreal - June 2005 @ \$56	(2,300)	(146,450)	<b>(316,621)</b>
Bank of Montreal - June 2005 @ \$57	(3,000)	(188,000)	<b>(329,450)</b>
Canadian Imperial Bank of Commerce - May 2005 @ \$72	(2,000)	(213,000)	<b>(611,416)</b>
Canadian Imperial Bank of Commerce - June 2005 @ \$72	(2,000)	(295,000)	<b>(634,880)</b>
Canadian Imperial Bank of Commerce - June 2005 @ \$74	(1,100)	(160,600)	<b>(217,264)</b>
Royal Bank of Canada - May 2005 @ \$74	(2,500)	(207,500)	<b>(375,000)</b>
Royal Bank of Canada - May 2005 @ \$75	(1,500)	(121,500)	<b>(138,108)</b>
Royal Bank of Canada - June 2005 @ \$74	(1,500)	(181,500)	<b>(273,516)</b>
The Bank of Nova Scotia - May 2005 @ \$40	(4,000)	(254,000)	<b>(127,372)</b>
The Bank of Nova Scotia - May 2005 @ \$41	(2,200)	(149,600)	<b>(8,510)</b>
The Bank of Nova Scotia - June 2005 @ \$40	(7,300)	(435,600)	<b>(550,000)</b>
The Toronto-Dominion Bank - May 2005 @ \$50	(3,000)	(274,500)	<b>(230,086)</b>

## Mulvihill Premium Canadian Bank Fund

### Financial Statements

#### Statement of Investments (continued)

April 30, 2005 (Unaudited)

	Number of Contracts	Proceeds	Market Value
INVESTMENTS (continued)			
<b>Written Covered Call Options</b> (100 shares per contract) (continued)			
The Toronto-Dominion Bank - May 2005 @ \$51	(4,695)	(329,320)	<b>(60,778)</b>
The Toronto-Dominion Bank - June 2005 @ \$50	(1,300)	(134,550)	<b>(103,678)</b>
The Toronto-Dominion Bank - June 2005 @ \$51	(3,500)	(271,750)	<b>(226,116)</b>
<b>Total Written Covered Call Options</b>		<b>\$ (3,772,120)</b>	<b>\$ (4,892,545)</b>
<b>TOTAL INVESTMENTS</b>		<b>\$346,820,953</b>	<b>\$ 358,194,822</b>

# Mulvihill Premium *Canadian Bank Fund*

## Notes to Financial Statements

April 30, 2005

### 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, 2004.

## Mulvihill Premium Canadian Bank Fund

### Notes to Financial Statements

April 30, 2005

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, 2004, except for new policies adopted for purchased put option transactions. These new policies are as follows:

#### Investment Transactions and Income

Realized gains and losses relating to purchased put options may arise from:

- (i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid;
- (ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid; and
- (iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

### 3. Net Asset Value

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Net asset value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund (excluding Redeemable Preferred shares and unamortized premium on issue of Preferred shares) on that date divided by the number of units then outstanding. The following are the net asset values of a unit at October 31 for the most recent five-year period:

	<b>2004</b>	2003	2002	2001	2000
Preferred share	<b>\$15.00</b>	\$15.00	\$15.00	\$15.00	\$15.00
Class A share	<b>10.96</b>	10.55	8.38	10.26	12.35
	<b>\$25.96</b>	\$25.55	\$23.38	\$25.26	\$27.35

On April 30, 2005, Preferred shares on the TSX closed at \$16.01 (2004 - \$15.75), while Class A shares closed at \$12.21 (2004 - \$11.86).

## Mulvihill Premium Canadian Bank Fund

### Notes to Financial Statements

April 30, 2005

#### 4. Management Expense Ratios

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The management expense ratio is the ratio of all fees and expenses, including goods and services tax and capital tax but excluding income taxes and Preferred share distributions, charged to the Fund to average net assets, excluding the liability for the Redeemable Preferred shares and unamortized premium on issue of Preferred shares. The following are the management expense ratios for the years ended October 31 for the most recent five-year period:

2004	2003	2002	2001	2000
<b>1.20%</b>	2.62%*	1.20%	1.23%	1.17%

\* Management expense ratio for 2003 includes the special resolution expense. The management expense ratio excluding the special resolution expense is 1.17%.

#### 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, 2005 may be obtained without charge by writing to the Fund at 121 King St. W., Suite 2600, Toronto ON M5H 3T9.

## **Mulvihill Premium Canadian Bank Fund**

### **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 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 Bond Fund*

*Mulvihill Global Equity Fund*

*Premium Global Income Fund*

### **Head Office**

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