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INSURED MUNICIPAL INCOME FUND INC
Form N-CSRS
December 03, 2004

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

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)

Mark F. Kemper, 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 LLP
1775 I Street, N.W.
Washington, DC 20006-2401

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

Date of fiscal year end: March 31

Date of reporting period: September 30, 2004

ITEM 1. REPORTS TO STOCKHOLDERS.

[UBS GLOBAL ASSET MANAGEMENT LOGO]

INSURED MUNICIPAL INCOME FUND INC.
SEMIANNUAL REPORT
SEPTEMBER 30, 2004

INSURED MUNICIPAL INCOME FUND INC.

November 15, 2004

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DEAR SHAREHOLDER,

We present you with the semiannual report for Insured Municipal Income Fund Inc. (the "Fund") for the six months ended September 30, 2004.

PERFORMANCE

Over the six-month period, the Fund's net asset value return was 1.77%. On a market price basis, the Fund's return declined 4.18%. During the same time period, the Fund's peer group, as measured by the Lipper Insured Municipal Debt Funds (Leveraged) median, generated net asset value and market price returns of 1.48% and -2.09%, respectively. (For more performance information, please refer to "Performance At A Glance" on page 5.)

The Fund used leverage during the period--38.8% of total assets as of September 30, 2004--which added slightly to the Fund's yield. Leverage can magnify returns on the upside and on the downside, and can create wider dispersions of returns within the Fund's peer group.

The Fund traded at a discount to NAV at the end of September. This discount was wider than the average of the funds in its Lipper peer group.

A Fund trades at a discount when the market price at which its shares trade is less than its net asset value (NAV). Alternately, a fund trades at a premium when the market price at which its shares trade is more than its NAV. The market price is the price the market is willing to pay for shares of a fund at a given time, and may be influenced by a range of factors, including supply and demand and market conditions. NAV per common share is determined by dividing the value of the Fund's securities, cash and other assets, less all liabilities, by the total number of common shares outstanding.

AN INTERVIEW WITH PORTFOLIO MANAGER WILLIAM VERONDA

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

A. The economy continued to expand, although it lost some traction as the reporting period progressed. In the first quarter of 2004, gross domestic product (GDP) came in at 4.5%, up from 4.1% in the prior quarter. Second quarter GDP

[SIDENOTE]

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

NYSE SYMBOL:

PIF

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DIVIDEND PAYMENT:

Monthly

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then fell to 3.3%. During its August 10, 2004 meeting, the Federal Reserve Board (the "Fed") stated that, "In recent months, output growth has moderated and the pace of improvement in labor-market conditions has slowed." There was no shortage of economic data to substantiate the Fed's findings.

Q. HOW DID THE FED REACT TO THESE ECONOMIC CONDITIONS?

A. After many months of speculation, the Fed raised the federal funds rate (or "fed funds" rate)--the rate that banks charge one another for funds they borrow on an overnight basis--from 1.00% to 1.25% on June 30, 2004. The Fed raised rates again at its subsequent meetings on August 10, 2004 and September 21, 2004, to 1.50% and 1.75%, respectively. In doing so, it noted that, "Even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity." Market perception grew that the Fed, through its statements and in its actions, was paving the way to continue raising rates in the future.

Q. HOW DID YOU POSITION THE FUND'S PORTFOLIO DURING THE REPORTING PERIOD?

A. The Fund's duration was shorter relative to its benchmark during the period, as we believed that yields would continue to rise given the ongoing strength of the economy. While this positioning enhanced performance in the first half of the period, it detracted from results over the last three months. However, our yield curve positioning helped offset some of this performance, as our expectations for a flattening yield curve were met (the curve flattens when the gap between short- and long-term yields narrows). In particular, in recent months we emphasized securities in the 5- to 10-year and 20- to 30-year portions of the curve, while holding underweight positions in the 1- to 5-year and the 10- to 15-year ranges of the curve.

Q. WHAT HAS BEEN YOUR APPROACH IN TERMS OF THE CALIFORNIA MUNICIPAL MARKET?

A. California was one of a number of states that saw its fiscal situation improve during the six-month period. Thus, we added a number of California issues to our portfolio, including a block of the state's Economic Recovery Bonds. Overall, the Fund's California holdings enhanced results over the period covered by this report.

Another state that has shored up its balance sheet in recent months is Massachusetts. We are, therefore, looking to increase the Fund's exposure to this state's municipal securities.

Q. WHAT IS YOUR VIEW ON THE HEALTHCARE SECTOR?

A. Given declining government reimbursements, we remain negative on the healthcare sector in general. However, using our research capabilities, we identified a number of securities that we believe offer attractive yields and, in our opinion, more than compensate investors for the potential risks.

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Q. THE TROUBLES IN THE AIRLINE SECTOR HAVE BEEN WELL-DOCUMENTED. DOES THE FUND

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HAVE ANY EXPOSURE TO THIS AREA?

A. While the airline industry is experiencing high-profile issues, we continue to find attractive opportunities in the airport sector. Over the last year, both business and consumer flight trends have improved. Given the expectations for a continuation of an economic expansion, we expect airfreight usage will remain strong. An example of a portfolio holding in this area is Cleveland Ohio Airport bonds (1.8%)* that mature in 2014.

Q. WERE THERE ANY OTHER STRATEGIES THAT AFFECTED THE FUND'S PERFORMANCE DURING THE PERIOD?

A. As we mentioned in our last report to you, we increased the Fund's leverage from approximately 33% to 40% at the end of December 2003. Although leverage can cause the Fund's short-term volatility to increase, it also better positions us to seek our goal of a high level of current income exempt from federal income tax, consistent with the preservation of capital. We therefore maintained the Fund's leverage at roughly 40% over the period.

Q. HOW DO YOU ANTICIPATE POSITIONING THE FUND'S PORTFOLIO GOING FORWARD?

A. Although the US economy experienced a "soft patch" during the third quarter, it now appears that this may have been overstated. In addition, aside from stubbornly high oil prices, inflation remains low. We believe the Fed will continue to raise interest rates--in fact, on November 10, 2004, the Fed raised the federal funds rate another 25 basis points to 2.00%--and, as such, we expect to retain our short duration position. We also anticipate remaining focused on the 5- to 10-year and 20- to 30-year portions of the yield curve.

We will continue to look for opportunities in the general obligation market, in particular issues from the state of California. Having said that, we expect to avoid securities in the 1- to 5-year range, as we do not believe they are attractive given the underlying risks. On a national level, we will seek higher-yielding securities that appear attractive given their risk/reward characteristics.

* As a percentage of net assets applicable to common shareholders as of September 30, 2004.

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We thank you for your continued support and welcome any comments or questions you may have. For additional information on the UBS Funds* please contact your financial advisor or visit us at www.ubs.com.

Sincerely,

/s/ Joseph A. Varnas

/s/ William Veronda

JOSEPH A. VARNAS
PRESIDENT
Insured Municipal Income Fund Inc.
MANAGING DIRECTOR
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 six months ended September 30, 2004, and reflects our views

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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 prospectuses for the funds contain more complete information regarding investment objectives, risks, charges and expenses, and should be read carefully before investing.

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PERFORMANCE AT A GLANCE (UNAUDITED)

AVERAGE ANNUAL TOTAL RETURNS FOR PERIODS ENDED 9/30/04

| NET ASSET VALUE RETURNS | 6 MONTHS | 1 YEAR | 5 YEARS | 10 YEARS |
|-----------------------------------------------------------|----------|--------|---------|----------|
| Insured Municipal Income Fund Inc. | 1.77% | 4.38% | 6.49% | 7.44% |
| Lipper Insured Municipal Debt Funds (Leveraged) Median | 1.48 | 5.99 | 8.18 | 7.33 |
| MARKET PRICE RETURNS | | | | |
| Insured Municipal Income Fund Inc. | -4.18 | 3.59 | 7.95 | 8.79 |
| Lipper Insured Municipal Debt Funds (Leveraged) Median | -2.09 | 6.17 | 8.40 | 8.09 |

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 payable dates. NAV and market price returns for periods of less than one year are cumulative. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund distributions.

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 9/30/04

| | |
|---------------------------------------------------------------|----------|
| Market Price | \$ 13.47 |
| Net Asset Value (per share applicable to common shareholders) | \$ 15.26 |
| 12-Month Net Investment Income Dividend (ended 9/30/04) | \$ 0.81 |
| September 2004 Dividend | \$ 0.065 |
| Market Yield* | 5.79% |
| NAV Yield* | 5.11% |
| IPO Yield* | 5.20% |

- * Market yield is calculated by multiplying the September dividend by 12 and dividing by the month-end market price. NAV yield is calculated by multiplying the September dividend by 12 and dividing by the month-end net asset value. IPO yield is calculated by multiplying the September dividend by 12 and dividing by the initial public offering price. Prices and yields

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will vary.

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PORTFOLIO STATISTICS (UNAUDITED)

| CHARACTERISTICS | 9/30/04 | 3/31/04 | 9/30 |
|---------------------------------------------------|----------|----------|------|
| Net Assets Applicable to Common Shareholders (mm) | \$ 314.7 | \$ 317.6 | \$ |
| Weighted Average Maturity | 11.1 yrs | 10.7 yrs | 13. |
| Weighted Average Duration | 4.8 yrs | 4.8 yrs | 5. |
| Weighted Average Coupon | 4.7% | 4.3% | |
| Leverage** | 38.8% | 39.8% | |
| Callable/Maturing Within Five Years* | 13.8% | 14.4% | |
| Callable/Maturing Beyond Five Years* | 86.2% | 85.6% | |

| PORTFOLIO COMPOSITION*** | 9/30/04 | 3/31/04 | 9/30 |
|-----------------------------------------------|------------|---------|------|
| Long-Term Municipal Bonds | 143.5% | 143.8% | |
| Short-Term Municipal Notes | 21.6 | 20.6 | |
| Futures | (0.0) **** | (0.1) | |
| Other Assets Less Liabilities | 1.6 | 1.8 | |
| Liquidation Value of Auction Preferred Shares | (66.7) | (66.1) | |
| TOTAL | 100.0% | 100.0% | |

| CREDIT QUALITY*** | 9/30/04 | 3/31/04 | 9/30 |
|-----------------------------------------------|---------|---------|------|
| AAA/Aaa | 143.5% | 143.8% | |
| A1/P1/SP-1/MIG-1 | 21.6 | 20.6 | |
| Other Assets Less Liabilities | 1.6 | 1.7 | |
| Liquidation Value of Auction Preferred Shares | (66.7) | (66.1) | |
| TOTAL | 100.0% | 100.0% | |

| TOP 5 STATES*** | 9/30/04 | 3/31/04 | 9/30 | | |
|-----------------|---------|------------|-------|---------------|---|
| California | 40.6% | California | 26.3% | Texas | 2 |
| Texas | 28.6 | New York | 23.5 | California | 2 |
| New York | 18.5 | Texas | 22.0 | Illinois | 1 |
| Illinois | 13.1 | Illinois | 14.3 | New York | 1 |
| Washington | 9.9 | Washington | 11.6 | Massachusetts | |
| TOTAL | 110.7% | 97.7% | | | 8 |

| TOP FIVE SECTORS*** | 9/30/04 | 3/31/04 | 9/30 |
|---------------------|---------|---------|------|
|---------------------|---------|---------|------|

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| | | | | | |
|--------------------|-------|--------------------|--------|--------------------|---|
| Power | 33.5% | Power | 37.4% | Power | 3 |
| Escrow-to-maturity | 20.1 | Water | 26.8 | Water | 3 |
| Water & Sewer | 15.7 | Escrow-to-maturity | 20.1 | Escrow-to-maturity | 1 |
| Hospital | 13.7 | Pre-refunded | 15.8 | Hospital | 1 |
| Airport | 9.4 | Hospital | 11.8 | Airport | 9 |
| TOTAL | 92.4% | | 111.9% | | |

* 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 Rating Group and Moody's Investor Services, Inc. Both are independent rating agencies.

**** Represents less than 0.05% of net assets applicable to common shareholders.

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INSURED MUNICIPAL INCOME FUND INC.

PORTFOLIO OF INVESTMENTS -- SEPTEMBER 30, 2004 (UNAUDITED)

| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------------|----------------------------------------------------------------------------------------------|-------------------|---------------|-------------------|
| LONG-TERM MUNICIPAL BONDS--143.48% | | | | |
| ALABAMA--0.53% | | | | |
| \$ 1,590 | Alabama Water Pollution Control Authority Revolving Fund Loan-Series A (AMBAC Insured) | Aaa | AAA | 08/15/17 |
| CALIFORNIA--40.65% | | | | |
| 4,000 | California State Department of Water Resources Power Supply Revenue-Series A (AMBAC Insured) | Aaa | AAA | 05/01/14 |
| 10,000 | California State Department of Water Resources Power Supply Revenue-Series A (AMBAC Insured) | Aaa | AAA | 05/01/16 |
| 3,060 | California State Department of Water Resources Power Supply Revenue-Series A (MBIA Insured) | Aaa | AAA | 05/01/12 |
| 4,000 | California State Department of Water Resources Revenue-Series W (FSA Insured) | Aaa | AAA | 12/01/14 |
| 2,500 | California State Economic | | | |

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| | | | | |
|-------|-------------------------------------------------------------------------------------------------|-----|-----|----------|
| | Recovery-Series A (FGIC Insured) | Aaa | AAA | 07/01/14 |
| 8,000 | California State Economic Recovery-Series A (MBIA Insured) | Aaa | AAA | 07/01/12 |
| 3,000 | California State Economic Recovery-Series A (MBIA Insured) | Aaa | AAA | 07/01/15 |
| 30 | California State General Obligation (FGIC Insured) | Aaa | AAA | 11/01/12 |
| 3,305 | Chino Valley Unified School District-Series A (FSA Insured) | Aaa | AAA | 08/01/26 |
| 3,125 | Contra Costa Water District Water Revenue-Series L (FSA Insured) | Aaa | AAA | 10/01/19 |
| 5,000 | Contra Costa Water District Water Revenue-Refunding- Series M (FSA Insured) | Aaa | AAA | 10/01/18 |
| 3,200 | Livermore-Amador Valley Water Management Agency Sewer Revenue-Series A (AMBAC Insured) | Aaa | AAA | 08/01/14 |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------|--|-------------------|---------------|-------------------|
|------------------------------|--|-------------------|---------------|-------------------|

LONG-TERM MUNICIPAL BONDS--(CONTINUED)

CALIFORNIA--(CONTINUED)

| | | | | |
|----------|---------------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| \$ 2,000 | Long Beach Finance Authority Lease Revenue-Aquarium of the South Pacific (AMBAC Insured) | Aaa | AAA | 11/01/15 |
| 6,340 | Los Angeles County Metropolitan Transportation Authority Sales Tax Revenue- Refunding-Proposition C- (MBIA Insured) | Aaa | AAA | 07/01/12 |
| 8,475 | Los Angeles County Sanitation Districts Financing Authority Revenue-Capital Project- Series A (FSA Insured) | Aaa | AAA | 10/01/20 |
| 5,000 | Los Angeles General Obligation- Series A (MBIA Insured) | Aaa | AAA | 09/01/21 |

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| | | | | |
|-------|----------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| 3,000 | Los Angeles University School District-Series A (FSA Insured) | Aaa | AAA | 07/01/20 |
| 5,000 | Los Angeles Water & Power Revenue-Power Systems- Series A (MBIA-IBC Insured) | NR | AAA | 07/01/24 |
| 7,000 | Los Angeles Water & Power Revenue-Power Systems- Series A-A-1 (FSA Insured) | Aaa | AAA | 07/01/21 |
| 3,000 | Los Angeles Water & Power Revenue-Power Systems- Series A-SubSeries A-2 (MBIA Insured) | Aaa | AAA | 07/01/16 |
| 6,000 | Los Angeles Water & Power Revenue-Power Systems- Series B (FSA Insured) | Aaa | AAA | 07/01/25 |
| 1,000 | Marin Municipal Water District Water Revenue (AMBAC Insured) | Aaa | AAA | 07/01/18 |
| 6,520 | Placentia-Yorba Linda Unified School District-Series A (FGIC Insured) | Aaa | AAA | 08/01/26 |
| 7,000 | Sacramento Municipal Utility Revenue-Mud-Series R (MBIA Insured) | Aaa | AAA | 08/15/19 |
| 4,000 | San Francisco City & County Airport Commission International Airport-Second Series 27B (FGIC Insured) | Aaa | AAA | 05/01/15 |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------|--|-------------------|---------------|-------------------|
|------------------------------|--|-------------------|---------------|-------------------|

LONG-TERM MUNICIPAL BONDS--(CONTINUED)

CALIFORNIA--(CONCLUDED)

| | | | | |
|----------|-----------------------------------------------------------------------------------------------------------|-----|-----|----------|
| \$ 5,580 | Southern California Public Power Authority Transmission Project Revenue-Refunding (FGIC Insured) | Aaa | AAA | 07/01/12 |
|----------|-----------------------------------------------------------------------------------------------------------|-----|-----|----------|

DISTRICT OF COLUMBIA--2.28%

| | | | | |
|-------|------------------------------|--|--|--|
| 2,650 | District of Columbia General | | | |
|-------|------------------------------|--|--|--|

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| | | | | |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| | Obligation-Series B (AMBAC Insured) | Aaa | AAA | 06/01/16 |
| 4,000 | District of Columbia Hospital Revenue-Medlantic Healthcare-Series A (Escrowed to Maturity) (MBIA Insured) | Aaa | AAA | 08/15/14 |
| ----- | | | | |
| FLORIDA--1.01% | | | | |
| 3,000 | Miami-Dade County Expressway Authority Toll System Revenue- Series B (FGIC Insured) | Aaa | AAA | 07/01/26 |
| ----- | | | | |
| GEORGIA--1.04% | | | | |
| 1,015 | Columbus Building Authority Lease Revenue-Series A (FGIC Insured) | Aaa | AAA | 01/01/16 |
| 2,000 | Georgia Municipal Electric Authority Power Revenue- Series A (FSA Insured) | Aaa | AAA | 01/01/18 |
| ----- | | | | |
| ILLINOIS--11.25% | | | | |
| 1,500 | Chicago General Obligation- Series A (FSA Insured) | Aaa | AAA | 01/01/25 |
| 2,000 | Chicago General Obligation- Series A (FSA Insured) | Aaa | AAA | 01/01/26 |
| 8,400 | Chicago O'Hare International Airport Revenue-Second Lien- Series A (MBIA Insured) | Aaa | AAA | 01/01/15 |
| 1,000 | Chicago Project & Refunding- Series A (MBIA Insured) | Aaa | AAA | 01/01/14 |
| 4,000 | Illinois Development Finance Authority Pollution Control Revenue-Commonwealth Edison Co. Project-Series D (AMBAC Insured) | Aaa | AAA | 03/01/15 |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------|--|-------------------|---------------|-------------------|
|------------------------------|--|-------------------|---------------|-------------------|

LONG-TERM MUNICIPAL BONDS-- (CONTINUED)

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ILLINOIS--(CONCLUDED)

| | | | | | |
|----|-------|-------------------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| \$ | 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 |
| | 5,000 | Metropolitan Pier & Exposition Authority-Illinois Dedicated State Tax Capital Appreciation- Series A-2002 (FGIC Insured) | Aaa | AAA | 06/15/10 |
| | 2,395 | Metropolitan Pier & Exposition Authority-Illinois Dedicated State Tax-Pre-refunded- Series A-2002 (FGIC Insured) | Aaa | AAA | 12/15/23 |

INDIANA--0.35%

| | | | | | |
|--|-------|-----------------------------------------------------------------------|-----|-----|----------|
| | 1,000 | Indiana University Revenue- Student Fee-Series 0 (FGIC Insured) | Aaa | AAA | 08/01/18 |
|--|-------|-----------------------------------------------------------------------|-----|-----|----------|

MAINE--1.55%

| | | | | | |
|--|-------|-----------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| | 4,785 | Maine Health & Higher Educational Facilities Authority Revenue-Series A (Escrowed to Maturity) (FSA Insured) | Aaa | AAA | 07/01/23 |
|--|-------|-----------------------------------------------------------------------------------------------------------------------|-----|-----|----------|

MASSACHUSETTS--0.96%

| | | | | | |
|--|-------|---------------------------------------------------------------------------|-----|-----|----------|
| | 2,800 | Massachusetts Water Pollution Abatement Trust MWRA Program-Series A | Aaa | AAA | 08/01/20 |
|--|-------|---------------------------------------------------------------------------|-----|-----|----------|

MICHIGAN--2.53%

| | | | | | |
|--|-------|-------------------------------------------------------------------|-----|-----|----------|
| | 4,475 | Eastern Michigan University Revenue-Series A (FGIC Insured) | Aaa | AAA | 06/01/19 |
| | 2,880 | Michigan Municipal Bond Authority Clean Water Revenue Fund | Aaa | AAA | 10/01/19 |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------|-------------------|
| LONG-TERM MUNICIPAL BONDS--(CONTINUED) | | | | |
| MINNESOTA--1.70% | | | | |
| \$ 5,015 | Minneapolis & St. Paul Metropolitan Airports Commission Airport Revenue- SubSeries A (MBIA Insured) | Aaa | AAA | 01/01/19 |
| MISSOURI--1.69% | | | | |
| 1,740 | St. Louis Airport Revenue-Capital Improvement Project-Series A (MBIA Insured) | Aaa | AAA | 07/01/15 |
| 2,035 | St. Louis Airport Revenue-Capital Improvement Project-Series A (MBIA Insured) | Aaa | AAA | 07/01/16 |
| 1,000 | St. Louis Airport Revenue-Capital Improvement Project-Series A (MBIA Insured) | Aaa | AAA | 07/01/18 |
| NEVADA--3.70% | | | | |
| 4,000 | Washoe County Gas & Water Facilities Revenue-Sierra Pacific Power Co. Project-Series B (MBIA Insured) | Aaa | AAA | 06/01/23 |
| 7,500 | Washoe County Water Facilities Revenue-Sierra Pacific Power Co. Project-Series A (MBIA Insured) | Aaa | AAA | 06/01/23 |
| NEW JERSEY--1.62% | | | | |
| 5,000 | Salem County Industrial Pollution Control Finance Authority Revenue-Public Service Electric & Gas-Series D (MBIA Insured) | Aaa | AAA | 10/01/29 |
| NEW MEXICO--8.11% | | | | |
| 8,850 | Gallup Pollution Control Revenue-Plains Electric Generation (MBIA Insured) | Aaa | AAA | 08/15/17 |
| 15,000 | New Mexico Finance Authority State Transportation Revenue- Senior Lien-Series A | | | |

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(MBIA Insured)+

Aaa

AAA

06/15/20

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------|-------------------|---------------|-------------------|
| LONG-TERM MUNICIPAL BONDS--(CONTINUED) | | | | |
| NEW YORK--12.52% | | | | |
| \$ 3,000 | New York State Dormitory Authority Revenue-Series B (FGIC Insured) | Aaa | AAA | 11/15/29 |
| 3,000 | New York State Dormitory Authority Revenue-Sloan Kettering Center-Series 1 (MBIA Insured) | Aaa | AAA | 07/01/16 |
| 2,000 | Long Island Power Authority Electric System Revenue- Series A (FSA Insured) | Aaa | AAA | 12/01/22 |
| 5,650 | Metropolitan Transportation Authority Dedicated Tax Fund- Series A (FSA Insured) | Aaa | AAA | 11/15/24 |
| 5,000 | Metropolitan Transportation Authority Revenue-Series A (AMBAC Insured) | Aaa | AAA | 11/15/16 |
| 4,000 | Metropolitan Transportation Authority Revenue-Series A (FGIC Insured) | Aaa | AAA | 11/15/17 |
| 1,200 | New York City General Obligation-Series F (MBIA-IBC Insured) | Aaa | AAA | 08/01/12 |
| 11,555 | Triborough Bridge & Tunnel Authority Revenue-General Purpose-Series Y | Aa3 | AAA | 01/01/12 |
| NORTH CAROLINA--1.23% | | | | |
| 3,505 | Charlotte Certificates of Participation Refunding- Convention Facilities Project- Series A (MBIA Insured) | Aaa | AAA | 08/01/12 |

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| | | | | |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| OHIO--2.41% | | | | |
| 5,000 | Cleveland Airport Systems Revenue-Series A (FSA Insured) | Aaa | AAA | 01/01/14 |
| 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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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------|--|-------------------|---------------|-------------------|
|------------------------------|--|-------------------|---------------|-------------------|

LONG-TERM MUNICIPAL BONDS-- (CONTINUED)

| | | | | |
|---------------------|----------------------------------------------------------|-----|-----|----------|
| PENNSYLVANIA--1.99% | | | | |
| \$ 1,000 | Philadelphia General Obligation (FSA Insured) | Aaa | AAA | 03/15/13 |
| 1,000 | Philadelphia General Obligation (FSA Insured) | Aaa | AAA | 03/15/14 |
| 3,750 | Philadelphia School District- Series A (MBIA Insured) | Aaa | AAA | 04/01/16 |

| | | | | |
|--------------------|--------------------------------------------------------------------------------------------|-----|-----|----------|
| PUERTO RICO--1.76% | | | | |
| 5,000 | Puerto Rico Public Finance Corp. Commonwealth Appropriation- Series A (FGIC Insured) | Aaa | AAA | 08/01/31 |

| | | | | |
|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| RHODE ISLAND--6.22% | | | | |
| 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 to 02/01/11 @ 100) (MBIA Insured) | Aaa | AAA | 08/01/21 |

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SOUTH CAROLINA--1.21%

| | | | | |
|-------|----------------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| 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 |

TEXAS--22.39%

| | | | | |
|-------|-------------------------------------------------------------------------------------|-----|-----|----------|
| 2,000 | Corpus Christi Utilities System Revenue-Refunding & Improvement (FSA Insured) | Aaa | AAA | 07/15/17 |
| 5,170 | Fort Bend Independent School District Refunding-Series A (PSF-GTD Insured) | NR | AAA | 08/15/26 |
| 2,120 | Frisco Certificates Obligation- Series A (FGIC Insured) | Aaa | AAA | 02/15/14 |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------|--|-------------------|---------------|-------------------|
|------------------------------|--|-------------------|---------------|-------------------|

LONG-TERM MUNICIPAL BONDS--(CONTINUED)

TEXAS--(CONCLUDED)

| | | | | |
|----------|--------------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| \$ 3,000 | Harris County Toll Road Sub-Lien (FGIC Insured) | Aaa | AAA | 08/01/09 |
| 13,500 | Houston Utility Systems Revenue-Refunding-First Lien- Series A (FGIC Insured) | Aaa | AAA | 05/15/23 |
| 6,000 | Houston Water & Sewer System Revenue-Junior Lien-Series A (FSA Insured) | Aaa | AAA | 12/01/15 |
| 2,000 | Irving Independent School District Refunding-Capital Appreciation-Series A (PSF-GTD Insured) | Aaa | AAA | 02/15/12 |
| 2,000 | Jefferson County (FGIC Insured) | Aaa | AAA | 08/01/20 |
| 10,000 | Lubbock Health Facilities Development Corp.-Hospital Revenue-Methodist Hospital- Series A (Pre-refunded with U.S.) | | | |

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| | | | | |
|-------|------------------------------------------------------------------------------------------------------------------------|-----|-----|----------|
| | Government Securities to 12/01/05 @ 100) (AMBAC Insured) | Aaa | AAA | 12/01/22 |
| 4,115 | San Antonio Electric & Gas Revenue-(Escrowed to Maturity) | Aa1 | AAA | 02/01/19 |
| 4,000 | San Antonio Electric & Gas Revenue-Unrefunded (FSA-CR Insured) | Aaa | AAA | 02/01/12 |
| 155 | San Antonio Water Revenue- (MBIA Insured) | Aaa | AAA | 05/15/16 |
| 720 | San Antonio Water Revenue- (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--2.13% | | | | |
| 2,000 | Utah Municipal Power System Revenue-Payson Power Project- Series A (FSA Insured) | Aaa | AAA | 04/01/17 |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------|--|-------------------|---------------|-------------------|
|------------------------------|--|-------------------|---------------|-------------------|

LONG-TERM MUNICIPAL BONDS-- (CONCLUDED)

UTAH-- (CONCLUDED)

| | | | | |
|----------|---------------------------------------------------------------------------------------------------|-----|-----|----------|
| \$ 2,085 | Utah Municipal Power System Revenue-Payson Power Project-Series A (FSA Insured) | Aaa | AAA | 04/01/18 |
| 2,055 | Utah Water Finance Agency Revenue-Pooled Loan Financing Program-Series C (AMBAC Insured) | Aaa | NR | 10/01/18 |

WASHINGTON--9.05%

5,210 Washington State Public Power

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| | | | | |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------|-----|-----|----------|
| | Supply Revenue Refunding-Systems Nuclear Project No. 2-Series A (MBIA Insured) | Aaa | AAA | 07/01/11 |
| 2,220 | Cowlitz County School District No. 458 Kelso (FSA Insured) | Aaa | NR | 12/01/15 |
| 1,000 | Cowlitz County School District No. 458 Kelso (FSA Insured) | Aaa | NR | 12/01/18 |
| 2,000 | Energy Northwest Electric Revenue-Columbia Generator Station-Series F (MBIA Insured) | Aaa | AAA | 07/01/18 |
| 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 |
| 5,000 | Seattle Water Systems Revenue (MBIA Insured) | Aaa | AAA | 09/01/19 |
| 3,625 | Snohomish County School District No. 015 Edmonds (FGIC Insured) | Aaa | AAA | 12/01/15 |
| 4,315 | Spokane County-Refunding -Series B (MBIA Insured) | Aaa | AAA | 12/01/10 |
| ----- | | | | |
| WEST VIRGINIA--3.20% | | | | |
| 10,000 | Marshall County Pollution Control Revenue-Ohio Power Project-Series D (MBIA Insured) | Aaa | AAA | 04/01/22 |
| ----- | | | | |
| WISCONSIN--0.40% | | | | |
| 1,105 | Ladysmith-Hawkins School District Refunding (FGIC Insured) | Aaa | NR | 04/01/20 |
| ----- | | | | |
| Total Long-Term Municipal Bonds (cost--\$436,741,414) | | | | |
| ----- | | | | |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|------------------------------|--|-------------------|---------------|-------------------|
| ----- | | | | |

SHORT-TERM MUNICIPAL NOTES--21.62%

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ILLINOIS--1.87%

| | | | | | |
|----|-------|-----------------------------------------------------------------------------------------------|--------|-----|----------|
| \$ | 5,900 | Illinois Health Facilities Authority Revenue-Resurrection Health-Series A (FSA Insured) | VMIG-1 | A-1 | 10/01/04 |
|----|-------|-----------------------------------------------------------------------------------------------|--------|-----|----------|

MASSACHUSETTS--3.77%

| | | | | | |
|--|-------|-------------------------------------------------------------------------------------------------------------------------------|--------|------|----------|
| | 3,680 | Massachusetts State Health & Education Facilities Authority Revenue-Capital Asset Program-Series B (MBIA Insured) | VMIG-1 | A-1+ | 10/01/04 |
| | 3,400 | Massachusetts State Health & Education Facilities Authority Revenue-Capital Asset Program-Series C (MBIA Insured) | VMIG-1 | A-1+ | 10/01/04 |
| | 4,800 | Massachusetts State Health & Education Facilities Authority Revenue-Capital Asset Program-Series D (MBIA Insured) | VMIG-1 | NR | 10/01/04 |

MISSOURI--1.02%

| | | | | | |
|--|-------|--------------------------------------------------------------------------------------------------------------------------|--------|-----|----------|
| | 3,200 | Missouri Health & Educational Facilities Authority Health Facilities Revenue-Cox Health Systems (AMBAC Insured) | VMIG-1 | A-1 | 10/01/04 |
|--|-------|--------------------------------------------------------------------------------------------------------------------------|--------|-----|----------|

NEVADA--1.91%

| | | | | | |
|--|-------|---------------------------------------------------------|--------|------|----------|
| | 6,000 | Clark County School District- Series A (FSA Insured) | VMIG-1 | A-1+ | 10/01/04 |
|--|-------|---------------------------------------------------------|--------|------|----------|

NEW YORK--5.99%

| | | | | | |
|--|-------|-----------------------------------------------------------------------------------------------------------------|--------|------|----------|
| | 5,000 | New York City General Obligation-Series B- SubSeries B-4 (MBIA Insured) | VMIG-1 | A-1+ | 10/01/04 |
| | 3,060 | New York City General Obligation-Series B- SubSeries B-6 (MBIA Insured) | VMIG-1 | A-1 | 10/01/04 |
| | 6,200 | New York City General Obligation-Series H- SubSeries H-2 (MBIA Insured) | VMIG-1 | A-1 | 10/01/04 |
| | 4,600 | New York City Municipal Water Finance Authority Water & Sewer Systems Revenue- Series C (FGIC Insured) | VMIG-1 | A-1+ | 10/01/04 |

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING | S&P RATING | MATURITY DATES |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------|-------------------|
| ----- | | | | |
| SHORT-TERM MUNICIPAL NOTES--(CONCLUDED) | | | | |
| TEXAS--6.20% | | | | |
| \$ 9,000 | Harris County Health Facilities Development Corporate Hospital Revenue-Texas Childrens Hospital-Series B-1 (MBIA Insured) | VMIG-1 | A-1+ | 10/01/04 |
| 10,500 | Harris County Health Facilities Development Corporate Special Facilities Revenue- Texas Medical Center Project- Series B (FSA Insured) | VMIG-1 | A-1+ | 10/01/04 |
| ----- | | | | |
| WASHINGTON--0.86% | | | | |
| 2,700 | Washington State Health Care Facilities-Authority Revenue- Providence Services-Series A (MBIA Insured) | VMIG-1 | A-1+ | 10/01/04 |
| ----- | | | | |
| Total Short-Term Municipal Notes (cost--\$68,040,000) | | | | |
| ----- | | | | |
| Total Investments (cost--\$504,781,414)--165.10% | | | | |
| Other assets in excess of liabilities--1.62% | | | | |
| Liquidation Value of Auction Preferred Shares--(66.72%) | | | | |
| Net Assets applicable to 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 September 30, 2004.

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

+ Entire or partial amount pledged as collateral for futures transactions.

NR -- Not Rated

AMBAC -- American Municipal Bond Assurance Corporation

CR -- Custodial Receipts

FGIC -- Financial Guaranty Insurance Company

FSA -- Financial Security Assurance

GTD -- Guaranteed

IBC -- Insured Bond Certificate

MBIA -- Municipal Bond Investors Assurance

PSF -- Permanent School Fund

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| NUMBER OF CONTRACTS | CONTRACTS TO RECEIVE | IN EXCHANGE FOR | EXPIRATION DATES | UNREALIZED DEPRECIATION |
|------------------------|---------------------------------------|--------------------|---------------------|----------------------------|
| ----- | | | | |
| FUTURES CONTRACTS | | | | |
| 50 | U.S. Treasury Note 5 Year Futures | \$ 5,537,500 | December 2004 | \$ (41,406) |
| 95 | U.S. Treasury Note 10 Year Futures | 10,699,375 | December 2004 | (41,875) |
| | | | | ----- |
| | | | | \$ (83,281) |
| ----- | | | | |

See accompanying notes to financial statements

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INSURED MUNICIPAL INCOME FUND INC.

STATEMENT OF ASSETS AND LIABILITIES -- SEPTEMBER 30, 2004 (UNAUDITED)

ASSETS:

| | | |
|-----------------------------------------------------------|----|-------------|
| Investments in securities, at value (cost--\$504,781,414) | \$ | 519,648,107 |
| Cash | | 3,383,305 |
| Receivable for investments sold | | 11,283,842 |
| Interest receivable | | 6,247,577 |
| Receivable for variation margin | | 14,842 |
| Other assets | | 29,476 |
| Total assets | | 540,607,149 |

LIABILITIES:

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|-------------|
| Payable for investments purchased | | 15,530,760 |
| Payable to investment advisor and administrator | | 258,549 |
| Dividends payable to auction preferred shareholders | | 33,839 |
| Accrued expenses and other liabilities | | 43,925 |
| Total liabilities | | 15,867,073 |
| Auction Preferred Shares Series A, B, C, D, E & F-4,200 non-participating shares authorized, issued and outstanding; \$0.001 par value; \$50,000 liquidation value per share | | 210,000,000 |
| Net assets applicable to common shareholders | \$ | 314,740,076 |

NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS:

| | | |
|-------------------------------------------------------------------------------------------------------------|----|-------------|
| Common Stock--\$0.001 par value; 199,997,000 shares authorized; 20,628,363 shares issued and outstanding | | 301,976,191 |
| Undistributed net investment income | | 655,701 |
| Accumulated net realized loss from investment activities and futures | | (2,675,228) |
| Net unrealized appreciation of investments and futures | | 14,783,412 |
| Net assets applicable to common shareholders | \$ | 314,740,076 |
| Net asset value per common share (\$314,740,076 applicable to 20,628,363 common shares outstanding) | \$ | 15.26 |

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STATEMENT OF OPERATIONS

FOR THE SIX
MONTHS ENDED
SEPTEMBER 30, 2004
(UNAUDITED)

| | |
|----------------------------------------------------------------------------------------|---------------|
| ----- | |
| INVESTMENT INCOME: | |
| Interest | \$ 10,681,529 |
| EXPENSES: | |
| Investment advisory and administration fees | 2,338,620 |
| Auction Preferred Shares expenses | 392,160 |
| Custody and accounting | 155,908 |
| Professional fees | 58,473 |
| Reports and notices to shareholders | 27,842 |
| Directors' fees | 7,223 |
| Transfer agency fees | 4,957 |
| Other expenses | 55,098 |
| | 3,040,281 |
| Less: Fee waivers from investment advisor and administrator | (607,086) |
| Net expenses | 2,433,195 |
| Net investment income | 8,248,334 |
| REALIZED AND UNREALIZED GAINS (LOSSES) FROM INVESTMENT ACTIVITIES: | |
| Net realized losses from: | |
| Investments | (518,957) |
| Futures | (346,445) |
| Net change in unrealized appreciation/depreciation of: | |
| Investments | (1,150,556) |
| Futures | 151,719 |
| Net realized and unrealized loss from investment activities | (1,864,239) |
| Dividends to auction preferred shareholders from net investment income | (1,167,340) |
| Net increase in net assets applicable to common shareholders resulting from operations | \$ 5,216,755 |

See accompanying notes to financial statements

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STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS

| | |
|------------------------------------------------------------------|---------------------------------------|
| FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004 (UNAUDITED) | FOR THE YEAR ENDED MARCH 31, 20 |
|------------------------------------------------------------------|---------------------------------------|

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| | | | |
|-----------------------------------------------------------------------------------------------|----|-------------|-----------|
| FROM OPERATIONS: | | | |
| Net investment income | \$ | 8,248,334 | \$ 17,28 |
| Net realized gain (loss) from investment activities and futures | | (865,402) | 8,86 |
| Net change in unrealized appreciation/depreciation of investments and futures | | (998,837) | (8,81 |
| COMMON SHARE EQUIVALENT OF DIVIDEND AND DISTRIBUTIONS TO AUCTION PREFERRED SHAREHOLDERS FROM: | | | |
| Net investment income | | (1,167,340) | (1,41 |
| Net realized gains from investment activities | | -- | (33 |
| Total dividends and distributions paid to auction preferred shareholders | | (1,167,340) | (1,74 |
| Net increase in net assets applicable to common shareholders resulting from operations | | 5,216,755 | 15,58 |
| DIVIDENDS AND DISTRIBUTIONS TO COMMON SHAREHOLDERS FROM: | | | |
| Net investment income | | (8,045,064) | (17,32 |
| Net realized gains from investment activities | | -- | (5,02 |
| Total dividends and distributions to common shareholders | | (8,045,064) | (22,35 |
| Auction Preferred Shares offering expenses | | -- | (72 |
| Net decrease in net assets applicable to common shareholders | | (2,828,309) | (7,49 |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS: | | | |
| Beginning of period | | 317,568,385 | 325,06 |
| End of period | \$ | 314,740,076 | \$ 317,56 |
| ----- | | | |
| Accumulated undistributed net investment income | \$ | 655,701 | \$ 1,61 |
| ----- | | | |

See accompanying notes to financial statements

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INSURED MUNICIPAL INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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. There can be no assurance that the Fund's investment objective will be achieved.

In the normal course of business the Fund may enter into contracts that contain a variety of representations or that provide indemnification for certain liabilities. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires the Fund's management to make estimates

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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 net asset values based on the current market value, where available, for its portfolio's securities. The Fund normally obtains market values for its securities from independent pricing sources and broker-dealers. Independent pricing sources may use last reported sale prices, current market quotations or valuations from computerized "matrix" systems that derive values based on comparable securities. A matrix system incorporates parameters such as security quality, maturity and coupon, and/or research and evaluations by its staff, including review of broker-dealer market price quotations, if available, in determining the valuation of the portfolio securities. If a market value is not available from an independent pricing source for a particular security, that 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. Securities traded in the over-the-counter ("OTC") market are valued at the last bid price available on the valuation date prior to valuation.

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.

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FUTURES CONTRACTS--Upon entering into a financial futures contract, the Fund is required to deposit in a segregated account with its custodian, in the name of the futures broker through which the transaction was effected, an amount of cash and/or municipal obligations equal to a certain percentage of the contract amount. This amount is known as the "initial margin." Subsequent payments, known as "variation margin" are made or received by the Fund each day, depending on the daily fluctuations in the value of the underlying financial futures contracts. Such variation margin is recorded for financial statement purposes on a daily basis as unrealized gain or loss until the financial futures contract is closed, at which time the net gain or loss is reclassified to realized gain or loss on futures. Variation margin calls could be substantial in the event of adverse price movements.

Using financial futures contracts involves various market risks. If the Fund was unable to liquidate a futures position due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. The Fund would continue to be subject to market risk with respect to the position. In addition, the Fund would continue to be required to make variation margin payments and might be required to maintain the position being hedged or to maintain cash or securities in a segregated account. Furthermore, certain characteristics of the futures market might increase the risk that movements in the prices of the financial futures contracts might not correlate perfectly with movements in the prices of the investments being hedged, including temporary price distortion.

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 earnings rate of the Fund.

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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 U.S. generally accepted accounting principles. 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 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.

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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 applicable to holders of common and Auction Preferred Shares. UBS Global AM had agreed to waive 0.20% of the advisory and administration fee, so that the Fund's effective fee was 0.70% of average weekly net assets applicable to holders of common and Auction Preferred Shares. Effective August 1, 2004, the Fund's management fee waiver increased to 0.30%, reducing the effective management fee to 0.60%. This waiver will continue indefinitely unless the Board agrees to any change. At September 30, 2004, the Fund owed UBS Global AM \$258,549, which is \$387,923 investment advisory and administration fees less fees waived of \$129,374. For the six months ended September 30, 2004, UBS Global AM waived \$607,086 in investment advisory and administration fees from the Fund.

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, 600 shares of Auction Preferred Shares Series D, 600 shares of Auction Preferred Shares Series E and 600 shares of Auction Preferred Shares Series F which are referred to herein collectively as the "APS." All shares of each series of APS have 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 each Series of APS. Dividend rates ranged from 0.750% to 1.590% for the six months ended September 30, 2004.

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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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 APS will vote separately as a class on certain matters, as required by law. The holders of the APS have the right to elect two directors of the Fund.

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The redemption of the Fund's APS 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.

Offering expenses of \$723,487 were charged to paid-in-capital of the Fund in connection with the offering of APS during the year ended March 31, 2004.

PURCHASES AND SALES OF SECURITIES

For the six months ended September 30, 2004, aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$113,492,514 and \$116,165,833, respectively.

FEDERAL TAX STATUS

The Fund intends to distribute substantially all of its tax-exempt income and 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, net 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 year ended March 31, 2004 was as follows:

| DISTRIBUTIONS PAID FROM: | | 2004 |
|-----------------------------|----|------------|
| Tax-exempt income | \$ | 18,738,188 |
| Net long-term capital gains | | 5,364,503 |
| Total distributions paid | \$ | 24,102,691 |

The tax character of distributions paid and the components of accumulated earnings (deficit) on a tax basis for the current fiscal year will be calculated after the Fund's fiscal year ending March 31, 2005.

The tax cost of investments and the components of net unrealized appreciation of investments at September 30, 2004 were as follows:

| | | |
|-------------------------------|----|-------------|
| Tax cost of investments | \$ | 504,781,414 |
| Gross unrealized appreciation | | 15,853,398 |
| Gross unrealized depreciation | | (986,705) |
| Net unrealized appreciation | \$ | 14,866,693 |

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FINANCIAL HIGHLIGHTS

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

| | FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2004 (UNAUDITED) | | FOR THE YEAR ----- 2004 2003 | |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|---------|-----------------------------------------|------------|
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ | 15.39 | \$ 15.76 | \$ 15.15 |
| Net investment income | | 0.40 | 0.84 | 0.97 |
| Net realized and unrealized gains (losses) from investment activities | | (0.08) | 0.00# | 0.58 |
| Common share equivalent of dividends and distributions paid to auction preferred shareholders from: | | | | |
| Net investment income | | (0.06) | (0.07) | (0.10) |
| Net realized gains from investment activities | | -- | (0.02) | -- |
| Total dividends and distributions paid to auction preferred shareholders | | (0.06) | (0.09) | (0.10) |
| Net increase (decrease) from operations | | 0.26 | 0.75 | 1.45 |
| Dividends and distributions paid to common shareholders from: | | | | |
| Net investment income | | (0.39) | (0.84) | (0.84) |
| Net realized gains from investment activities | | -- | (0.24) | -- |
| Total dividends and distributions to common shareholders | | (0.39) | (1.08) | (0.84) |
| Auction Preferred Shares offering expenses | | -- | (0.04) | -- |
| NET ASSET VALUE, END OF PERIOD | \$ | 15.26 | \$ 15.39 | \$ 15.76 |
| MARKET VALUE, END OF PERIOD | \$ | 13.47 | \$ 14.48 | \$ 13.98 |
| TOTAL INVESTMENT RETURN(1) | | (4.18)% | 11.75% | 10.61% |
| RATIO TO AVERAGE NET ASSETS ATTRIBUTABLE TO COMMON SHARES: | | | | |
| Total expenses, net of fee waivers by advisor | | 1.57%* | 1.35% | 1.41% |
| Total expenses, before fee waivers by advisor | | 1.96%* | 1.62% | 1.60% |
| Net investment income before Auction Preferred Shares dividends | | 5.34%* | 5.42% | 6.23% |
| Auction Preferred Shares dividends from net investment income | | 0.76%* | 0.44% | 0.61% |
| Net investment income available to common shareholders, net of fee waivers by advisor | | 4.58%* | 4.98% | 5.62% |
| Net investment income available to common shareholders, before fee waivers by advisor | | 4.19%* | 4.71% | 5.43% |
| SUPPLEMENTAL DATA: | | | | |
| Net assets applicable to common shareholders, end of period (000's) | \$ | 314,740 | \$ 317,568 | \$ 325,060 |
| Portfolio turnover | | 25% | 37% | 24% |
| Asset coverage per share of Auction Preferred Shares, end of period | \$ | 124,938 | \$ 125,612 | \$ 158,353 |

* Annualized.

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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 period reported and a sale at the current market price on the last day of each period 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 and has not been annualized for the period less than one year. Returns do not reflect the deduction of taxes that a shareholder could pay on Fund distributions.
- # Represents less than \$0.005.

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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 had approximately \$49.5 billion in assets under management as of September 30, 2004.

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 WALL STREET JOURNAL, THE NEW YORK TIMES AND BARRON'S, as well as in numerous other publications.

An annual meeting of shareholders of the Fund was held on July 15, 2004. At the meeting Margo N. Alexander, Richard Q. Armstrong, David J. Beaubien, Richard R. Burt, Meyer Feldberg, Carl W. Schafer, and William D. White were elected to serve as directors until the next annual meeting of shareholders, or until their successors are elected and qualified or until they resign or are otherwise removed. The shares were voted as indicated below:

COMMON STOCK AND APS SHARES VOTING AS A SINGLE CLASS SHARES

| TO VOTE FOR OR WITHHOLD AUTHORITY IN THE ELECTION OF: | SHARES VOTED FOR | SHARES WITHHOLD AUTHORITY |
|-------------------------------------------------------|---------------------|---------------------------------|
| Richard Q. Armstrong | 19,454,736 | 398,253 |
| David J. Beaubien | 19,450,949 | 402,040 |
| Richard R. Burt | 19,455,375 | 397,614 |
| Carl W. Schafer | 19,447,421 | 405,568 |
| William D. White | 19,449,629 | 403,360 |

AUCTION PREFERRED SHARES

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| TO VOTE FOR OR WITHHOLD AUTHORITY IN THE ELECTION OF: | SHARES VOTED FOR | SHARES WITHHOLD AUTHORITY |
|-------------------------------------------------------|---------------------|---------------------------------|
| Margo N. Alexander | 3,963 | 0 |
| Meyer Feldberg | 3,963 | 0 |

The Fund was informed that there were no broker non-votes. (Broker non-votes are shares held in street name for which the broker indicates that instructions have not been received from the beneficial owners or other

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persons entitled to vote and for which the broker does not have discretionary voting authority.)

PROXY VOTING POLICIES AND PROCEDURES AND RECORD

You may obtain a description of the Fund's proxy voting policies and procedures, and its proxy voting record, without charge, upon request by contacting the Fund directly at 1-800-647 1568, online on the Fund's Web site www.ubs.com/ubsglobalam-proxy, or on the EDGAR Database on the SEC's website (<http://www.sec.gov>).

QUARTERLY FORM N-Q PORTFOLIO SCHEDULE

The Fund will file its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov>. The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. Additionally, you may obtain copies of Forms N-Q from the Fund upon request by calling 1-800-647-1568.

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 Financial Services 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

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record date at least ten days after the date on which the election is received.

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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 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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DIRECTORS

Richard Q. Armstrong
CHAIRMAN

Margo N. Alexander

David J. Beaubien

Richard R. Burt

Meyer Feldberg

Carl W. Schafer

William D. White

PRINCIPAL OFFICERS

Joseph A. Varnas
PRESIDENT

Mark F. Kemper
VICE PRESIDENT AND SECRETARY

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Thomas Disbrow
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

THE FINANCIAL INFORMATION INCLUDED HEREIN IS TAKEN FROM THE RECORDS OF THE FUND WITHOUT EXAMINATION BY INDEPENDENT AUDITORS WHO DO NOT EXPRESS AN OPINION THEREON.

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.

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.

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51 West 52nd Street
New York, NY 10019

ITEM 2. CODE OF ETHICS.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

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Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

ITEM 6. SCHEDULE OF INVESTMENTS.

Included as part of the report to shareholders filed under Item 1 of this form.

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

Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

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

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

There were no purchases made by or on behalf of the registrant or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of shares of the registrant's equity securities made in the period covered by this report.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The registrant's Board has established a Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will consider nominees recommended by shareholders

if a vacancy occurs among those board members who are not "interested persons" as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended. In order to recommend a nominee, a shareholder should send a letter to the chairperson of the Nominating and Corporate Governance Committee, Mr. Meyer Feldberg, care of the Secretary of the registrant at UBS Global Asset Management (US) Inc., 51 West 52nd Street, New York, New York 10019-6114, and indicate on the envelope "Nominating and Corporate Governance Committee." The shareholder's letter should state the nominee's name and should include the nominee's resume or curriculum vitae, and must be accompanied by a written consent of the individual to stand for election if nominated for the Board and to serve if elected by shareholders.

ITEM 11. 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-3(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) The registrant's principal executive officer and principal financial officer are aware of no changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal half-year that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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ITEM 12. EXHIBITS.

- (a) (1) Code of Ethics - Form N-CSR disclosure requirement not applicable to this filing of a semi-annual report.
- (a) (2) Certifications of principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit EX-99.CERT.
- (b) Certifications of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit EX-99.906CERT.

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: December 3, 2004

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: December 3, 2004

By: /s/ Thomas Disbrow

Thomas Disbrow
Treasurer

Date: December 3, 2004
