

Edgar Filing: INSURED MUNICIPAL INCOME FUND INC - Form N-CSR

INSURED MUNICIPAL INCOME FUND INC  
Form N-CSR  
June 06, 2003

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: 811-07528

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INSURED MUNICIPAL INCOME FUND INC.

-----  
(Exact name of registrant as specified in charter)

51 West 52nd Street, New York, New York 10019-6114

-----  
(Address of principal executive offices) (Zip code)

Amy R. Doberman, Esq.  
UBS Global Asset Management (US) Inc.  
51 West 52nd Street  
New York, NY 10019-6114  
(Name and address of agent for service)

Copy to:  
Jack W. Murphy, Esq.  
Dechert  
1775 Eye Street, N.W.  
Washington, DC 20006-2401

Registrant's telephone number, including area code: 212-882 5000

Date of fiscal year end: March 31, 2003

Date of reporting period: March 31, 2003

ITEM 1. REPORTS TO STOCKHOLDERS.

[UBS GLOBAL ASSET MANAGEMENT LOGO]

Insured Municipal Income Fund Inc.

Annual Report

March 31, 2003

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Insured Municipal Income Fund Inc.

May 15, 2003

DEAR SHAREHOLDER,

We present you with the annual report for Insured Municipal Income Fund Inc. for the fiscal year ended March 31, 2003.

AN INTERVIEW WITH PORTFOLIO MANAGER WILLIAM VERONDA

Q. HOW DID THE FUND PERFORM DURING THE PERIOD RELATIVE TO ITS PEERS?

A. For the fiscal year ended March 31, 2003, the Fund's net asset value advanced 10.45%, while its market price increased 10.61%, underperforming its competitors as measured by the Lipper Insured Municipal Debt Funds (Leveraged) Median. For comparison purposes, the Lipper Median's net asset value and market price grew 12.69% and 14.19%, respectively. The Fund lagged its benchmark primarily due to its shorter average duration compared to its peers. (For more performance information, please refer to "Performance At A Glance" on page 5).

Q. CAN YOU DESCRIBE THE ECONOMIC ENVIRONMENT DURING THE PERIOD?

A. The economy didn't move in any clear direction over the period. Initially, it appeared to be on the path to recovery. Newly reported gross domestic product (GDP) for the first quarter of 2002 came in at a strong 5.0%. Second quarter GDP told a very different story, however, as ongoing threats of terrorism, turmoil in the Middle East, falling corporate spending, a weak stock market, and corporate accounting scandals took their toll. The final figure came in at a tepid 1.3%. Although the news improved somewhat during the third quarter--GDP rose to 4.0%--hopes for economic recovery dimmed when fourth quarter GDP came in at 1.4%.

By the time the review period wound down in March, little about this economic picture had changed. Fears concerning a potential war with Iraq were replaced by fears over the longevity and cost of the war after it began. It was also clear that other factors, including the heightened threat of terrorism and saber-rattling in North Korea, continued to weigh heavily on the forces driving economic growth. This was ultimately reflected in the advance GDP figure for first quarter 2003, which came in at 1.6%.

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INSURED MUNICIPAL INCOME FUND INC.

INVESTMENT GOAL:

High level of current income  
exempt from federal income tax,  
consistent with preservation  
of capital.

PORTFOLIO MANAGER:

William Veronda,  
UBS Global Asset  
Management (US) Inc.

COMMENCEMENT:

June 8, 1993

NYSESYMBOL:

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PIF

DIVIDEND PAYMENTS:

Monthly.

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Insured Municipal Income Fund Inc.

Q. HOW DID THE FEDERAL RESERVE BOARD (THE "FED") REACT TO THE WEAKENING ECONOMY?

A. In November 2002, the Fed acknowledged that the economy appeared to have hit a "soft spot." Thus, after holding interest rates steady during the first ten months of 2002, the Fed, at its November meeting, moved to lower the federal funds rate one half of a percentage point to 1.25%--a 41-year low. Since that time, the Fed has held rates steady--most recently at its May 6, 2003 meeting.

Q. HOW DID THE BOND MARKET PERFORM DURING THE ONE-YEAR PERIOD?

A. The bond market performed well, although there were periods of volatility due to uncertainty engendered by the economy and the situation in Iraq. Looking at the period as a whole, yields fell and prices rose as investors were drawn to the relative safety offered by fixed income securities, including municipal bonds.

Q. DURING THE LAST SEVERAL YEARS, INTEREST RATES HAVE SUBSTANTIALLY DECLINED. HAS THIS AFFECTED THE FUND?

A. Yes, it has. A number of issuers have chosen to call, or buy back, their bonds before their stated maturity dates. By doing so, the issuers can then issue new securities at today's lower rates, and thus cut their borrowing costs. We are using the proceeds we receive from these involuntary sales to purchase bonds offering lower coupons. Because of this trend, however, we are taking special care to thoroughly investigate any call provisions in the bonds we are considering for the Fund.

Q. WHILE THE FUND GENERATED STRONG ABSOLUTE RETURNS, IT LAGGED ITS BENCHMARK DURING THE PERIOD. WHAT WAS THE PRIMARY REASON FOR THIS?

A. As we explained in our last report to shareholders, the Fund's performance has been affected by our attempt to minimize the realization of capital gains. This has become increasingly difficult to do, because nearly every security in the portfolio has appreciated due to the strong performance of the municipal market. One way to avoid capital gains is to hold on to positions in the portfolio. However, in doing so, many of the securities in the Fund's portfolio have "aged" to the point where they have short maturities. Given the falling interest rate environment, the Fund's shorter duration caused it to underperform its peers.

Another result of our focus on avoiding the realization of capital gains is that it limits our flexibility to invest in longer-term securities that offer compelling yield and quality characteristics. Therefore, during the period we worked to prudently eliminate certain holdings with shorter durations in an effort to extend the Fund's duration and enhance its portfolio. One example was our sale of Louisville & Jefferson County Metropolitan Sewer District Sewer & Drain System bonds

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Insured Municipal Income Fund Inc.

that mature in 2004. This security offered a low yield and modest capital gain, making it an appropriate candidate to eliminate from the portfolio.

Q. WHEN PURCHASING NEW BONDS FOR THE PORTFOLIO, ARE YOU TARGETING A SPECIFIC DURATION RANGE AND YIELD?

A. Yes, we are targeting bonds with approximately a 10-year call and a maturity in the 15- to 20-year range. We believe these issues allow us to maximize yield relative to market volatility. Additionally, we're looking for bonds that offer a yield premium of 50 to 100 basis points versus what is currently available in the marketplace (a basis point is 1/100 of a percentage point).

It is also important to point out that we're diversifying the portfolio by investing a portion of the portfolio in AAA-rated uninsured bonds. By prospectus, we can invest up to 20% of the Fund's portfolio in these issues. U.S. government securities back many of the uninsured securities we're holding in the portfolio, and we believe they offer superior quality versus certain insured bonds.

Q. CAN YOU SHARE SOME EXAMPLES OF SECTORS YOU'RE EMPHASIZING AND SPECIFIC SECURITIES YOU ADDED TO THE PORTFOLIO DURING THE PERIOD?

A. We like the fundamentals offered by essential service revenue bonds, including revenue-producing utilities, and, in particular, select electric power revenue bonds. We're seeing a rebound in this area due to a reversal in the deregulation that led to severe problems in states such as California.

We are also drawn to airport revenue bonds. While the airline industry is extremely weak, we believe many airport bonds offer compelling opportunities, since the need for airfreight and transportation is a vital component of our economy. An example of a holding in this area is St. Louis Airport bonds.

Q. WHAT IS YOUR OUTLOOK FOR THE ECONOMY, AND HOW DO YOU ANTICIPATE POSITIONING THE FUND'S PORTFOLIO GOING FORWARD?

A. The economy clearly failed to gain any momentum during the period, and we believe it is likely to expand only modestly in the coming months. In terms of interest rates, the outlook remains cloudy at best, due to the uncertainties surrounding the impact of the war in Iraq and its effect on economic growth.

On a strategy level, the mounting state budget deficits have drawn our attention. Numerous states have seen their budget surpluses dry up and become substantial deficits. In fact, over 90% of the states are now experiencing shortfalls, with a record \$80 billion nationwide deficit projected for fiscal year 2004 (which begins on July 1, 2003). In many cases, states have been reluctant to make the necessary spending cuts or to implement tax increases necessary to bring their budgets in line. Because of this, we will continue to avoid state credits that do not meet our stringent quality requirements. Rather, we intend to focus on

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essential service revenue bonds and lengthening the Fund's duration to bring it to a market-neutral position. In summary, we'll seek to add value through careful attention to coupon, call, maturity structure and credit analysis.

Our ultimate objective in managing your investments is to help you successfully meet your financial goals. We thank you for your continued support and welcome any comments or questions you may have. For additional information on UBS funds,\* please contact your financial advisor, or visit us at [www.ubs.com](http://www.ubs.com).

Sincerely,

JOSEPH A. VARNAS  
PRESIDENT  
Insured Municipal Income Fund Inc.  
HEAD OF PRODUCT, TECHNOLOGY AND OPERATIONS  
UBS Global Asset Management (US) Inc.

WILLIAM VERONDA  
PORTFOLIO MANAGER  
Insured Municipal Income Fund Inc.  
EXECUTIVE DIRECTOR  
UBS Global Asset Management (US) Inc.

This letter is intended to assist shareholders in understanding how the Fund performed during the fiscal year ended March 31, 2003, and reflects our views at the time of its writing. Of course, these views may change in response to changing circumstances, and they do not guarantee the future performance of the markets or the Fund. We encourage you to consult your financial advisor regarding your personal investment program.

\* Mutual funds are sold by prospectus only. The prospectus for a fund contains more complete information regarding risks, charges and expenses, and should be read carefully before investing.

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Insured Municipal Income Fund Inc.

### PERFORMANCE AT A GLANCE

AVERAGE ANNUAL RETURNS, PERIODS ENDED 3/31/03 NET ASSET VALUE RETURNS	6 MONTHS	1 YEAR	5 YEARS	SINCE INCEPTION*
Insured Municipal Income Fund Inc.	1.42%	10.45%	5.68%	5.90%
Lipper Insured Municipal Debt Funds (Leveraged) Median	1.19	12.69	6.14	6.74

### MARKET PRICE RETURNS

Insured Municipal Income Fund Inc.	(0.69)%	10.61%	6.63%	5.39%
Lipper Insured Municipal Debt Funds (Leveraged) Median	1.55	14.19	6.70	6.79

\* Since inception returns for the Fund are calculated from the date of the Fund's inception on June 8, 1993. Since inception returns for the Lipper Median are calculated from the closest month-end to the Fund's inception: May 31, 1993.

Past performance does not predict future performance. The return and principal value of an investment will fluctuate, so that an investor's shares, when sold, may be worth more or less than their original cost. NAV return assumes, for illustration only, that dividends were reinvested at the net asset value on the ex-dividend dates. Market price return assumes dividends were reinvested under the Dividend Reinvestment Plan. NAV and market price returns for periods of one year or less are cumulative. Returns do not include brokerage commissions or taxes paid on realized capital gains.

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper Median is the return of the fund that places in the middle of the peer group.

### SHARE PRICE, DIVIDEND AND YIELDS AS OF 3/31/03

Market Price	\$13.98
Net Asset Value (per share applicable to common shareholders)	\$15.76
12-Month Net Investment Income Dividend (ended 3/31/03)	\$0.840
March 2003 Dividend	\$0.070
Market Yield*	6.01%
NAV Yield*	5.33%
IPO Yield*	5.60%

\* Market yield is calculated by multiplying the March dividend by 12 and dividing by the month-end market price. NAV yield is calculated by

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multiplying the March dividend by 12 and dividing by the month-end net asset value. IPO yield is calculated by multiplying the March dividend by 12 and dividing by the initial public offering price. Prices and yields will vary.

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Insured Municipal Income Fund Inc.

### PORTFOLIO STATISTICS

CHARACTERISTICS	3/31/03	9/30/02	3/31/01
-----			
Net Assets Applicable to Common Shareholders (mm)	\$325.1	\$329.3	\$312.1
Weighted Average Maturity*	14.1 yrs	12.9 yrs	12.3 yrs
Weighted Average Duration*	4.4 yrs	3.2 yrs	3.9 yrs
Weighted Average Coupon*	5.4%	5.5%	5.4%
AMT Paper**	0.0%	0.0%	0.0%
Leverage**	31.1%	31.0%	32.1%
Callable/Maturing Within Five Years*	16.6%	26.5%	30.1%
Callable/Maturing Beyond Five Years*	83.4%	73.5%	69.9%
-----			
CREDIT QUALITY***	3/31/03	9/30/02	3/31/01
-----			
AAA/Aaa	142.6%	140.5%	140.1%
SP-1/MIG-1	0.0	2.8	5.1
A1/P1	3.7	0.3	0.1
Liabilities in Excess of Other Assets	(0.2)	--	--
Other Assets in Excess of Liabilities	--	2.0	1.1
Liquidation Value of Auction Preferred Shares	(46.1)	(45.6)	(48.1)
TOTAL	100.0%	100.0%	100.0%
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TOP TEN STATES***	3/31/03	9/30/02	3/31/01
-----			
Texas	28.3%	27.0%	27.1%
Illinois	17.9	17.7	14.1%
Pennsylvania	13.4	13.9	13.1%
Rhode Island	10.5	10.2	10.1%
California	8.6	6.7	7.1%
Indiana	7.4	5.7	6.1%
North Carolina	7.0	5.2	6.1%
Alabama	4.8	4.9	6.1%
Michigan	3.9	4.6	4.1%
Massachusetts	3.9	4.6	4.1%
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TOTAL	105.7%		100.5%		101.
TOP FIVE SECTORS***	3/31/03		9/30/02		3/31/
Power	32.5%	Water	28.9%	Water	30.
Pre-refunded	20.1	Power	27.1	Power	29.
Escrow-to-maturity	16.8	Hospital	22.7	Hospital	22.
Water	14.6	General Obligations	14.1	Sales Tax	14.
Hospital	9.8	Sales Tax	13.4	General Obligations	12.
TOTAL	93.8%		106.2%		109.

\* Weightings represent percentages of portfolio assets as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time.

\*\* As a percentage of total assets as of the dates indicated.

\*\*\* As a percentage of net assets applicable to common shareholders as of the dates indicated. Credit quality ratings designated by Standard & Poor's Ratings Group and Moody's Investor Services, Inc. Both are independent rating agencies.

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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODYS RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
LONG-TERM MUNICIPAL BONDS--142.62%				
ALABAMA--4.77%				
\$ 1,590	Alabama Water Pollution Control Authority Revolving Fund Loan- Series A (AMBAC Insured)	Aaa	AAA	08/15/17
5,400	Birmingham Baptist Medical Center-Special Care Facilities Financing Authority Revenue- Series A (MBIA Insured)	Aaa	AAA	08/15/23
8,000	Jefferson County Sewer Revenue-Series A (FGIC Insured)	Aaa	AAA	02/01/27

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CALIFORNIA--8.62%



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10,000	California State Department of Water Resources Power Supply Revenue-Series A (AMBAC Insured)	Aaa	AAA	05/01/16
4,000	California State Department of Water Resources Water Revenue- Series W (FSA Insured)	Aaa	AAA	12/01/14
30	California State General Obligation (FGIC Insured)	Aaa	AAA	11/01/12
2,000	Long Beach Finance Authority Lease Revenue-Aquarium of the South Pacific (AMBAC Insured)	Aaa	AAA	11/01/15
3,000	Los Angeles University School District-Series A (FSA Insured)	Aaa	AAA	07/01/20
2,250	Los Angeles Wastewater System Revenue-Series A (MBIA Insured)	Aaa	AAA	06/01/20
4,000	San Francisco City & County Airport Commission International Airport Second Series 27B (FGIC Insured)	Aaa	AAA	05/01/15
=====				
COLORADO--1.37%				
5,000	E-470 Public Highway Authority Revenue-Capital Appreciation Series B (MBIA Insured)	Aaa	AAA	09/01/07

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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)	MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
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LONG-TERM MUNICIPAL BONDS-- (CONTINUED)

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DELAWARE--3.16%

\$10,000	Delaware State Economic Development Authority Pollution Control Revenue Delmarva Power-Series B (MBIA Insured)	Aaa	AAA	06/01/21
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DISTRICT OF COLUMBIA--1.39%

4,000	District of Columbia Hospital Revenue-Medlantic Healthcare-Series A (Escrowed to Maturity) (MBIA Insured)	Aaa	AAA	08/15/14
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GEORGIA--1.00%

1,015	Columbus Building Authority Lease Revenue- Series A (FGIC Insured)	Aaa	AAA	01/01/16
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2,000	Georgia Municipal Electric Authority Power Revenue-Series A (FSA Insured)	Aaa	AAA	01/01/18
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ILLINOIS--17.90%

8,000	Central Lake County Joint Action Water Agency Interim Water Revenue (FGIC Insured)	Aaa	AAA	05/01/20
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8,400	Chicago O'Hare International Airport Revenue-Second Lien- Series A (MBIA Insured)	Aaa	AAA	01/01/15
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3,000	Chicago O'Hare International Airport Revenue-Second Lien- Series B (MBIA Insured)	Aaa	AAA	01/01/15
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1,000	Chicago Project & Refunding- Series A (MBIA Insured)	Aaa	AAA	01/01/14
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9,325	Chicago Project & Refunding Series A (AMBAC Insured)	Aaa	AAA	01/01/42
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4,600	Chicago Public Building Commission-Building Revenue-Series A (Pre-refunded with U.S. Government Securities to 12/01/03 @ 102) (MBIA Insured)	Aaa	AAA	12/01/18
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Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
LONG-TERM MUNICIPAL BONDS--(CONTINUED)				
ILLINOIS--(CONCLUDED)				
\$ 4,000	Illinois Development Finance Authority Pollution Control Revenue-Commonwealth Edison Co. Project-Series D (AMBAC Insured)	Aaa	AAA	03/01/15
4,500	Illinois Health Facilities Authority Revenue- Franciscan Sisters Health Care-Series C (Escrowed to Maturity) (MBIA Insured)	Aaa	AAA	09/01/18
2,000	Illinois Sales Tax Revenue- Series 2 (FGIC Insured)	Aaa	AAA	06/15/16
3,000	Kane McHenry Cook & De Kalb Counties-United School District No. 300 (MBIA Insured)	Aaa	AAA	12/01/15
4,850	Metropolitan Pier & Exposition Authority Illinois McCormick Place Expansion-Series A (MBIA Insured)	Aaa	AAA	06/15/42
2,000	Regional Transportation Authority-Series A (Pre-refunded with U.S. Government Securities to 06/01/03 @ 102) (FGIC Insured)	Aaa	AAA	06/01/23
INDIANA--7.28%				
2,500	Indiana Health Facilities Finance Authority Hospital Revenue Columbus Regional Hospital (FSA Insured)	Aaa	AAA	08/15/22
1,000	Indiana University Revenue			

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	Student Fee-Series 0 (FGIC Insured)	Aaa	AAA	08/01/18
7,835	Indianapolis Gas & Utilities Revenue-Series A (FGIC Insured)	Aaa	AAA	06/01/21
12,000	Marion County Convention Center and Recreational Facilities Authority-Excise Tax Revenue-Lease Rental- Series A (AMBAC Insured)	Aaa	AAA	06/01/21
IOWA--1.47%				
4,625	Ames Hospital Revenue Mary Greeley Medical Center Project (AMBAC Insured)	Aaa	AAA	08/15/22

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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
LONG-TERM MUNICIPAL BONDS-- (CONTINUED)				
MAINE--2.53%				
\$ 4,785	Maine Health & Higher Educational Facilities Authority Revenue- Series A (Escrowed to Maturity) (FSA Insured)	Aaa	AAA	07/01/23
3,105	Maine Health & Higher Educational Facilities Authority Revenue-Series A (FSA Insured)	Aaa	AAA	07/01/23
30	Maine Health & Higher Educational Facilities Authority Revenue-Series B (Pre-refunded with U.S. Government Securities to 07/01/04 @ 102) (FSA Insured)	Aaa	AAA	07/01/24

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MASSACHUSETTS--2.03%				
2,800	Massachusetts Water Pollution Abatement Trust MWRA Program-Series A	Aaa	AAA	08/01/20
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3,390	Massachusetts Water Pollution Abatement Trust Pool Program Bonds Series-8	Aaa	AAA	08/01/17
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MICHIGAN--3.90%				
4,475	Eastern Michigan University Revenue-Series A (FGIC Insured)	Aaa	AAA	06/01/19
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2,880	Michigan Municipal Bond Authority Clean Water Revenue Fund	Aaa	AAA	10/01/19
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4,755	Michigan State Housing Development Authority Rental Housing Revenue- Series A (AMBAC Insured)	Aaa	AAA	04/01/23
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=====				
MISSOURI--1.63%				
4,775	St. Louis Airport Revenue Capital Improvement Project-Series A (MBIA Insured)	Aaa	AAA	07/01/15 to 07/01/18
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NEVADA--3.63%				
7,500	Washoe County Gas & Water Facilities Revenue Sierra Pacific Power Co. Project- Series A (MBIA Insured)	Aaa	AAA	06/01/23
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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)	MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
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LONG-TERM MUNICIPAL BONDS-- (CONTINUED)

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NEVADA--(CONCLUDED)

\$ 4,000	Washoe County Gas & Water Facilities Revenue Sierra Pacific Power Co. Project- Series B (MBIA Insured)	Aaa	AAA	06/01/23
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NEW JERSEY--1.68%

5,000	Salem County Industrial Pollution Control Finance Authority Revenue Public Service Electric & Gas- Series D (MBIA Insured)	Aaa	AAA	10/01/29
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NEW MEXICO--2.79%

8,850	Gallup Pollution Control Revenue-Plains Electric Generation (MBIA Insured)	Aaa	AAA	08/15/17
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NEW YORK--3.35%

2,920	New York State Dormitory Authority Revenue Columbia University- Series A	Aaa	AAA	07/01/16
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2,000	Long Island Power Authority Electric System Revenue- Series A (FSA Insured)	Aaa	AAA	12/01/22
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5,000	Metropolitan Transportation Authority Revenue-Series A (AMBAC Insured)	Aaa	AAA	11/15/16
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NORTH CAROLINA--6.96%

19,000	North Carolina Eastern Municipal Power Agency Power System Revenue (AMBAC Insured)	Aaa	AAA	01/01/18
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OHIO--0.65%

1,870	Ohio Water Development Authority-Pollution Control Facilities Revenue-Water Control Loan Fund- Water Quality Series (MBIA Insured)	Aaa	AAA	06/01/13
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PENNSYLVANIA--13.38%

16,435	Pennsylvania Intergovernmental Cooperative Authority Special Tax Revenue (Pre-refunded with U.S. Government Securities to 05/15/03 @ 100) (MBIA Insured)	Aaa	AAA	06/15/15 to 06/15/23
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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
LONG-TERM MUNICIPAL BONDS--(CONTINUED)				
PENNSYLVANIA--(CONCLUDED)				
\$ 6,130	North Wales Water Authority- Series A (FGIC Insured)	Aaa	AAA	11/01/16
2,000	Philadelphia General Obligation (FSA Insured)	Aaa	AAA	03/15/13 to 03/15/14
3,750	Philadelphia School District- Series A (MBIA Insured)	Aaa	AAA	04/01/16
5,885	Philadelphia Water & Wastewater Revenue (FSA Insured)	Aaa	AAA	06/15/15
8,085	Philadelphia Water & Wastewater Revenue (Pre-refunded with U.S. Government Securities to 06/15/03 @ 102) (FSA Insured)	Aaa	AAA	06/15/15
RHODE ISLAND--10.49%				
14,000	Rhode Island Convention Center Authority-Series A (Pre-refunded with U.S. Government Securities to 05/15/03 @ 102) (AMBAC Insured)	Aaa	AAA	05/15/27
10,000	Rhode Island Depositors Economic Protection Corp. Special Obligation-Series A (Escrowed to Maturity) (FSA Insured)	Aaa	AAA	08/01/14
7,000	Rhode Island Depositors Economic Protection Corp. Special Obligation-Series B (Pre-refunded with U.S. Government Securities			

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to 02/01/11 @ 100)  
(MBIA Insured)

Aaa

AAA

08/01/21

SOUTH CAROLINA--1.18%

2,625 Charleston County Hospital  
Facilities Revenue-Bon  
Secours Health System  
Project (Escrowed to  
Maturity) (FSA Insured)

Aaa

AAA

08/15/25

1,000 Myrtle Beach Water & Sewer  
Revenue System  
(FGIC Insured)

Aaa

AAA

03/01/15

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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
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LONG-TERM MUNICIPAL BONDS--(CONTINUED)

TENNESSEE--1.57%

\$5,000 Sullivan County Health  
Educational & Housing  
Facilities Board Revenue-  
Holston Valley Health  
(MBIA Insured)

Aaa

AAA

02/15/20

TEXAS--28.25%

7,945 Bexar Metropolitan Water  
District Waterworks  
System Revenue  
(MBIA Insured)

Aaa

AAA

05/01/22

2,120 Frisco Certificates Obligation-  
Series A (FGIC Insured)

Aaa

AAA

02/15/14

3,000 Harris County Toll Road  
Sub-Lien (FGIC Insured)

Aaa

AAA

08/01/09

6,000 Houston Water & Sewer  
System Revenue-Junior  
Lien-Series A (FSA Insured)

Aaa

AAA

12/01/15



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7,000	Houston Water & Sewer System Revenue-Junior Lien-Series C (FGIC Insured)	Aaa	AAA	12/01/22
2,000	Jefferson County (FGIC Insured)	Aaa	AAA	08/01/20
3,620	Lower Colorado River Authority Revenue- Series B (FSA Insured)	Aaa	AAA	05/15/13
10,000	Lubbock Health Facilities Development Corp.- Hospital Revenue Methodist Hospital-Series A (Pre-refunded with U.S. Government Securities to 12/01/05 @ 100) (AMBAC Insured)	Aaa	AAA	12/01/22
9,005	Matagorda County Navigation District No. 1 Revenue-Houston Light & Power-Series A (AMBAC Insured)	Aaa	AAA	03/01/27
13,000	San Antonio Electric & Gas Revenue (Escrowed to Maturity)	Aaa	AAA	02/01/19
9,500	San Antonio Electric & Gas Revenue-Capital Appreciation-Series A (Escrowed to Maturity) (AMBAC Insured)	Aaa	AAA	02/01/05

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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
LONG-TERM MUNICIPAL BONDS-- (CONTINUED)				
TEXAS-- (CONCLUDED)				
\$ 155	San Antonio Water Revenue (MBIA Insured)	Aaa	AAA	05/15/16
720	San Antonio Water Revenue			

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		(Pre-refunded with U.S. Government Securities to 05/15/07 @ 100) (MBIA Insured)	Aaa	AAA	05/15/16
6,110	Texas A&M University Fund Refunded		Aaa	NR	07/01/17
4,170	Williamson County General Obligation (FSA Insured)		Aaa	AAA	02/15/17
=====					
UTAH--2.03%					
4,085	Utah Municipal Power System Revenue Payson Power Project-Series A (FSA Insured)		Aaa	AAA	04/01/17 to 04/01/18
2,055	Utah Water Finance Agency Revenue Pooled Loan Financing Program-Series C (AMBAC Insured)		Aaa	NR	10/01/18
=====					
WASHINGTON--3.79%					
3,220	Cowlitz County School District No. 458 Kelso		Aaa	NR	12/01/15 to 12/01/18
2,175	Energy Northwest Electric Revenue-Project No. 1- Series A (MBIA Insured)		Aaa	AAA	07/01/15
2,000	King County School District No. 403 Renton (FGIC Insured)		Aaa	AAA	12/01/14
3,625	Snohomish County School District No. 015 Edmonds (FGIC Insured)		Aaa	AAA	12/01/15
=====					
WEST VIRGINIA--3.87%					
10,000	Marshall County Pollution Control Revenue-Ohio Power Project-Series D (MBIA Insured)		Aaa	AAA	04/01/22
2,245	West Virginia Water Development Authority Water Development Revenue Loan Program II- Series A (FSA Insured)		Aaa	AAA	11/01/29
=====					

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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATES
LONG-TERM MUNICIPAL BONDS--(CONCLUDED)				
WISCONSIN--1.95%				
\$1,500	Wisconsin State Health & Educational Facilities Authority Revenue- Bellin Memorial Hospital (AMBAC Insured)	Aaa	AAA	02/15/19
3,500	Wisconsin State Health & Educational Facilities Authority Revenue-Hospital Sisters Health Services (MBIA Insured)	Aaa	AAA	06/01/18
1,105	Ladysmith-Hawkins School District Refunding (FGIC Insured)	Aaa	NR	04/01/20
Total Long-Term Municipal Bonds (cost--\$439,008,050)				
SHORT-TERM MUNICIPAL NOTES--3.74%				
INDIANA--0.09%				
300	Princeton Pollution Control Revenue Refunding- PSI Energy, Inc. Project	VMIG-1	NR	04/01/03
KENTUCKY--0.03%				
100	Breckinridge County Lease Program Revenue- Kentucky Association Counties Leasing Trust- Series A	VMIG-1	NR	04/01/03
MASSACHUSETTS--1.86%				
6,050	Massachusetts Water Resources Authority- Refunding General Multi- Modal-SubSeries C	VMIG-1	A-1+	04/01/03

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Insured Municipal Income Fund Inc.

Portfolio of Investments -- March 31, 2003

PRINCIPAL AMOUNT (000)		MOODY'S RATING (UNAUDITED)	S&P RATING (UNAUDITED)	MATURITY DATE
-----				
SHORT-TERM MUNICIPAL NOTES--(CONCLUDED)				
-----				
VIRGINIA--1.76%				
\$ 5,700	Loudoun County Industrial Developmental Authority Revenue-Howard Hughes Medical-Series C	VMIG-1	A-1+	04/01/03
=====				
Total Short-Term Municipal Notes (cost--\$12,150,000)				
-----				
Total Investments (cost--\$451,158,050)--146.36%				
-----				
Liabilities in excess of other assets--(0.21)%				
-----				
Liquidation Value of Auction Preferred Shares--(46.15)%				
-----				
Net Assets applicable to common shareholders--100.00%				
=====				

\* Variable rate demand notes are payable on demand. The maturity dates shown are the next interest rate reset dates. The interest rates shown are the current rates as of March 31, 2003.

@ Interest rates shown reflect yield to maturity at purchase date for zero coupon bonds.

NR -- Not Rated

AMBAC -- American Municipal Bond Assurance Corporation

FGIC -- Financial Guaranty Insurance Company

FSA -- Financial Security Assurance

MBIA -- Municipal Bond Investors Assurance

See accompanying notes to financial statements

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Insured Municipal Income Fund Inc.

Statement of Assets and Liabilities -- March 31, 2003

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ASSETS:	
Investments in securities, at value (cost-\$451,158,050)	\$ 475,756,959
-----	
Cash	16,408
-----	
Interest receivable	6,645,274
-----	
Other assets	8,016
-----	
Total assets	482,426,657
-----	
LIABILITIES:	
Payable for investments purchased	6,667,762
-----	
Payable to investment advisor and administrator	313,848
-----	
Dividends payable to auction preferred shareholders	64,951
-----	
Accrued expenses and other liabilities	319,978
-----	
Total liabilities	7,366,539
-----	
Auction Preferred Shares Series A, B, C & D--3,000 non-participating shares authorized, issued and outstanding; \$0.001 par value; \$50,000 liquidation value per share	150,000,000
-----	
Net assets applicable to common shareholders	325,060,118
-----	
NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS:	
Common Stock--\$0.001 par value; 199,997,000 shares authorized; 20,628,363 shares issued and outstanding	302,699,678
-----	
Undistributed net investment income	3,342,323
-----	
Accumulated net realized loss from investment transactions	(5,580,792)
-----	
Net unrealized appreciation of investments	24,598,909
-----	
Net assets applicable to common shareholders	\$ 325,060,118
-----	
Net asset value per common share (\$325,060,118 applicable to 20,628,363 common shares outstanding)	\$ 15.76
-----	

See accompanying notes to financial statements

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Insured Municipal Income Fund Inc.

Statement of Operations

For the Year  
Ended  
March 31,  
2003

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INVESTMENT INCOME:	
Interest	\$24,634,384
-----	
EXPENSES:	
Investment advisory and administration fees	4,251,755
Auction Preferred Shares expenses	441,187
Custody and accounting	282,450
Professional fees	54,961
Reports and notices to shareholders	53,998
Transfer agency fees	22,292
Directors' fees	7,617
Other expenses	30,079
	5,144,339
Less: Fee waivers from investment advisor and administrator	(590,524)
Net expenses	4,553,815
Net investment income	20,080,569
=====	
REALIZED AND UNREALIZED GAINS FROM INVESTMENT ACTIVITIES:	
Net realized gains from investment transactions	6,118,115
Net change in unrealized appreciation/depreciation of investments	5,616,365
Net realized and unrealized gains from investment activities	11,734,480
Dividends to auction preferred shareholders from net investment income	(1,978,974)
Net increase in net assets applicable to common shareholders resulting from operations	\$29,836,075
=====	

See accompanying notes to financial statements

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Insured Municipal Income Fund Inc.

Statement of Changes in Net Assets Applicable to  
Common Shareholders

For the Years Ended  
March 31,

2003                      2002

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FROM OPERATIONS:		
Net investment income	\$ 20,080,569	\$ 20,805,391
-----		
Net realized gains from investment transactions	6,118,115	2,513,664
-----		
Net change in unrealized appreciation/depreciation of investments	5,616,365	(7,763,702)
-----		
Dividends to auction preferred shareholders from net investment income	(1,978,974)	(3,512,387)
-----		
Net increase in net assets applicable to common shareholders resulting from operations	29,836,075	12,042,966
-----		
DIVIDENDS TO COMMON SHAREHOLDERS FROM:		
Net investment income	(17,327,825)	(15,058,705)
-----		
Net increase (decrease) in net assets applicable to common shareholders	12,508,250	(3,015,739)
-----		
NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS:		
Beginning of year	312,551,868	315,567,607
-----		
End of year (including undistributed net investment income of \$3,342,323 and \$2,641,923, respectively)	\$325,060,118	\$312,551,868
-----		

See accompanying notes to financial statements

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Insured Municipal Income Fund Inc.

Notes to Financial Statements

### ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Insured Municipal Income Fund Inc. (the "Fund") was incorporated in Maryland on February 18, 1993, and is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended, as a closed-end diversified management investment company. The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires the Fund's management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies:

VALUATION OF INVESTMENTS--The Fund calculates its net asset value based on the current market value, where available, for its portfolio securities. The Fund normally obtains market values for its securities from independent pricing sources and broker-dealers. Independent pricing sources may use reported last sale prices, current market quotations or valuations from computerized "matrix" systems that derive values based on comparable securities. If a market value is not available from an independent pricing source for a particular security, that

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security is valued at fair value as determined in good faith by or under the direction of the Fund's Board of Directors (the "Board"). The amortized cost method of valuation, which approximates market value, generally is used to value short-term debt instruments with sixty days or less remaining to maturity, unless the Board determines that this does not represent fair value.

INVESTMENT TRANSACTIONS AND INVESTMENT INCOME--Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions are calculated using the identified cost method. Interest income is recorded on an accrual basis. Discounts are accreted and premiums are amortized as adjustments to interest income and the identified cost of investments.

DIVIDENDS AND DISTRIBUTIONS--The Fund intends to pay monthly dividends to common shareholders at a level rate that over time will result in the distribution of all of the Fund's net investment income remaining after the payment of dividends on any outstanding auction preferred shares. The dividend rate on the common stock is adjusted as necessary to reflect the performance of the Fund. Dividends and distributions to common shareholders are recorded on the ex-dividend date. Dividends to auction preferred shareholders are accrued daily. The amount of dividends from net investment income and distributions from net realized capital gains is determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital

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Insured Municipal Income Fund Inc.

Notes to Financial Statements

accounts based on their federal tax-basis treatment; temporary differences do not require reclassification.

### CONCENTRATION OF RISK

The Fund follows an investment policy of investing primarily in municipal obligations of various states. Economic changes affecting those states and certain of their public bodies and municipalities may affect the ability of the issuers within those states to pay interest on, or repay principal of, municipal obligations held by the Fund.

### INVESTMENT ADVISOR AND ADMINISTRATOR

The Board has approved an investment advisory and administration contract ("Advisory Contract") with UBS Global Asset Management (US) Inc. ("UBS Global AM") under which UBS Global AM serves as investment advisor and administrator of the Fund. UBS Global AM is an indirect wholly owned asset management subsidiary of UBS AG, an internationally diversified organization with headquarters in Zurich, Switzerland and operations in many areas of the financial services industry. In accordance with the Advisory Contract, the Fund pays UBS Global AM an investment advisory and administration fee, which is accrued weekly and paid monthly, at the annual rate of 0.90% of the Fund's average weekly net assets. At March 31, 2003, the Fund owed UBS Global AM \$313,848, representing \$364,468 for investment advisory and administration fees less fee waivers of \$50,620. For the year ended March 31, 2003, UBS Global AM voluntarily waived \$590,524 in investment advisory and administration fees from the Fund.



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## COMMON STOCK

There are 199,997,000 shares of \$0.001 par value common stock authorized and 20,628,363 common shares outstanding at March 31, 2003.

## AUCTION PREFERRED SHARES

The Fund has issued 800 shares of Auction Preferred Shares Series A, 800 shares of Auction Preferred Shares Series B, 800 shares of Auction Preferred Shares Series C and 600 shares of Auction Preferred Shares Series D, which are referred to herein collectively as the "APS." All shares of each series of APS have a liquidation preference of \$50,000 per share plus an amount equal to accumulated but unpaid dividends upon liquidation.

Dividends, which are cumulative, are generally reset every 7 days for APS Series A, 28 days for APS Series B, 90 days for APS Series C and 7 days for APS Series D. Dividend rates ranged from 0.90% to 1.85% for the year ended March 31, 2003.

The Fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the Fund from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value.

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Insured Municipal Income Fund Inc.

## Notes to Financial Statements

The APS are entitled to one vote per share and, unless otherwise required by law, will vote with holders of common stock as a single class, except that the auction preferred shares will vote separately as a class on certain matters, as required by law. The holders of the auction preferred shares have the right to elect two directors of the Fund.

The redemption of the Fund's auction preferred shares is outside of the control of the Fund because it is redeemable upon the occurrence of an event that is not solely within the control of the Fund.

## FEDERAL TAX STATUS

For federal income tax purposes, at March 31, 2003, the components of net unrealized appreciation of investments were as follows:

Gross appreciation (from investments having an excess value over cost) .....	\$ 25,002,282
Gross depreciation (from investments having an excess of cost over value) .....	(6,926,195)
	-----
Net unrealized appreciation of investments .....	\$ 18,076,087
	=====

For the year ended March 31, 2003, total aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$121,668,337 and \$108,707,008, respectively.

The Fund intends to distribute substantially all of its tax-exempt income and

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any taxable income and to comply with the other requirements of the Internal Revenue Code applicable to regulated investment companies. Accordingly, no provision for federal income taxes is required. In addition, by distributing during each calendar year substantially all of its net investment income, realized capital gains and certain other amounts, if any, the Fund intends not to be subject to a federal excise tax.

The tax character of distributions paid during the fiscal years ended March 31, 2003 and March 31, 2002 were as follows:

Distributions paid from:	2003	2002
	-----	-----
Tax-exempt income .....	\$19,306,799	\$18,703,218
	-----	-----

At March 31, 2003, the components of accumulated earnings on a tax basis were as follows:

Undistributed tax-exempt income .....	\$ 2,782,917
Undistributed long-term capital gains .....	1,566,387
	-----
Accumulated earnings .....	4,349,304
Net unrealized appreciation of investments .....	18,076,087
	-----
Total accumulated earnings .....	\$22,425,391
	=====

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Insured Municipal Income Fund Inc.

Notes to Financial Statements

The differences between book-basis and tax-basis net unrealized appreciation of investments is attributable to the realization for tax purposes of unrealized gains/losses on certain securities that were marked-to-market.

To reflect reclassifications arising from permanent "book/tax" differences for the year ended March 31, 2003, the Fund's undistributed net investment income was decreased by \$73,370 and accumulated net realized loss was decreased by \$73,370.

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Insured Municipal Income Fund Inc.

Financial Highlights

Selected data for a share of common stock outstanding throughout each year is presented below:

FOR THE YEARS ENDED MARCH 31,

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	2003	2002	2001	
NET ASSET VALUE, BEGINNING OF YEAR	\$15.15	\$15.30	\$14.54	\$
Net investment income	0.97	1.01	1.04	
Net realized and unrealized gain (loss) from investment transactions	0.58	(0.26)	0.79	
Common share equivalent of dividends paid to auction preferred shareholders from net investment income	(0.10)	(0.17)	(0.31)	
Net increase (decrease) from operations applicable to common shareholders	1.45	0.58	1.52	
Dividends paid to common shareholders from net investment income	(0.84)	(0.73)	(0.76)	
NET ASSET VALUE, END OF YEAR	\$15.76	\$15.15	\$15.30	\$
MARKET VALUE, END OF YEAR	\$13.98	\$13.42	\$13.11	\$
TOTAL INVESTMENT RETURN(1)	10.61%	8.04%	16.02%	(
RATIO TO AVERAGE NET ASSETS ATTRIBUTABLE TO COMMON SHARES:				
Total expenses, net of waivers from advisor	1.41%	1.42%	1.44%	
Total expenses, before waivers from advisor	1.60%	1.61%	1.63%	
Net investment income before auction preferred shares dividends	6.23%	6.57%	7.00%	
Auction preferred shares dividends	0.61%	1.11%	2.10%	
Net investment income available to common shareholders, net of waivers from advisor	5.62%	5.46%	4.90%	
Net investment income available to common shareholders, before waivers from advisor	5.43%	5.27%	4.71%	
SUPPLEMENTAL DATA:				
Net assets applicable to common shareholders, end of year (000's)	\$325,060	\$312,552	\$315,568	\$29
Portfolio turnover	24%	14%	2%	
Asset coverage per share of auction preferred shares, end of year	\$158,353	\$154,184	\$155,189	\$14

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- (1) Total investment return is calculated assuming a \$10,000 purchase of common stock at the current market price on the first day of each year reported and a sale at the current market price on the last day of each year reported, and assuming reinvestment of dividends and other distributions to common shareholders at prices obtained under the Fund's Dividend Reinvestment Plan. Total investment return does not reflect brokerage commissions. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions.

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Insured Municipal Income Fund Inc.

Report of Ernst & Young LLP, Independent Auditors

To the Board of Directors and Shareholders  
Insured Municipal Income Fund Inc.

We have audited the accompanying statement of assets and liabilities of Insured Municipal Income Fund Inc. (the "Fund"), including the portfolio of investments, as of March 31, 2003, and the related statement of operations for the year then ended, the statements of changes in net assets applicable to common shareholders for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of investments owned as of March 31, 2003, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Insured Municipal Income Fund Inc. at March 31, 2003, the results of its operations for the year then ended, the changes in its net assets applicable to common shareholders for each of the two years in the period then ended, and the financial highlights for each of the indicated periods, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

New York, New York  
May 5, 2003

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Insured Municipal Income Fund Inc.

## GENERAL INFORMATION (UNAUDITED)

### THE FUND

Insured Municipal Income Fund Inc. (the "Fund") is a diversified, closed-end management investment company whose shares trade on the New York Stock Exchange ("NYSE"). The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital. The Fund's investment advisor and administrator is UBS Global Asset Management (US) Inc. ("UBS Global AM"), an indirect wholly owned asset management subsidiary of UBS AG, which has over \$73.0 billion in assets under management as of April 30, 2003.

### SHAREHOLDER INFORMATION

The Fund's NYSE trading symbol is "PIF." Comparative net asset value and market price information about the Fund is published weekly in THE WALLSTREET JOURNAL, THE NEW YORK TIMES and BARRON'S, as well as in numerous other publications.

### DIVIDEND REINVESTMENT PLAN

The Fund's Board has established a Dividend Reinvestment Plan (the "Plan") under which all common shareholders whose shares are registered in their own names, or in the name of UBS PaineWebber Inc. or its nominee, will have all dividends and other distributions on their shares of common stock automatically reinvested in additional shares of common stock, unless such common shareholders elect to receive cash. Common shareholders who elect to hold their shares in the name of another broker or nominee should contact such broker or nominee to determine whether, or how, they may participate in the Plan. The ability of such shareholders to participate in the Plan may change if their shares are transferred into the name of another broker or nominee.

A common shareholder may elect not to participate in the Plan or may terminate participation in the Plan at any time without penalty, and common shareholders who have previously terminated participation in the Plan may rejoin it at any time. Changes in elections must be made in writing to the Fund's transfer agent and should include the shareholder's name and address as they appear on the share certificate or in the transfer agent's records. An election to terminate participation in the Plan, until such election is changed, will be deemed an election by a common shareholder to take all subsequent distributions in cash. An election will be effective only for distributions declared and having a record date at least ten days after the date on which the election is received.

Additional shares of common stock acquired under the Plan will be purchased in the open market, on the NYSE or otherwise, at prices that may be higher or lower than the net asset value per share of the common stock at the time of the purchase. The number of shares of common stock purchased with each dividend will be equal to

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Insured Municipal Income Fund Inc.

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GENERAL INFORMATION (UNAUDITED) (CONTINUED)

DIVIDEND REINVESTMENT PLAN (CONCLUDED)

the result obtained by dividing the amount of the dividend payable to a particular shareholder by the average price per share (including applicable brokerage commissions) that the transfer agent was able to obtain in the open market. The Fund will not issue any new shares of common stock in connection with the Plan. There currently is no charge to participants for reinvesting dividends or other distributions. The transfer agent's fees for handling the reinvestment of distributions will be paid by the Fund. However, each participant pays a pro rata share of brokerage commissions incurred with respect to the transfer agent's open market purchases of common stock in connection with the reinvestment of distributions. The automatic reinvestment of dividends and other distributions in shares of common stock does not relieve participants of any income tax that may be payable on such distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan with respect to any dividend or other distribution if notice of the change is sent to Plan participants at least 30 days before the record date for such distribution. The Plan also may be amended or terminated by the transfer agent by at least 30 days' written notice to all Plan participants. Additional information regarding the Plan may be obtained from, and all correspondence concerning the Plan should be directed to, the transfer agent at PFPC Inc., P.O. Box 43027, Providence, Rhode Island 02940-3027. For further information regarding the Plan, you may also contact the transfer agent directly at 1-800-331-1710.

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Insured Municipal Income Fund Inc.

Supplemental Information (unaudited)

BOARD OF DIRECTORS & OFFICERS

The Fund is governed by a Board of Directors which oversees the Fund's operations. Each Director serves until the next annual meeting of shareholders or until his or her successor is elected and qualified or until he or she resigns or is otherwise removed. Officers are appointed by the Directors and serve at the pleasure of the Board. The table below shows, for each Director and Officer, his or her name, address and age, the position held with the Fund, the length of time served as a Director and Officer of the Fund, the Director's or Officer's principal occupations during the last five years, the number of funds in the UBS fund complex overseen by the Director or for which a person served as an Officer, and other directorships held by the Director.

INTERESTED DIRECTORS

Name, Address, and Age	Position(s) Held with Fund	Term of Office+ and Length of Time Served	Pr
-----			

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Margo N. Alexander*++; 56	Director	Since 1995	Mrs. Alexander is president of UBS (2002). She was ch AM from January 1 (from January 199 (from March 1999
E. Garrett Bewkes, Jr.*++; 76	Director and Chairman of the Board of Directors	Since 1993	Mr. Bewkes serves (since May 1999). Director of Paine formerly the hold UBS Global AM) an consultant to PW chairman of the b officer of Americ

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Insured Municipal Income Fund Inc.  
 Supplemental Information (unaudited)

Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
---	--------------------------------------

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Mrs. Alexander is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

None

Mr. Bewkes is also a director of Interstate Bakeries Corporation.

Mr. Bewkes is a director or trustee of 33 investment companies (consisting of 54 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

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Insured Municipal Income Fund Inc.  
 Supplemental Information (unaudited)

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INDEPENDENT DIRECTORS

Name, Address, and Age	Position(s) Held with Fund	Term of Office+ and Length of Time Served	Princip Durin
Richard Q. Armstrong; 67 R.Q.A. Enterprises One Old Church Road - Unit # 6 Greenwich, CT 06830	Director	Since 1995	Mr. Armstrong is Enterprises (mana April 1991 and pr 1995). Mr. Armstr chief executive o Beverages (produc and sparkling/sti March 1995). He w Consulting Group December 1992 to director of LVMH of the French lux Vuitton Moet Henn 1991) and chairma subsidiary, Schie 1987 to 1991).
David J. Beaubien; 68 101 Industrial Road Turners Falls, MA 01376	Director	Since 2001	Mr. Beaubien is c Systems, Inc., a measuring systems senior vice presi makes and provide technically orien 1985 to January 1 director or trust Peabody & Co. Inc

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Insured Municipal Income Fund Inc.

Supplemental Information (unaudited)

Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
Mr. Armstrong is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Armstrong is also a director of AlFresh Beverages Canada, Inc. (a Canadian beverage subsidiary of AlFresh Foods Inc.) (since October 2000).



Mr. Beaubien is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Beaubien is also a director of IEC Electronics, Inc., a manufacturer of electronic assemblies.

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Insured Municipal Income Fund Inc.  
 Supplemental Information (unaudited)

INDEPENDENT DIRECTORS (CONTINUED)

Name, Address, and Age	Position(s) Held with Fund	Term of Office+ and Length of Time Served	Princip Durin
Richard R. Burt; 56 1275 Pennsylvania Ave., N.W. Washington, D.C. 20004	Director	Since 1995	Mr. Burt is chair information and s (international in was the chief neg Reduction Talks w 1989 to 1991) and Republic of Germa to 1994, he serve Company (manageme
Meyer Feldberg; 61 Columbia University 101 Uris Hall New York, New York 10027	Director	Since 1993	Mr. Feldberg is D the Graduate Scho University. Prior Illinois Institut
George W. Gowen; 73 666 Third Avenue New York, New York 10017	Director	Since 1996	Mr. Gowen is a pa Dunnington, Barth he was a partner Gowen.

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William W. Hewitt, Jr.\*\*; 74  
 c/o UBS Global Asset  
 Management (US) Inc.  
 51 West 52nd Street  
 New York, New York  
 10019-6114

Director

Since 2001

Mr. Hewitt is ret  
 Mr. Hewitt served  
 boards of the Kid  
 mutual funds. Fro  
 vice president an  
 insurance and tru  
 Brothers Inc. Fro  
 Merrill Lynch Fun

Morton L. Janklow; 72  
 445 Park Avenue  
 New York, New York  
 10022

Director

Since 2001

Mr. Janklow is se  
 Associates, an in  
 representing lead  
 with publishers a  
 multi-media compa  
 firm of Janklow &

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Insured Municipal Income Fund Inc.

Supplemental Information (unaudited)

Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
Mr. Burt is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Burt is also a director of Hollinger International, Company (publishing), HCL Technologies Ltd., The Central European Fund, Inc., The Germany Fund, Inc., IGT, Inc. (provides technology to gaming and wagering industry) and chairman of Weirton Steel Corp. (makes and finishes steel products). He is also a director or trustee of funds in the Scudder
Dean Feldberg is a director or trustee of 33 investment companies (consisting of 54 portfolios) for which UBS Global AM, one of its affiliates serves as	Dean Feldberg is also a director of Primedia Inc. (publishing), Federated Department Stores, Inc. (operator of department stores), Revlon, Inc. (cosmetics), Select Medical Inc. (healthcare services) and SAPPI, Ltd. (producer of paper).
Mr. Gowen is a director or trustee of 33 investment companies (consisting of 54 portfolios) for which UBS Global AM,	None

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one of its affiliates serves as investment

Mr. Hewitt is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Hewitt is also a director or trustee of the Guardian Life Insurance Company Mutual Funds (consisting of 19 portfolios).

Mr. Janklow is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

None

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Insured Municipal Income Fund Inc.

Supplemental Information (unaudited)

INDEPENDENT DIRECTORS (CONCLUDED)

Name, Address, and Age	Position(s) Held with Fund	Term of Office+ and Length of Time Served	Principal
Frederic V. Malek; 66 1455 Pennsylvania Avenue, N.W. Suite 350 Washington, D.C. 20004	Director	Since 1996	Mr. Malek is chairman of a merchant bank and a trustee of Investors III, The Opportunities Fund. From January 1992 to 1996, he was manager of Bush-Whitman, where he was vice chairman and president of Northbrook (holding company). From 1989 to 1992, he was president of (hotels, restaurants, and feeding), where he was vice president and president of Resorts.
Carl W. Schafer; 67 66 Witherspoon Street #1100 Princeton, NJ 08542	Director	Since 1996	Mr. Schafer is president of a charitable foundation. He was chairman of the board of the Howard Hughes

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William D. White; 69  
P.O. Box 199  
40 Upper Black Eddy, PA  
18972

Director

Since 2001

Mr. White is retired. In March 1994, he was a member of Professional Board. In 1989, he was a trustee in New York. Mr. White was a director of Centel from 1989 to 1994. He is also a director of Jeffco, Philadelphia, PA.

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Insured Municipal Income Fund Inc.

Supplemental Information (unaudited)

Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
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Mr. Malek is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Malek is also a director of Aegis Communications, Inc. (tele-services), American Management Systems, Inc. (management consulting and computer related services), Automatic Data Processing, Inc. (computing services), CB Richard Ellis, Inc. (real estate services), Federal National Mortgage Association FPL Group, Inc. (electric services), Manor Car Inc. (health care), and Northwest Airlines Inc.
Mr. Schafer is a director or trustee of 19 investment companies (consisting of 40 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Schafer is also a director of Labor Ready, Inc. (temporary employment), Roadway Corp. (trucking), Guardian Life Insurance Company Mutual Funds (consisting of 19 portfolios), the Harding, Loevner Funds (consisting of four portfolios), E.I.I. Realty Securities Trust (investment company) and Frontier Oil Corporation.
Mr. White is a director or trustee of 19 investment companies (consisting of portfolios) for which UBS Global AM or affiliates serves as investment advisor, sub-advisor or manager.	None

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Insured Municipal Income Fund Inc.  
 Supplemental Information (unaudited)

OFFICERS

Name, Address, and Age	Position(s) Held with Fund	Term of Office+ and Length of Time Served	Princip During Number Fund Co Person S
W. Douglas Beck*; 36	Vice President	Since 2003	Mr. Beck is an ex fund product mana (2002). From March various positions being first vice managed solutions Beck was a portfo at Raymond James president of UBS investment compan for which UBS Glo serves as investm manager.
Thomas Disbrow*; 37	Vice President and Assistant Treasurer	Since 2000	Mr. Disbrow is a the mutual fund f Prior to November Zweig/Glaser Advi president and ass companies (consis assistant treasur (consisting of tw AM or one of its advisor, sub-advi
Amy R. Doberman*; 41	Vice President and Secretary	Since 2000	Ms. Doberman is a counsel of UBS Gl July 2000, she wa Investment Manage Aeltus, Ms. Dober the SEC's Divisio Doberman is vice of UBS Supplement companies (consis president and sec (consisting of 40 AM or one of its advisor, sub-advi

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Insured Municipal Income Fund Inc.  
 Supplemental Information (unaudited)

OFFICERS (CONTINUED)

Name, Address, and Age	Position(s) Held with Fund	Term of Office+ and Length of Time Served	Princip During Number Fund Co Person S
Elbridge T. Gerry III*; 46	Vice President	Since 1996	Mr. Gerry is a ma UBS Global AM. Mr investment compan for which UBS Glo serves as investm manager.
David M. Goldenberg*; 36	Vice President and Assistant Secretary	Since 2002	Mr. Goldenberg is general counsel o he was director, Management. Mr. G compliance for SS 1998 to 2000. He Smith Barney Asse Prior to working Mr. Goldenberg wa in the SEC's Divi Goldenberg is a v Supplementary Tru (consisting of 44 and assistant sec (consisting of 40 AM or one of its advisor, sub-advi

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Insured Municipal Income Fund Inc.  
 Supplemental Information (unaudited)

OFFICERS (CONTINUED)

Name, Address,	Position(s) Held with	Term of Office+ and Length of Time	Princip During Number Fund Co
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and Age	Fund	Served	Person S
Kevin J. Mahoney*; 37	Vice President and Assistant Treasurer	Since 1999	Mr. Mahoney is a the mutual fund f Prior to April 19 mutual fund inter Barney. Mr. Mahon assistant treasur (consisting of 40 AM or one of its advisor, sub-advi
Paul H. Schubert*; 40	Vice President and Treasurer	Since 1994	Mr. Schubert is a the mutual fund f Mr. Schubert is t officer of UBS Su investment compan a vice president companies (consis treasurer and chi investment compan for which UBS Glo serves as investm manager.

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Insured Municipal Income Fund Inc.  
Supplemental Information (unaudited)

OFFICERS (CONCLUDED)

Name, Address, and Age	Position(s) Held with Fund	Term of Office+ and Length of Time Served	Princip During Number Fund Co Person S
Joseph A. Varnas*; 35	President	Since 2003	Mr. Varnas is a m 2003), chief tech and head of produ UBS Global AM (si 2001, he was mana PaineWebber Inves Varnas was a seni Research &Economi to 1999. Mr. Varn Supplementary Tru (consisting of 81 AM or one of its advisor, sub-advi
Keith A. Weller*; 41	Vice President	Since 1995	Mr. Weller is a d

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and Assistant  
Secretary

general counsel o  
vice president an  
investment compan  
for which UBS Glo  
serves as investm  
manager.

-----  
\* This person's business address is 51 West 52nd Street, New York, New York  
10019-6114.

\*\* Address for mailing purposes only.

+ Each Director serves until the next annual meeting of shareholders or until  
his or her successor is elected and qualified or until he or she resigns or  
is otherwise removed. Officers of the Fund are appointed by the Directors and  
serve at the pleasure of the Board.

++ Mrs. Alexander and Mr. Bewkes are "interested persons" of the Fund as defined  
in the Investment Company Act by virtue of their positions with UBS Global AM  
and/or its affiliates.

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DIRECTORS

E. Garrett Bewkes, Jr.  
CHAIRMAN  
Margo N. Alexander  
Richard Q. Armstrong  
David J. Beaubien  
Richard R. Burt  
Meyer Feldberg

George W. Gowen  
William W. Hewitt, Jr.  
Morton L. Janklow  
Frederic V. Malek  
Carl W. Schafer  
William D. White

PRINCIPAL OFFICERS

Joseph A. Varnas  
PRESIDENT  
Amy R. Doberman  
VICE PRESIDENT AND SECRETARY  
Paul H. Schubert  
VICE PRESIDENT AND TREASURER

Elbridge T. Gerry III  
VICE PRESIDENT  
W. Douglas Beck  
VICE PRESIDENT

INVESTMENT ADVISOR AND  
ADMINISTRATOR

UBS Global Asset Management (US) Inc.  
51 West 52nd Street  
New York, New York 10019-6114

NOTICE IS HEREBY GIVEN IN ACCORDANCE WITH SECTION 23(C) OF THE INVESTMENT  
COMPANY ACT OF 1940 THAT FROM TIME TO TIME THE FUND MAY PURCHASE SHARES OF ITS  
COMMON STOCK IN THE OPEN MARKET AT MARKET PRICES.



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THIS REPORT IS SENT TO THE SHAREHOLDERS OF THE FUND FOR THEIR INFORMATION. IT IS NOT A PROSPECTUS, CIRCULAR OR REPRESENTATION INTENDED FOR USE IN THE PURCHASE OR SALE OF SHARES OF THE FUND OR OF ANY SECURITIES MENTIONED IN THIS REPORT.

(C) 2003 UBS GLOBAL ASSET MANAGEMENT (US) INC. ALL RIGHTS RESERVED.

[UBS LOGO]

UBS GLOBAL ASSET MANAGEMENT (US) INC.  
51 West 52nd Street  
New York, NY 10019-6114

### ITEM 2. CODE OF ETHICS.

Form N-CSR disclosure requirement not yet effective with respect to the registrant.

### ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Form N-CSR disclosure requirement not yet effective with respect to the registrant.

### ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Form N-CSR disclosure requirement not yet effective with respect to the registrant.

### ITEMS 5 and 6. [RESERVED BY SEC FOR FUTURE USE. ]

### ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Form N-CSR disclosure requirement not yet effective with respect to the registrant.

### ITEM 8. [RESERVED BY SEC FOR FUTURE USE. ]

### ITEM 9. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940, as amended) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.
- (b) There were no significant changes in the registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### ITEM 10. EXHIBITS.

- (a) Form N-CSR disclosure requirement not yet effective with respect to

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registrant.

- (b) The certifications required by Rule 30a-2 of the Investment Company Act of 1940, as amended, and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INSURED MUNICIPAL INCOME FUND INC.

By: /s/ JOSEPH A. VARNAS

-----  
Joseph A. Varnas  
President

Date: JUNE 6, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ JOSEPH A. VARNAS

-----  
Joseph A. Varnas  
President

Date: JUNE 6, 2003

By: /s/ PAUL H. SCHUBERT

-----  
Paul H. Schubert  
Treasurer

Date: JUNE 6, 2003