

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST

Form N-30D

December 26, 2002

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
LETTER TO THE SHAREHOLDERS o OCTOBER 31, 2002

DEAR SHAREHOLDER:

During the 12 months ended October 31, 2002, U.S. economic indicators fluctuated between stronger and weaker growth. The economy continued to recover from recession and the aftermath of September 11. Real gross domestic product (GDP) accelerated to an annual rate of 5.0 percent in the first quarter of 2002. In the spring, the economy began to send mixed signals and the recovery lost momentum. Weakness in manufacturing and capital spending combined with corporate-accounting scandals and geopolitical turmoil to slow GDP to a 1.3 percent annual rate in the second quarter. The strongest consumer spending of the year and the restocking of inventories led to 4.0 percent annual growth in the third quarter.

As the economy gained strength in the first few months of 2002, a general consensus developed that the Federal Reserve Board would begin to tighten monetary policy and raise short-term interest rates. The bond market reacted to these concerns in March and yields rose. By late spring, however, the consensus shifted to favoring bonds as labor market and capital-spending indicators remained soft and new disclosures on corporate ethics spurred a flight to quality. Most importantly, the Federal Reserve changed its monetary policy bias from neutral toward one of easing. The market's expectations of eventual rate hikes were scaled back and bonds rallied. A mid-October surge in the equity markets created a downdraft in bond prices. However, renewed concerns about the economy helped bond prices improve by month-end. On November 6, 2002, the Federal Reserve lowered the federal funds rate from 1.75 to 1.25 percent. This marked the first change by the central bank in nearly one year.

MUNICIPAL MARKET CONDITIONS

The economic environment and unsettled equity markets lowered municipal yields to levels last seen in the 1960s. The yield on the 30-year insured municipal bond index ranged from a high of 5.43 percent in March to a low of 4.74 percent in September. The index yield stood at 4.96 percent at the end of October 2002. Throughout the period the slope of the municipal yield curve remained steep. The yield pickup for extending maturities from 1 to 30 years averaged 350 basis points.

The ratio of municipal yields as a percentage of U.S. Treasury yields is used as a gauge of the relative value of municipals. The ratio of 30-year insured municipal bond yields to 30-year Treasuries fell from 98 percent in December 2001 to 94 percent in March. As municipals lagged the summer rally in Treasuries, the ratio jumped to 102 percent in September but declined to 99 percent by the end of October. These levels imply that municipals are cheap relative to Treasuries.

State and local governments took advantage of lower interest rates to refinance outstanding debt in a manner similar to homeowners refinancing their mortgages. Refinancing activity contributed to a surge in municipal bond underwriting, and long-term volume increased 27 percent to a record \$292 billion in the

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
LETTER TO THE SHAREHOLDERS o OCTOBER 31, 2002 CONTINUED

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first ten months of 2002. Refunding issues represented almost one-quarter of the total. California, Florida, New York, and Texas, the largest states in terms of issuance, represented 40 percent of the national volume. Issuance is on track to raise calendar year 2002's volume to more than \$325 billion.

30-Year Bond Yields 1997-2002

| Date | Insured Municipal Yields | U.S. Treasury Yields | Insured Municipal Yields/U.S. Treasury |
|----------|--------------------------|----------------------|--|
| 12/31/96 | 5.60 | 6.63 | 84.46% |
| 01/31/97 | 5.70 | 6.79 | 83.95% |
| 02/28/97 | 5.65 | 6.80 | 83.09% |
| 03/31/97 | 5.90 | 7.10 | 83.10% |
| 04/30/97 | 5.75 | 6.94 | 82.85% |
| 05/30/97 | 5.65 | 6.91 | 81.77% |
| 06/30/97 | 5.60 | 6.78 | 82.60% |
| 07/30/97 | 5.30 | 6.30 | 84.13% |
| 08/31/97 | 5.50 | 6.61 | 83.21% |
| 09/30/97 | 5.40 | 6.40 | 84.38% |
| 10/31/97 | 5.35 | 6.15 | 86.99% |
| 11/30/97 | 5.30 | 6.05 | 87.60% |
| 12/31/97 | 5.15 | 5.92 | 86.99% |
| 01/31/98 | 5.15 | 5.80 | 88.79% |
| 02/28/98 | 5.20 | 5.92 | 87.84% |
| 03/31/98 | 5.25 | 5.93 | 88.53% |
| 04/30/98 | 5.35 | 5.95 | 89.92% |
| 05/29/98 | 5.20 | 5.80 | 89.66% |
| 06/30/98 | 5.20 | 5.65 | 92.04% |
| 07/31/98 | 5.18 | 5.71 | 90.72% |
| 08/31/98 | 5.03 | 5.27 | 95.45% |
| 09/30/98 | 4.95 | 5.00 | 99.00% |
| 10/31/98 | 5.05 | 5.16 | 97.87% |
| 11/30/98 | 5.00 | 5.06 | 98.81% |
| 12/31/98 | 5.05 | 5.10 | 99.02% |
| 01/31/99 | 5.00 | 5.09 | 98.23% |
| 02/28/99 | 5.10 | 5.58 | 91.40% |
| 03/31/99 | 5.15 | 5.63 | 91.47% |
| 04/30/99 | 5.20 | 5.66 | 91.87% |
| 05/31/99 | 5.30 | 5.83 | 90.91% |
| 06/30/99 | 5.47 | 5.96 | 91.78% |
| 07/31/99 | 5.55 | 6.10 | 90.98% |
| 08/31/99 | 5.75 | 6.06 | 94.88% |
| 09/30/99 | 5.85 | 6.05 | 96.69% |
| 10/31/99 | 6.03 | 6.16 | 97.89% |
| 11/30/99 | 6.00 | 6.29 | 95.39% |
| 12/31/99 | 5.97 | 6.48 | 92.13% |
| 01/31/00 | 6.18 | 6.49 | 95.22% |
| 02/29/00 | 6.04 | 6.14 | 98.37% |
| 03/31/00 | 5.82 | 5.83 | 99.83% |
| 04/30/00 | 5.91 | 5.96 | 99.16% |
| 05/31/00 | 5.91 | 6.01 | 98.34% |
| 06/30/00 | 5.84 | 5.90 | 98.98% |
| 07/31/00 | 5.73 | 5.78 | 99.13% |
| 08/31/00 | 5.62 | 5.67 | 99.12% |
| 09/30/00 | 5.74 | 5.89 | 97.45% |
| 10/31/00 | 5.65 | 5.79 | 97.58% |
| 11/30/00 | 5.55 | 5.61 | 98.93% |
| 12/31/00 | 5.27 | 5.46 | 96.52% |

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| | | | |
|----------|------|------|---------|
| 01/31/01 | 5.30 | 5.50 | 96.36% |
| 02/28/01 | 5.27 | 5.31 | 99.25% |
| 03/31/01 | 5.26 | 5.44 | 96.69% |
| 04/30/01 | 5.45 | 5.79 | 94.13% |
| 05/31/01 | 5.40 | 5.75 | 93.91% |
| 06/30/01 | 5.35 | 5.76 | 92.88% |
| 07/31/01 | 5.16 | 5.52 | 93.48% |
| 08/31/01 | 5.07 | 5.37 | 94.41% |
| 09/30/01 | 5.20 | 5.42 | 95.94% |
| 10/31/01 | 5.04 | 4.87 | 103.49% |
| 11/30/01 | 5.17 | 5.29 | 97.73% |
| 12/31/01 | 5.36 | 5.47 | 97.99% |
| 01/31/02 | 5.22 | 5.43 | 96.13% |
| 02/28/02 | 5.14 | 5.42 | 94.83% |
| 03/31/02 | 5.43 | 5.80 | 93.62% |
| 04/30/02 | 5.30 | 5.59 | 94.81% |
| 05/31/02 | 5.29 | 5.62 | 94.13% |
| 06/30/02 | 5.27 | 5.51 | 95.64% |
| 07/31/02 | 5.12 | 5.30 | 96.60% |
| 08/31/02 | 5.00 | 4.93 | 101.42% |
| 09/30/02 | 4.74 | 4.67 | 101.50% |
| 10/31/02 | 4.92 | 4.99 | 98.60% |

Source: Municipal Market Data - A Division of Thomson Financial Municipal Group and Bloomberg L.P.

PERFORMANCE

The net asset value (NAV) of Morgan Stanley Insured Municipal Income Trust (IIM) increased from \$15.42 to \$15.67 per share for the fiscal year ended October 31, 2002. Based on this change plus the reinvestment of tax-free dividends totaling \$0.8175 per share the Trust's total NAV return was 7.66 percent. IIM's value on the New York Stock Exchange (NYSE) decreased from \$14.13 to \$14.05 per share during the same period. Based on this change plus the reinvestment of tax-free dividends, IIM's total market return was 5.35 percent. On October 31, 2002, IIM's NYSE market price was at a 10.34 percent discount to its NAV.

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST LETTER TO THE SHAREHOLDERS o OCTOBER 31, 2002 CONTINUED

Monthly dividends for the fourth quarter of 2002 were declared in September. Beginning with the October payment the monthly dividend was increased from \$0.0675 to \$0.075 per share. The new dividend reflects the level of the Trust's undistributed net investment income and projected earnings power. The Trust's level of undistributed net investment income was \$0.187 per share on October 31, 2002, versus \$0.086 per share last year.

PORTFOLIO STRUCTURE

The Trust's total net assets of \$551 million, including Auction Rate Preferred Shares (ARPS), were diversified among 14 long-term sectors and 79 credits. At the end of October the portfolio's average maturity was 19 years. Average duration, a measure of sensitivity to interest-rate changes, was 4.9 years. The accompanying charts provide current information on the portfolio's credit enhancements, maturity distribution and sector concentrations. Optional call provisions by year and their respective cost (book) yields are also shown.

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THE IMPACT OF LEVERAGING

As discussed in previous reports, the total income available for distribution to common shareholders includes incremental income provided by the Trust's outstanding ARPS. ARPS dividends reflect prevailing short-term interest rates on maturities normally ranging from one week to one year. Incremental income to common shareholders depends on two factors. The first factor is the amount of ARPS outstanding, while the second is the spread between the portfolio's cost yield and ARPS expenses (ARPS auction rate and expenses). The greater the spread and the amount of ARPS outstanding, the greater the amount of incremental income available for distribution to common shareholders. The level of net investment income available for distribution to common shareholders varies with the level of short-term interest rates. ARPS leverage also increases the price volatility of common shares and has the effect of extending portfolio duration.

During the fiscal year, ARPS leverage contributed approximately \$0.16 per share to common share earnings. The Trust's five ARPS series totaled \$155 million and represented 28 percent of total net assets. In January 2002, ARPS series 4 was extended until January 2004 at a yield of 2.47 percent. In July 2002, series 3 was extended until July 2004 at a yield of 2.20 percent. The yield on the Trust's three weekly series ranged between 0.90 and 2.47 percent.

LOOKING AHEAD

The Federal Reserve Board's cautious approach toward an eventual rate tightening earlier this year helped stabilize the fixed-income markets. In fact, the Fed's current willingness to be accommodative resulted in a major bond rally during the second and third calendar quarters. We believe that the yields on tax-exempt securities continue to favor municipal bonds as an attractive choice for tax-conscious investors. For many investors, the taxable equivalent yields available on municipal bonds offer a significant advantage.

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
LETTER TO THE SHAREHOLDERS o OCTOBER 31, 2002 CONTINUED

The Trust's procedure for reinvestment of all dividends and distributions on common shares is through purchases in the open market. This method helps support the market value of the Trust's shares. In addition, we would like to remind you that the Trustees have approved a procedure whereby the Trust may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase. The Trust may also utilize procedures to reduce or eliminate the amount of outstanding ARPS, including their purchase in the open market or in privately negotiated transactions. During the 12-month period ended October 31, 2002, the Trust purchased and retired 996,500 shares of common stock at a weighted average market discount of 8.17 percent.

We appreciate your ongoing support of Morgan Stanley Insured Municipal Income Trust and look forward to continuing to serve your investment needs.

Very truly yours,

/s/ Charles A. Fiumefreddo
Charles A. Fiumefreddo
Chairman of the Board

/s/ Mitchell M. Merin
Mitchell M. Merin
President and CEO

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 LETTER TO THE SHAREHOLDERS o OCTOBER 31, 2002 CONTINUED

LARGEST SECTORS AS OF OCTOBER 31, 2002
 (% OF LONG-TERM PORTFOLIO)
 [GRAPHIC OMITTED]

| | |
|--------------------------|-----|
| TRANSPORTATION | 20% |
| WATER & SEWER | 12% |
| ELECTRIC | 10% |
| GENERAL OBLIGATION | 10% |
| HOSPITAL | 10% |
| REFUNDED | 9% |
| IDR/PCR* | 8% |
| MORTGAGE | 6% |
| PUBLIC FACILITIES | 5% |

* INDUSTRIAL DEVELOPMENT/POLLUTION CONTROL REVENUE.

PORTFOLIO STRUCTURE IS SUBJECT TO CHANGE.

CREDIT ENHANCEMENTS AS OF OCTOBER 31, 2002
 (% OF LONG-TERM PORTFOLIO)
 [GRAPHIC OMITTED]

| | |
|-------------|-----|
| MBIA | 38% |
| AMBAC | 24% |
| FGIC | 20% |
| FSA | 18% |

PORTFOLIO STRUCTURE IS SUBJECT TO CHANGE.

DISTRIBUTION BY MATURITY
 (% OF LONG-TERM PORTFOLIO)
 [GRAPHIC OMITTED]

WEIGHTED AVERAGE
 MATURITY: 19 YEARS

| | |
|-------------------|-------|
| 1-5 YEARS | 3.2% |
| 5-10 YEARS | 6.4% |
| 10-20 YEARS | 46.0% |
| 20-30 YEARS | 35.8% |
| 30+ YEARS | 8.6% |

PORTFOLIO STRUCTURE IS SUBJECT TO CHANGE.

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 LETTER TO THE SHAREHOLDERS o OCTOBER 31, 2002 CONTINUED

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CALL AND COST (BOOK) YIELD STRUCTURE
 (BASED ON LONG-TERM PORTFOLIO)
 OCTOBER 31, 2002
 [GRAPHIC OMITTED]

PERCENT CALLABLE

WEIGHTED AVERAGE
 CALL PROTECTION: 6 YEARS

| | |
|-------|-----|
| 2002 | 5% |
| 2003 | 37% |
| 2004 | 2% |
| 2005 | 2% |
| 2006 | 1% |
| 2007 | 1% |
| 2008 | 2% |
| 2009 | 6% |
| 2010 | 10% |
| 2011 | 9% |
| 2012+ | 25% |

YEARS BONDS CALLABLE

COST (BOOK) YIELD*

WEIGHTED AVERAGE
 BOOK YIELD: 5.6%

| | |
|-------|------|
| 2002 | 5.9% |
| 2003 | 5.9% |
| 2004 | 5.9% |
| 2005 | 5.9% |
| 2006 | 5.8% |
| 2007 | 5.6% |
| 2008 | 5.3% |
| 2009 | 5.7% |
| 2010 | 5.7% |
| 2011 | 5.2% |
| 2012+ | 5.1% |

* COST OR "BOOK" YIELD IS THE ANNUAL INCOME EARNED ON A PORTFOLIO INVESTMENT BASED ON ITS ORIGINAL PURCHASE PRICE BEFORE THE TRUST'S OPERATING EXPENSES. FOR EXAMPLE, THE TRUST IS EARNING A BOOK YIELD OF 5.9% ON 5% OF THE LONG-TERM PORTFOLIO THAT IS CALLABLE IN 2002.

PORTFOLIO STRUCTURE IS SUBJECT TO CHANGE.

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| | | | | | | | |
|--------------------------|------|--------------------|------|--------------------|------|---------------|--|
| Arizona | 1.9% | Indiana | 4.5% | Nevada | 4.3% | Tennessee ... | |
| California | 5.2 | Kentucky | 3.4 | New Hampshire ... | 0.7 | Texas | |
| Colorado | 1.5 | Louisiana | 1.4 | New Jersey | 2.2 | Utah | |
| Connecticut | 2.3 | Maine | 0.9 | New York | 5.6 | Virginia | |
| District of Columbia.... | 2.7 | Massachusetts | 2.5 | North Carolina ... | 3.0 | Washington .. | |
| Florida | 5.2 | Michigan | 2.4 | Ohio | 1.1 | West Virginia | |
| Hawaii | 1.0 | Minnesota | 0.9 | Pennsylvania | 9.2 | Wisconsin ... | |
| Idaho | 1.7 | Missouri | 1.4 | Rhode Island | 2.3 | Wyoming | |
| Illinois | 7.1 | Montana | 1.0 | South Carolina ... | 2.4 | | |
| | | | | | | Total | |

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
RESULTS OF ANNUAL MEETING

On October 23, 2002, an annual meeting of the Trust's shareholders was held for the purpose of voting on two separate matters, the results of which were as follows:

- (1) Election of Trustee by all shareholders:
 - Wayne E. Hedien
 - For 20,948,039
 - Withheld 727,571
- (2) Election of Trustee by preferred shareholders:
 - Manuel H. Johnson
 - For 2,597
 - Against 1

The following Trustees were not standing for reelection at this meeting: Michael Bozic, Charles A. Fiumefreddo, Edwin J. Garn, James F. Higgins, Michael E. Nugent and Philip J. Purcell.

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
PORTFOLIO OF INVESTMENTS o OCTOBER 31, 2002

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE |
|-------------------------------------|--|----------------|
| ----- | | ----- |
| | TAX-EXEMPT-MUNICIPAL BONDS (126.8%) | |
| | GENERAL OBLIGATION (13.1%) | |
| | District of Columbia, | |
| \$ 5,000 | Refg Ser 1993 B (Ambac) | 5.50 % |
| 6,000 | Refg Ser 1993 B (FSA) | 5.50 |
| | Florida Board of Education, Capital Outlay | |
| 5,000 | Refg 2002 Ser C (MBIA) | 5.00 |

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| | | |
|--------|--|-----------|
| 5,000 | Refg 2002 Ser C (MBIA) | 5.00 |
| 15,000 | Chicago, Illinois, Neighborhoods Alive 21 Ser 2001 A (FGIC)** | 5.50 |
| 3,000 | Vicksburg Community Schools, Michigan, 1993 Refg (MBIA) | 5.625 |
| 6,000 | Clark County Sanitation District, Nevada, Refg 1993 (FGIC) | 5.70 |
| 4,000 | Houston, Texas, Public Improvement & Refg Ser 2001 B (FSA) | 5.50 |
| ----- | | |
| 49,000 | | |
| ----- | | |
| | EDUCATIONAL FACILITIES REVENUE (4.4%) | |
| 3,000 | District of Columbia, American Association for the Advancement of Science Ser 1997 (Ambac) | 5.125 |
| | Aurora West School District 129, Illinois, | |
| 1,000 | School Building Ser 2002 A (FGIC) | 5.75 |
| 2,000 | School Building Ser 2002 A (FGIC) | 5.75 |
| 4,000 | Illinois Educational Facilities Authority, DePaul University Refg Ser 1997 (Ambac) | 5.50 |
| 4,000 | New Hampshire Health & Education Facilities Authority, University of New Hampshire Ser 2001 (Ambac) | 5.125 |
| 2,500 | Rhode Island Health & Educational Building Corporation, Providence College Ser 1993 (MBIA) | 5.60 |
| ----- | | |
| 16,500 | | |
| ----- | | |
| | ELECTRIC REVENUE (13.2%) | |
| 10,000 | North Carolina Municipal Power Agency #1, Catawba Ser 1993 (MBIA) | 9.37[+]/+ |
| 3,000 | Piedmont Municipal Power Agency, South Carolina, Refg Ser 1993 (MBIA) | 5.375 |
| | Lower Colorado River Authority, Texas, | |
| 10,000 | Refg Ser 1999 A (FSA) | 5.875 |
| 5,000 | Refg Ser 2001 (FSA) | 5.00 |
| 4,000 | Refg Ser 2002 (MBIA) | 5.00 |
| 10,000 | Washington Public Power Supply System, Nuclear Proj #1 Refg Ser 1993 A (MBIA) | 5.70 |
| 8,000 | Wisconsin Public Power, Refg Ser 1993 A (Ambac) | 5.25 |
| ----- | | |
| 50,000 | | |
| ----- | | |

See Notes to Financial Statements

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
PORTFOLIO OF INVESTMENTS o OCTOBER 31, 2002 CONTINUED

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE |
|-------------------------------------|--|----------------|
| ----- | | |
| | HOSPITAL REVENUE (12.1%) | |
| \$ 5,000 | Mesa Industrial Development Authority, Arizona, Discovery Health Ser 1999 A (MBIA) | 5.875% |
| 5,000 | Sarasota County Public Hospital Board, Florida, Sarasota Memorial Hospital Refg Ser 1998 B (MBIA) | 5.25 |
| 3,000 | Indiana Health Facilities Financing Authority, Deaconess Hospital Inc | |

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| | | |
|--------|---|-----------|
| | Refg Ser 1993 (MBIA) | 5.75 |
| 5,000 | Kentucky Economic Development Finance Authority, St Elizabeth | |
| | Medical Center Inc Ser 1993 A (FGIC) | 6.00 |
| 3,935 | Maine Health & Higher Educational Facilities Authority, Ser 1993 A | |
| | (FSA) | 5.50 |
| 5,500 | Massachusetts Health & Educational Facilities Authority, Lahey Clinic | |
| | Medical Center Ser B (MBIA) | 5.625 |
| 2,000 | Missouri Health & Educational Facilities Authority, SSM Health Care | |
| | Ser 1998 A (MBIA) | 5.00 |
| 4,000 | Washington County Hospital Authority, Pennsylvania, Washington | |
| | Hospital Ser 1993 (Ambac) | 5.625 |
| 4,000 | Chattanooga-Hamilton County Hospital Authority, Tennessee, | |
| | Erlanger Medical Center Refg Ser 1993 (FSA) | 5.50 |
| | Amarillo Health Facilities Corporation, Texas, | |
| 3,020 | Baptist St Anthony's Hospital Ser 1998 (FSA) | 5.50 |
| 5,075 | Baptist St Anthony's Hospital Ser 1998 (FSA) | 5.50 |
| ----- | | |
| 45,530 | | |
| ----- | | |
| | INDUSTRIAL DEVELOPMENT/POLLUTION CONTROL REVENUE (10.0%) | |
| 7,500 | Adams County, Colorado, Public Service Co of Colorado | |
| | Refg 1993 Ser A (MBIA) | 5.875 |
| 5,000 | Hawaii Department of Budget and Finance, Hawaiian Electric Co | |
| | Ser 1999 C (AMT) (Ambac) | 6.20 |
| 12,000 | Indiana Development Finance Authority, PSI Energy Inc Ser 1993 B | |
| | (AMT) (MBIA) | 5.75 |
| 4,900 | Monroe County, Michigan, Detroit Edison Co Ser CC (AMT) (MBIA) | 6.55 |
| 5,400 | Forsyth, Montana, Puget Sound Power & Light Co Ser 1993 (MBIA) | 5.875 |
| 3,000 | New York State Energy Research & Development Authority, Brooklyn | |
| | Union Gas Co 1991 Ser D (AMT) (MBIA) | 9.566[+/+ |
| ----- | | |
| 37,800 | | |
| ----- | | |
| | MORTGAGE REVENUE - MULTI-FAMILY (0.8%) | |
| 3,025 | West Virginia Housing Development Fund, Ser A (Ambac) | 5.65 |
| ----- | | |

See Notes to Financial Statements

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 PORTFOLIO OF INVESTMENTS o OCTOBER 31, 2002 CONTINUED

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE |
|-------------------------------------|---|----------------|
| ----- | | ----- |
| | MORTGAGE REVENUE - SINGLE FAMILY (6.7%) | |
| \$ 12,715 | Connecticut Housing Finance Authority, 1992 Ser A-2 (AMT) | |
| | (Secondary FSA) | 6.05 % |
| 1,195 | Maine Housing Authority, Mortgage Purchase 1990 Ser A-6 (AMT) | |
| | (Secondary MBIA) | 6.35 |
| 12,500 | New Jersey Housing & Mortgage Finance Agency, Home Buyer | |
| | 1990 Ser F-3 (AMT) (MBIA) | 5.95 |
| ----- | | |

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| | | |
|--------|---|-------|
| 26,410 | | |
| ----- | | |
| | PUBLIC FACILITIES REVENUE (6.8%) | |
| 5,000 | San Jose Financing Authority, California, Civic Center Ser 2002 B (Ambac) (WI) | 5.00 |
| 5,000 | Miami-Dade County School Board, Florida, Ser 2001 A COPS (MBIA)..... | 5.00 |
| 3,000 | Orange County School Board, Florida, Ser 2001 A COPS (Ambac) | 5.25 |
| 10,000 | Marion County Convention & Recreational Facilities Authority, Indiana, Excise Tax Refg Ser 1993 A (Ambac) | 5.50 |
| | Kentucky Property & Building Commission, Project #74 | |
| 1,660 | Refg Ser 2002 A (FSA) | 5.375 |
| 1,500 | Refg Ser 2002 A (FSA) | 5.375 |
| ----- | | |
| 26,160 | | |
| ----- | | |
| | RECREATIONAL FACILITIES REVENUE (1.8%) | |
| | Metropolitan Pier & Exposition Authority, Illinois, McCormick Place, | |
| 3,000 | Refg Ser 2002 B (MBIA) | 0.00# |
| 5,000 | Ser 2002 A (MBIA) | 5.25 |
| ----- | | |
| 8,000 | | |
| ----- | | |
| | STUDENT LOAN REVENUE (4.7%) | |
| 18,000 | Pennsylvania State Higher Educational Assistant Agency, 1988 Ser D (AMT) (Ambac) | 6.05 |
| ----- | | |
| | Transportation Facilities Revenue (24.9%) | |
| 5,000 | Tucson, Arizona, Street & Highway Jr Lien Refg Ser 1993 (MBIA) | 5.50 |
| 9,000 | Long Beach California, Harbor Refg Ser 1998 A (AMT) (FGIC) | 6.00 |
| 5,000 | Chicago, Illinois, Chicago-O'Hare Int'l Airport Second Lien Refg 1993 Ser A (AMT) (MBIA) | 5.60 |
| 4,000 | Illinois Toll Highway Authority, Priority Refg 1998 Ser A (FSA) | 5.50 |
| 5,000 | Minneapolis-St Paul Metropolitan Airports Commission, Minnesota, Ser 2001 C (FGIC) | 5.25 |
| 3,250 | St Louis, Missouri, Lambert Int'l Airport Ser 2001 A (MBIA) | 5.00 |
| 9,000 | Nevada Department of Business & Industry, Las Vegas Monorail 1st Tier Ser 2000 (Ambac) | 5.375 |

See Notes to Financial Statements

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 PORTFOLIO OF INVESTMENTS o OCTOBER 31, 2002 CONTINUED

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE |
|-------------------------------------|--|----------------|
| ----- | | ----- |
| \$ 3,000 | Metropolitan Transportation Authority, New York, Dedicated Tax Fund Ser 2002 A (FSA) | 5.25 % |
| 10,000 | Transportation Refg Ser 2002 A (FGIC) | 5.00 |
| 10,000 | Triborough Bridge & Tunnel Authority, New York, Refg 2002 E (MBIA) (WI) | 5.25 |
| 4,000 | Cleveland, Ohio, Airport Ser 2000 A (FSA) | 5.00 |
| 5,000 | South Carolina Transportation Infrastructure Bank, Ser 1999 A | |

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| | | |
|--------|---|-------|
| | (Ambac) | 5.50 |
| 5,000 | Texas Turnpike Authority, Central Texas First Tier 2002-A (Ambac) | 5.50 |
| 4,000 | Salt Lake City, Utah, Airport Refg Ser 1993 B (FGIC) | 5.875 |
| 3,000 | Richmond Metropolitan Authority, Virginia, Refg Ser 2002 (FGIC) | 5.25 |
| | Port of Seattle, Washington, | |
| 5,000 | Ser 2001 B (AMT) (MBIA) | 5.625 |
| 5,000 | Ser 2001 A (FGIC) | 5.00 |
| ----- | | |
| 94,250 | | |
| ----- | | |
| | WATER & SEWER REVENUE (14.8%) | |
| 5,000 | San Diego County Water Authority, California, Ser 2002A COPs | |
| | (MBIA) | 5.00 |
| 1,000 | Colorado Water Resources & Power Development Authority, Water | |
| | Resources 2001 Ser A (FGIC) | 4.875 |
| 5,000 | Tampa Bay Water Authority, Florida, Ser 2001 A (FGIC) | 5.00 |
| 10,000 | Louisville & Jefferson County Metropolitan Sewer District, Kentucky, | |
| | Ser 1993 (MBIA) | 5.30 |
| 2,470 | Detroit, Michigan, Sewage Refg Ser 1993 A (FGIC) | 5.70 |
| 3,000 | Grand Rapids, Michigan, Sewer Impr & Refg Ser 1998 A (FGIC) | 4.75 |
| 2,000 | Cleveland, Ohio, Waterworks Impr & Refg 1998 Ser I (FSA) | 5.00 |
| 4,000 | Allegheny County Sanitary Authority, Pennsylvania, Sewer Ser 2000 | |
| | (MBIA) | 5.50 |
| 5,000 | Philadelphia, Pennsylvania, Water & Wastewater Ser 1998 (Ambac) | 5.25 |
| 10,000 | Houston, Texas, Water & Sewer Jr Lien Refg Ser 2000 B (FGIC) | 5.25 |
| 5,000 | King County, Washington, Sewer Refg 2001 (FGIC) | 5.00 |
| 5,000 | West Virginia Water Development Authority, Loan Program II | |
| | Refg Ser A-11 (FSA) | 5.50 |
| ----- | | |
| 57,470 | | |
| ----- | | |

See Notes to Financial Statements

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 PORTFOLIO OF INVESTMENTS o OCTOBER 31, 2002 CONTINUED

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE |
|-------------------------------------|--|----------------|
| ----- | | |
| | OTHER REVENUE (2.0%) | |
| | New York City Transitional Finance Authority, New York | |
| \$ 2,000 | 2000 Ser C (Ambac) (WI) | 5.25 % |
| 2,500 | 2000 Ser C (Ambac) (WI) | 5.25 |
| 3,000 | Alexandria Industrial Development Authority, Virginia, Institute for | |
| | Defense Analysis Ser 2000 A (Ambac) | 5.90 |
| ----- | | |
| 7,500 | | |
| ----- | | |
| | REFUNDED (11.5%) | |
| 6,850 | Louisiana Public Facilities Authority, Our Lady of the Lake Regional | |
| | Medical Center Ser 1993 D & E (FSA) | 8.385[+/-] |
| 3,000 | Massachusetts, 2002 Ser B (FSA) | 5.50 |

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| | | |
|---------|---|------------|
| 5,000 | Massachusetts Municipal Wholesale Electric Company, 1993 Ser A (Ambac) (ETM) | 5.00 |
| 8,000 | Washoe County, Nevada, Reno - Sparks Convention Ltd Tax Ser 1993 A (FGIC) (ETM) | 5.75 |
| 5,000 | Allegheny County Hospital Development Authority, Pennsylvania, Pittsburgh Mercy Health Ser 1996 (Ambac) (ETM) | 5.625 |
| 10,000 | Rhode Island Depositors Economic Protection Corporation, Refg 1992 Ser B (MBIA) (ETM) | 6.00 |
| 4,360 | Piedmont Municipal Power Agency, South Carolina, Refg Ser 1993 (MBIA) (ETM)** | 5.375 |
| ----- | | |
| 42,210 | | |
| ----- | | |
| 481,855 | TOTAL TAX-EXEMPT MUNICIPAL BONDS (Cost \$476,696,577)..... | |
| ----- | | |
| | SHORT-TERM TAX-EXEMPT-MUNICIPAL OBLIGATIONS (15.1%) | |
| 8,000 | Redding, California, Ser 1993 A COPs (FGIC) | 9.309[+/+] |
| 9,800 | Idaho Health Facilities Authority, St Luke's Regional Medical Center Ser 2000 (FSA) (Demand 11/01/02) | 1.99* |
| 2,800 | Missouri Health & Educational Facilities Authority, Washington University Ser 2000 B (Demand 11/01/02) | 1.95* |
| 6,200 | University of North Carolina, Hospitals at Chapel Hill Ser 2001 A (Demand 11/01/02) | 1.99* |
| 13,600 | Philadelphia Hospital & Higher Education Facilities Authority, Pennsylvania, Children's Hospital of Philadelphia Ser 2002 A (Demand 11/01/02) | 1.90* |
| 8,800 | North Central Texas Health Facilities Development Corporation, Presbyterian Medical Center Ser 1985 D (MBIA) (Demand 11/01/02) | 2.04* |

See Notes to Financial Statements

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 PORTFOLIO OF INVESTMENTS o OCTOBER 31, 2002 CONTINUED

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE |
|-------------------------------------|--|----------------|
| ----- | | ----- |
| \$ 5,560 | Washington Health Care Facilities Authority, Virginia Mason Medical Center Ser 1997 B (MBIA) (Demand 11/01/02) | 2.04*% |
| 4,400 | Kemmerer, Wyoming, Exxon Corp. Ser 1984 (Demand 11/01/02) | 1.89* |
| ----- | | |
| 59,160 | TOTAL SHORT-TERM TAX-EXEMPT-MUNICIPAL OBLIGATIONS (Cost \$59,160,000)..... | |
| ----- | | |
| \$541,015 | TOTAL INVESTMENTS (Cost \$535,856,577) (a) | |
| ===== | | |
| | LIABILITIES IN EXCESS OF OTHER ASSETS | |
| | PREFERRED SHARES OF BENEFICIAL INTEREST | |
| | NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS | |

 Note: The categories of investments are shown as a percentage of net assets applicable to common shareholders.

AMT Alternative Minimum Tax.
 COPs Certificates of Participation.
 ETM Escrowed to maturity.
 WI Security purchased on a "when-issued" basis.
 + Prerefunded to call date shown.
 [+ / +] Current coupon rate for residual interest bond. This rate resets periodically as the auction rate on the related short-term security fluctuates.
 # Currently a zero coupon security; will convert to 5.30% on June 15, 2012.
 * Current coupon of variable rate demand obligation.
 ** This security is segregated in connection with the purchase of a "when-issued" security.
 (a) The aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is \$26,994,003 and the aggregate gross unrealized depreciation is \$471,893, resulting in net unrealized appreciation of \$26,522,110.

Bond Insurance:

 Ambac Ambac Assurance Corporation.
 FGIC Financial Guaranty Insurance Company.
 FSA Financial Security Assurance Inc.
 MBIA Municipal Bond Investors Assurance Corporation.

See Notes to Financial Statements

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 PORTFOLIO OF INVESTMENTS o OCTOBER 31, 2002 CONTINUED

Geographic Summary of Investments

Based on Market Value as a Percent of
 Net Assets Applicable to Common Shareholders

| | | | | | | |
|--------------------------|------|---------------------|------|---------------------|------|-------|
| Arizona | 2.7% | Indiana | 6.4% | Nevada | 6.0% | Tenne |
| California | 7.4 | Kentucky | 4.8 | New Hampshire | 1.0 | Texas |
| Colorado | 2.2 | Louisiana | 2.0 | New Jersey | 3.2 | Utah |
| Connecticut | 3.3 | Maine | 1.3 | New York | 7.9 | Virgi |
| District of Columbia.... | 3.9 | Massachusetts | 3.6 | North Carolina | 4.2 | Washi |
| Florida | 7.3 | Michigan | 3.4 | Ohio | 1.5 | West |
| Hawaii | 1.4 | Minnesota | 1.3 | Pennsylvania | 13.0 | Wisco |
| Idaho | 2.5 | Missouri | 2.1 | Rhode Island | 3.3 | Wyomi |
| Illinois | 10.0 | Montana | 1.4 | South Carolina | 3.4 | |
| | | | | | | Total |

See Notes to Financial Statements

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES
October 31, 2002

ASSETS:

| | |
|---|-----------|
| Investments in securities, at value (cost \$535,856,577) | \$562,378 |
| Cash | 188 |
| Interest receivable | 8,443 |
| Prepaid expenses | 583 |
| | ----- |

TOTAL ASSETS 571,594

LIABILITIES:

| | |
|--|--------|
| Payable for: | |
| Investments purchased | 19,691 |
| Investment management fee | 181 |
| Common shares of beneficial interest repurchased | 123 |
| Accrued expenses and other payables | 106 |
| | ----- |

TOTAL LIABILITIES 20,102

| | |
|--|---------|
| Preferred shares of beneficial interest, (at liquidation value) (1,000,000 shares authorized of non-participating \$.01 par value, 3,100 shares outstanding) | 155,132 |
| | ----- |

NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS \$396,359
=====

COMPOSITION OF NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS:

| | |
|---|-----------|
| Common shares of beneficial interest (unlimited shares authorized of \$.01 par value, 25,287,513 shares outstanding) | \$365,619 |
| Net unrealized appreciation | 26,522 |
| Accumulated undistributed net investment income | 4,722 |
| Accumulated net realized loss | (504) |
| | ----- |

NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS \$396,359
=====

| | |
|--|-------|
| NET ASSET VALUE PER COMMON SHARE, ((\$396,359,590 divided by 25,287,513 common shares outstanding)..... | \$ 1 |
| | ===== |

See Notes to Financial Statements

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
FINANCIAL STATEMENTS CONTINUED

STATEMENT OF OPERATIONS
For the year ended October 31, 2002

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NET INVESTMENT INCOME:

| | |
|--|---------------|
| INTEREST INCOME | \$ 29,808,268 |
| | ----- |
| EXPENSES | |
| Investment management fee | 1,931,106 |
| Auction commission fees | 560,074 |
| Transfer agent fees and expenses | 118,342 |
| Professional fees | 66,948 |
| Auction agent fees | 39,235 |
| Shareholder reports and notices | 34,821 |
| Registration fees | 19,596 |
| Trustees' fees and expenses | 18,509 |
| Custodian fees | 10,065 |
| Other | 50,819 |
| | ----- |
| TOTAL EXPENSES | 2,849,515 |
| Less: expense offset | (9,975) |
| | ----- |
| NET EXPENSES | 2,839,540 |
| | ----- |
| NET INVESTMENT INCOME | 26,968,728 |
| | ----- |
| NET REALIZED AND UNREALIZED GAIN (LOSS): | |
| Net realized gain | 5,550,941 |
| Net change in unrealized appreciation | (2,766,900) |
| | ----- |
| NET GAIN | 2,784,041 |
| | ----- |
| Dividends to preferred shareholders from net investment income | (3,456,880) |
| | ----- |
| NET INCREASE | \$ 26,295,889 |
| | ===== |

See Notes to Financial Statements

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
FINANCIAL STATEMENTS CONTINUED

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR
ENDED
OCTOBER 31, 2000

INCREASE (DECREASE) IN NET ASSETS:

OPERATIONS:

| | |
|-----------------------------|---------------|
| Net investment income | \$ 26,968,728 |
| Net realized gain | 5,550,941 |

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| | |
|--|---------------|
| Net change in unrealized appreciation | (2,766,900) |
| Dividends to preferred shareholders from net investment income | (3,456,880) |
| | ----- |
| NET INCREASE | 26,295,889 |
| Dividends to common shareholders from net investment income | (21,133,899) |
| Decrease from transactions in common shares of beneficial interest | (14,028,728) |
| | ----- |
| NET INCREASE (DECREASE) | (8,866,738) |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS: | |
| Beginning of period | 405,226,328 |
| | ----- |
| END OF PERIOD | |
| (Including accumulated undistributed net investment income of \$4,722,041 and \$2,258,468, respectively)..... | \$396,359,590 |
| | ===== |

See Notes to Financial Statements

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST NOTES TO FINANCIAL STATEMENTS o OCTOBER 31, 2002

1. ORGANIZATION AND ACCOUNTING POLICIES

Morgan Stanley Insured Municipal Income Trust (the "Trust") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Trust's investment objective is to provide current income which is exempt from federal income tax. The Trust was organized as a Massachusetts business trust on March 12, 1992 and commenced operations on February 26, 1993.

The following is a summary of significant accounting policies:

A. VALUATION OF INVESTMENTS - Portfolio securities are valued by an outside independent pricing service approved by the Trustees. The pricing service uses both a computerized matrix of tax-exempt securities and evaluations by its staff, in each case based on information concerning market transactions and quotations from dealers which reflect the bid side of the market each day. The portfolio securities are thus valued by reference to a combination of transactions and quotations for the same or other securities believed to be comparable in quality, coupon, maturity, type of issue, call provisions, trading characteristics and other features deemed to be relevant. Short-term debt securities having a maturity date of more than sixty days at time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the time of purchase are valued at amortized cost.

B. ACCOUNTING FOR INVESTMENTS - Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Discounts are accreted and premiums are amortized over the life of the respective securities. Interest income is accrued daily.

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C. FEDERAL INCOME TAX POLICY - It is the Trust's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable and nontaxable income to its shareholders. Accordingly, no federal income tax provision is required.

D. DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS - Dividends and distributions to shareholders are recorded on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from 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. Dividends and distributions which exceed net investment

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST NOTES TO FINANCIAL STATEMENTS o OCTOBER 31, 2002 CONTINUED

income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as dividends in excess of net investment income or distributions in excess of net realized capital gains. To the extent they exceed net investment income and net realized capital gains for tax purposes, they are reported as distributions of paid-in-capital.

E. USE OF ESTIMATES - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

2. INVESTMENT MANAGEMENT AGREEMENT

Pursuant to an Investment Management Agreement with Morgan Stanley Investment Advisors Inc. (the "Investment Manager"), the Trust pays a management fee, calculated weekly and payable monthly, by applying the annual rate of 0.35% to the Trust's weekly net assets including preferred shares.

3. SECURITY TRANSACTIONS AND TRANSACTIONS WITH AFFILIATES

The cost of purchases and proceeds from sales of portfolio securities, excluding short-term investments, for the year ended October 31, 2002 aggregated \$92,424,658 and \$131,199,040, respectively. Included in the aforementioned are sales of \$2,937,720 with other Morgan Stanley Funds, which are affiliates of the Investment Manager.

Morgan Stanley Trust, an affiliate of the Investment Manager, is the Trust's transfer agent. At October 31, 2002, the Trust had transfer agent fees and expenses payable of approximately \$8,850.

The Trust has an unfunded noncontributory defined benefit pension plan covering all independent Trustees of the Trust who will have served as independent Trustees for at least five years at the time of retirement. Benefits under this plan are based on years of service and compensation during the last five years of service. Aggregate pension costs for the year ended October 31, 2002 included in Trustees' fees and expenses in the Statement of Operations amounted to \$6,309. At October 31, 2002, the Trust had an accrued pension liability of \$47,223 which is included in accrued expenses in the Statement of Assets and

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Liabilities.

4. PREFERRED SHARES OF BENEFICIAL INTEREST

The Trust is authorized to issue up to 1,000,000 non-participating preferred shares of beneficial interest having a par value of \$.01 per share, in one or more series, with rights as determined by the Trustees, without approval of the common shareholders. The Trust has issued Series 1 through 5 Auction Rate Preferred Shares ("Preferred Shares") which have a liquidation value of \$50,000 per share plus the redemption premium, if any, plus accumulated but unpaid dividends, whether or not declared, thereon to the date of distribution. The Trust may redeem such shares, in whole or in part, at the original purchase price of \$50,000 per share plus accumulated but unpaid dividends, whether or not declared, thereon to the date of redemption.

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
NOTES TO FINANCIAL STATEMENTS o OCTOBER 31, 2002 CONTINUED

Dividends, which are cumulative, are reset through auction procedures.

| SERIES | SHARES* | AMOUNT IN THOUSANDS* | RATE* | RESET DATE | RANGE OF DIVIDEND RATES** |
|--------|---------|----------------------|-------|------------|---------------------------|
| 1 | 400 | \$20,000 | 1.55% | 11/04/02 | 1.10% - 2.05% |
| 2 | 900 | 45,000 | 1.65 | 11/04/02 | 1.35 - 2.47 |
| 3 | 1,000 | 50,000 | 2.20 | 07/12/04 | 2.20 - 2.95 |
| 4 | 400 | 20,000 | 2.47 | 01/05/04 | 2.47 - 2.79 |
| 5 | 400 | 20,000 | 1.65 | 11/04/02 | 0.90 - 2.05 |

* As of October 31, 2002.

** For the year ended October 31, 2002.

Subsequent to October 31, 2002 and up through December 6, 2002, the Trust paid dividends to each of the Series 1 through 5 at rates ranging from 1.15% to 2.95% in the aggregate amount of \$386,034.

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

The preferred shares, which are entitled to one vote per share, generally vote with the common shares but vote separately as a class to elect two Trustees and on any matters affecting the rights of the preferred shares.

5. COMMON SHARES OF BENEFICIAL INTEREST

Transactions in common shares of beneficial interest were as follows:

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| | SHARES | PAR |
|--|------------|-------|
| | ----- | ----- |
| Balance, October 31, 2000 | 27,191,713 | \$27 |
| Treasury shares purchased and retired (weighted average discount 8.88%)* | (907,700) | (|
| | ----- | ----- |
| Balance, October 31, 2001 | 26,284,013 | 26 |
| Treasury shares purchased and retired (weighted average discount 8.17%)* | (996,500) | (|
| | ----- | ----- |
| Balance, October 31, 2002 | 25,287,513 | \$25 |
| | ===== | ===== |

* The Trustees have voted to retire the shares purchased.

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 NOTES TO FINANCIAL STATEMENTS o OCTOBER 31, 2002 CONTINUED

6. FEDERAL INCOME TAX STATUS

During the year ended October 31, 2002, the Trust utilized approximately \$5,576,000 of its net capital loss carryover. At October 31, 2002, the Trust had a net capital loss carryover of approximately \$504,000 which will be available through October 31, 2004 to offset future capital gains to the extent provided by regulations.

As of October 31, 2002, the Trust had temporary book/tax differences primarily attributable to book amortization of discount on debt securities and dividend payable to preferred shareholders and permanent book/tax differences attributable to tax adjustments on debt securities sold by the Trust. To reflect reclassifications arising from the permanent differences, accumulated undistributed net investment income was charged and accumulated net realized loss was credited \$25,139.

7. DIVIDENDS TO COMMON SHAREHOLDERS

On September 24, 2002, the Trust declared the following dividends from net investment income:

| AMOUNT PER SHARE | RECORD DATE | PAYABLE DATE |
|---------------------|------------------|-------------------|
| ----- | ----- | ----- |
| \$ 0.075 | November 8, 2002 | November 22, 2002 |
| \$ 0.075 | December 6, 2002 | December 20, 2002 |

8. EXPENSE OFFSET

The expense offset represents a reduction of the custodian fees for earnings on cash balances maintained by the Trust.

9. RISKS RELATING TO CERTAIN FINANCIAL INSTRUMENTS

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The Trust may invest a portion of its assets in residual interest bonds, which are inverse floating rate municipal obligations. The prices of these securities are subject to greater market fluctuations during periods of changing prevailing interest rates than are comparable fixed rate obligations.

At October 31, 2002, the Trust held positions in residual interest bonds having a total value of \$30,302,169, which represents 7.7% of the Trust's net assets applicable to common shareholders.

10. CHANGE IN ACCOUNTING POLICY

Effective November 1, 2001, the Trust has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as revised, related to premiums and discounts on debt securities. The cumulative effect of this accounting change had no impact on the net assets of the Trust, but resulted in a \$110,763 increase in the cost of securities and a corresponding increase to undistributed net investment income based on securities held as of October 31, 2001.

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
NOTES TO FINANCIAL STATEMENTS o OCTOBER 31, 2002 CONTINUED

The effect of this change for the year ended October 31, 2002 was to increase net investment income by \$17,252; increase unrealized appreciation by \$7,887 and decrease net realized gains by \$25,139. The Statement of Changes in Net Assets and the Financial Highlights for prior periods have not been restated to reflect this change.

11. CHANGE IN FINANCIAL STATEMENT CLASSIFICATION FOR PREFERRED SHARES

In accordance with the provisions of EITF D-98, "Classification and Measurement of Redeemable Securities", effective for the current reporting period, the Trust has reclassified its Preferred Shares out of the composition of net assets section on the Statement of Assets and Liabilities. In addition, dividends to preferred shareholders are now classified as a component of operations on the Statement of Operations, the Statement of Changes in Net Assets and the Financial Highlights. Additionally, the categories of investments on the Portfolio of Investments are shown as a percentage of net assets applicable to common shareholders. Prior year amounts have been reclassified to conform to this period's presentation. This change has no impact on the net assets applicable to common shareholders of the Trust.

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
FINANCIAL HIGHLIGHTS

Selected ratios and per share data for a common share of beneficial interest outstanding throughout each period:

| | FOR THE YEAR ENDED | | |
|--|--------------------|-------|-------|
| | ----- | ----- | ----- |
| | 2002 | 2001 | 2000 |

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| | ----- | ----- | ----- |
|---|----------|----------|-------|
| SELECTED PER SHARE DATA: | | | |
| Net asset value, beginning of period. | \$ 15.42 | \$ 14.44 | \$ 1 |
| | ----- | ----- | ----- |
| Income (loss) from investment operations: | | | |
| Net investment income* | 1.04 | 1.03 | |
| Net realized and unrealized gain (loss). | 0.11 | 0.90 | |
| Common share equivalent of dividends paid to preferred shareholders* | (0.13) | (0.22) | (|
| | ----- | ----- | ----- |
| Total income (loss) from investment operations. | 1.02 | 1.71 | |
| | ----- | ----- | ----- |
| Less dividends from net investment income | (0.82) | (0.78) | (|
| | ----- | ----- | ----- |
| Anti-dilutive effect of acquiring treasury shares* | 0.05 | 0.05 | |
| | ----- | ----- | ----- |
| Net asset value, end of period | \$ 15.67 | \$ 15.42 | \$ 1 |
| | ===== | ===== | ===== |
| Market value, end of period | \$ 14.05 | \$ 14.13 | \$ 12 |
| | ===== | ===== | ===== |
| TOTAL RETURN+ | 5.35% | 16.70% | |
| RATIOS TO AVERAGE NET ASSETS OF COMMON SHAREHOLDERS: | | | |
| Expenses (before expense offset) | 0.72% | 0.71% | |
| Net investment income before preferred stock dividends | 6.82% | 6.84% | |
| Preferred stock dividends | 0.87% | 1.43% | |
| Net investment income available to common shareholders | 5.95% | 5.41% | |

SUPPLEMENTAL DATA:

| | | | |
|--|-----------|-----------|-------|
| Net assets applicable to common shareholders, end of period, in thousands | \$396,360 | \$405,226 | \$392 |
| Asset coverage on preferred shares at end of period | 355% | 361% | |
| Portfolio turnover rate | 17% | 13% | |

* The per share amounts were computed using an average number of common shares outstanding during the period.

+ Total return is based upon the current market value on the last day of each period reported. Dividends are assumed to be reinvested at the prices obtained under the Trust's dividend reinvestment plan. Total return does not reflect brokerage commissions.

See Notes to Financial Statements

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND BOARD OF TRUSTEES OF
MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST:

We have audited the accompanying statement of assets and liabilities of Morgan Stanley Insured Municipal Income Trust (the "Trust"), including the portfolio

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of investments, as of October 31, 2002, and the related statements of operations for the year then ended and changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Trust'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 of America. 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. Our procedures included confirmation of securities owned as of October 31, 2002, 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 Morgan Stanley Insured Municipal Income Trust as of October 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
 New York, New York
 December 9, 2002

2002 Federal Tax Notice (unaudited)

For the year ended October 31, 2002, all of the Trust's dividends from net investment income received by both common and preferred shareholder classes were exempt interest dividends, excludable from gross income for Federal income tax purposes.

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
 TRUSTEE AND OFFICER INFORMATION

INDEPENDENT TRUSTEES:

| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH REGISTRANT | TERM OF OFFICE AND LENGTH OF TIME SERVED* | PRINCIPAL OCCUPATION(S) D |
|---|----------------------------------|---|--|
| Michael Bozic (61) c/o Mayer, Brown, Rowe & Maw Counsel to the Independent Trustees | Trustee | Since April 1994 | Retired; Director or Trustee Stanley Funds and the TCW/DW formerly Vice Chairman of Km |

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1675 Broadway
New York, NY

(December 1998–October 2000)
Chief Executive Officer of L
Corporation (November 1995–N
and President and Chief Exec
Hills Department Stores (May
formerly variously Chairman,
Officer, President and Chief
(1987–1991) of the Sears Mer
of Sears, Roebuck & Co.

Edwin J. Garn (70)
c/o Summit Ventures LLC
1 Utah Center
201 S. Main Street
Salt Lake City, UT

Trustee

Since
January 1993

Director or Trustee of the M
Funds and the TCW/DW Term Tr
United States Senator (R-Uta
and Chairman, Senate Banking
(1980–1986); formerly Mayor
Utah (1971–1974); formerly A
Shuttle Discovery (April 12–
Chairman, Huntsman Corporati
company); member of the Utah
Advisory Board of Pacific Co

Wayne E. Hedien (68)
c/o Mayer, Brown, Rowe & Maw
Counsel to the Independent Trustees
1675 Broadway
New York, NY

Trustee

Since
September 1997

Retired; Director or Trustee
Stanley Funds and the TCW/DW
formerly associated with the
Companies (1966–1994), most
Chairman of The Allstate Cor
(March 1993–December 1994) a
and Chief Executive Officer
subsidiary, Allstate Insuran
(July 1989–December 1994).

| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE** | OTHER DIRECTORSHIPS HELD BY TRUSTEE |
|---|---|---|
| <p>Michael Bozic (61) c/o Mayer, Brown, Rowe & Maw Counsel to the Independent Trustees 1675 Broadway New York, NY</p> | 129 | Director of Weirton Steel Corporation. |
| <p>Edwin J. Garn (70) c/o Summit Ventures LLC 1 Utah Center 201 S. Main Street Salt Lake City, UT</p> | 129 | <p>Director of Franklin Covey (time managemen systems), BMW Bank of North America, Inc. (industrial loan corporation), United Spa Alliance (joint venture between Lockheed and the Boeing Company) and Nuskin Asia Pacific (multilevel marketing); member of board of various civic and charitable organizations.</p> |
| <p>Wayne E. Hedien (68) c/o Mayer, Brown, Rowe & Maw Counsel to the Independent Trustees 1675 Broadway New York, NY</p> | 129 | <p>Director of The PMI Group Inc. (private mortgage insurance); Trustee and Vice Chairman of The Field Museum of Natural History; director of various other busines charitable organizations.</p> |

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
TRUSTEE AND OFFICER INFORMATION CONTINUED

| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH REGISTRANT | TERM OF OFFICE AND LENGTH OF TIME SERVED* | PRINCIPAL OCCUPATION(S) DUR |
|--|----------------------------------|---|--|
| Dr. Manuel H. Johnson (53) c/o Johnson Smick International, Inc. 1133 Connecticut Avenue, N.W. Washington, D.C. | Trustee | Since July 1991 | Chairman of the Audit Committee or Trustee of the Morgan Stanley TCW/DW Term Trusts; Senior Partner, Johnson Smick International, Inc., a Co-Chairman and a founder of the Seven Council (G7C), an international commission; formerly Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the Treasury. |
| Michael E. Nugent (66) c/o Triumph Capital, L.P. 237 Park Avenue New York, NY | Trustee | Since July 1991 | Chairman of the Insurance Commission; Director or Trustee of the Morgan Stanley Funds and the TCW/DW Term Trusts; trustee of various investment funds managed by Morgan Stanley Investment Management Inc. and Morgan Stanley Investments LP (since July 2000); Partner, Triumph Capital, L.P. investment partnership; former President, Bankers Trust Company of New York Capital Corporation (1984-1988) |

| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE** | OTHER DIRECTORSHIPS HELD BY TRUSTEE |
|--|--|---|
| Dr. Manuel H. Johnson (53) c/o Johnson Smick International, Inc. 1133 Connecticut Avenue, N.W. Washington, D.C. | 129 | Director of NVR, Inc. (home construction); Chairman and Trustee of the Financial Accounting Foundation (oversight organization of the Financial Accounting Standards Board) |
| Michael E. Nugent (66) c/o Triumph Capital, L.P. 237 Park Avenue New York, NY | 207 | Director of various business organizations |

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MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
TRUSTEE AND OFFICER INFORMATION CONTINUED

INTERESTED TRUSTEES:

| NAME, AGE AND ADDRESS OF INTERESTED TRUSTEE | POSITION(S) HELD WITH REGISTRANT | TERM OF OFFICE AND LENGTH OF TIME SERVED* | PRINCIPAL OCCUPATION(S) DUR |
|--|----------------------------------|---|--|
| Charles A. Fiumefreddo (69) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ | Chairman and Trustee | Since July 1991 | Chairman and Director or Trustee of Morgan Stanley Funds and the TCW/DW Term Trusts; formerly Chairman, Chief Executive Officer and Director of the Invesco Distributor and Morgan Stanley Executive Vice President and Director of Morgan Stanley DW, Chairman and Director of the Transfer Agent, and Director of various Morgan Stanley subsidiaries (since June 1998) and Chief Executive Officer of Morgan Stanley Funds and the TCW/DW Term Trusts (until September 2002). |
| James F. Higgins (54) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ | Trustee | Since June 2000 | Senior Advisor of Morgan Stanley (since August 2000); Director of the Dean Witter Realty Inc.; Director of the Morgan Stanley Funds and the TCW/DW Term Trusts (since June 2000); President and Chief Operating Officer of the Private Client Group of Morgan Stanley (May 1999–August 2000), President and Chief Operating Officer of Individual Client Group of Morgan Stanley (February 1997– |
| Philip J. Purcell (59) 1585 Broadway New York, NY | Trustee | Since April 1994 | Director or Trustee of the Morgan Stanley Funds and the TCW/DW Term Trusts; member of the Board of Directors and Chief Executive Officer of Morgan Stanley and the TCW/DW; Director of the Distributor of the Board of Directors and Chief Executive Officer of Novus Credit Services Inc.; and Chief Executive Officer of various Morgan Stanley |

| NAME, AGE AND ADDRESS OF INTERESTED TRUSTEE | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY TRUSTEE** | OTHER DIRECTORSHIPS HELD BY TRUSTEE |
|---|--|-------------------------------------|
| Charles A. Fiumefreddo (69) | 129 | None |

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c/o Morgan Stanley Trust
Harborside Financial Center,
Plaza Two,
Jersey City, NJ

James F. Higgins (54) 129 None
c/o Morgan Stanley Trust
Harborside Financial Center,
Plaza Two,
Jersey City, NJ

Philip J. Purcell (59) 129 Director of American Airlines, Inc. and its
parent company, AMR Corporation.
1585 Broadway
New York, NY

- * Each Trustee serves an indefinite term, until his or her successor is elected.
** The Fund Complex includes all open and closed-end funds (including all of their portfolios) advised by Morgan Stanley Investment Advisors Inc. and any funds that have an investment advisor that is an affiliated person of Morgan Stanley Investment Advisors Inc. (including but not limited to, Morgan Stanley Investment Management Inc., Morgan Stanley Investments LP and Van Kampen Asset Management Inc.).

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
TRUSTEE AND OFFICER INFORMATION CONTINUED

OFFICERS:

Table with 4 columns: NAME, AGE AND ADDRESS OF EXECUTIVE OFFICER; POSITION(S) HELD WITH REGISTRANT; TERM OF OFFICE AND LENGTH OF TIME SERVED*; PRINCIPAL OCCUPATION(S) DURING TERM OF OFFICE. Includes entry for Mitchell M. Merin (49).

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| | | | |
|--|---|-------------------------|--|
| Barry Fink (47) 1221 Avenue of the Americas New York, NY | Vice President, Secretary and General Counsel | Since February 1997 | General Counsel (since May 2000) of Morgan Stanley; Managing Director, Secretary and General Counsel of Morgan Stanley Services; Assistant Vice President, Morgan Stanley DW; Vice President, the Morgan Stanley Funds and the Morgan Stanley Trust (February 1997); Vice President, Distributor; previously, Secretary and Assistant General Counsel of Morgan Stanley Manager and Morgan Stanley S |
| Thomas F. Caloia (56) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ | Treasurer | Since April 1989 | First Vice President and Assistant Investment Manager, the Distributor of Morgan Stanley Services; Treasurer of the M |
| Ronald E. Robison (63) 1221 Avenue of the Americas New York, NY | Vice President | Since October 1998 | Managing Director, Chief Administrator (since February 1999) of the Morgan Stanley Services and Chief Executive Officer of the Transfer Agent; previously, Managing Director of Group Inc. |
| Joseph J. McAlinden (59) 1221 Avenue of the Americas New York, NY | Vice President | Since July 1995 | Managing Director and Chief Investment Manager, Morgan Stanley Inc. and Morgan Stanley Investment Services; Chief Executive Officer of the Transfer Agent; Chief Investment Officer of Morgan Stanley Funds. |
| Francis Smith (37) c/o Morgan Stanley Trust Harborside Financial Center, Plaza Two, Jersey City, NJ | Vice President and Chief Financial Officer | Since September 2002 | Vice President and Chief Financial Officer of Morgan Stanley Funds and the TCW/DW (since September 2002); Executive Director of Morgan Stanley Services (since September 2002); Vice President of the Investment Services (August 2000–November 2001); Managing Director, PricewaterhouseCoopers LLP (Associate–Fund Administration and Investment Management (July 1996–December 2001)) |
| James F. Willison (58) 1221 Avenue of the Americas New York, New York | Vice President | Since Inception | Managing Director and Portfolio Manager and/or its investment services for 5 years. |
| Joseph R. Arcieri (53) 1221 Avenue of the Americas New York, New York | Vice President | Since January 2002 | Executive Director and Portfolio Manager and/or its investment services for 5 years. |
| Robert W. Wimmel (37) 1 Parkview Plaza Oakbrook Terrace, Illinois | Vice President | Since January 2002 | Vice President and Portfolio Manager and/or its investment services for 5 years. |

* Each Officer serves an indefinite term, until his or her successor is elected.

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TRUSTEES

Michael Bozic
Charles A. Fiumefreddo
Edwin J. Garn
Wayne E. Hedien
James F. Higgins
Dr. Manuel H. Johnson
Michael E. Nugent
Philip J. Purcell

[GRAPHIC OMITTED]

OFFICERS

Charles A. Fiumefreddo
Chairman

MORGAN STANLEY
INSURED MUNICIPAL
INCOME TRUST

Mitchell M. Merin
President and Chief Executive Officer

Barry Fink
Vice President, Secretary and General Counsel

Joseph J. McAlinden
Vice President

Ronald E. Robison
Vice President

Thomas F. Caloia
Treasurer

Francis Smith
Vice President and Chief Financial Officer

TRANSFER AGENT

Morgan Stanley Trust
Harborside Financial Center - Plaza Two
Jersey City, New Jersey 07311

INDEPENDENT AUDITORS

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Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281

INVESTMENT MANAGER

Morgan Stanley Investment Advisors Inc.
1221 Avenue of the Americas
New York, New York 10020

Investments and services offered through Morgan Stanley DW Inc., Member SIPC.

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