SECURITIES AND EXCHANGE COMMISSION

# FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)


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## FILER

**BLACKROCK INCOME TRUST INC**

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THE BLACKROCK INCOME TRUST INC.
ANNUAL REPORT TO SHAREHOLDERS
REPORT OF INVESTMENT ADVISER

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November 30, 1996

Dear Trust Shareholder:

Interest rate volatility in the domestic fixed income markets was once again a major factor over the past twelve months. Significant swings in the pace of U.S. economic growth influenced the bond market's performance, as every release of economic data led to market participant speculation regarding the direction of Federal Reserve monetary policy.

Despite strong growth and rising wage pressures, the Fed's decision not to raise interest rates at their two most recent policy meetings has markedly increased the stakes in the bond market. The rationale behind the Fed's decision not to raise interest rates appears to focus on the benign inflation data released during the third quarter. Should economic growth slow and inflation remain benign, the Fed will be proven correct in their inaction and the market would be expected to rally significantly. On the other hand, signs of a stronger economy could result in weaker bond prices as the likelihood of a Fed tightening would increase.

BlackRock maintains a positive view on the bond market. On balance, the outlook for moderate inflation remains intact, suggesting that further declines in interest rates are likely. In addition to this favorable fundamental backdrop, foreign demand for U.S. bonds has increased due to the renewed attractiveness of the bond market on a global basis.

This annual report is designed to help you stay informed about your investment and represents our ongoing commitment to improving our communication with you. We hope you find this report useful now and in the future. We appreciate your confidence and look forward to helping you reach your long-term investment goals.

Sincerely,

| | |
|---|---|
| /s/Laurence D. Fink | /s/Ralph L. Schlosstein |
| ------------------- | ----------------------- |
| Laurence D. Fink | Ralph L. Schlosstein |
| Chairman | President |



November 30, 1996

Dear Shareholder:

We are pleased to present the annual report for The BlackRock Income Trust Inc. ("the Trust") for the year ended October 31, 1996. We would like to take this opportunity to review the Trust's stock price and net asset value (NAV) performance, summarize market developments and discuss recent portfolio management activity.

The Trust is a diversified, actively managed closed-end bond fund whose shares are traded on the New York Stock Exchange under the symbol "BKT". The Trust's investment objective is to provide high current income consistent with the preservation of capital. The Trust seeks this objective by investing primarily in mortgage-backed securities backed by U.S. Government agencies (such as Fannie Mae, Freddie Mac or Ginnie Mae) and, to a lesser extent, U.S. Government securities, asset-backed securities and privately issued mortgage-backed securities. At least 85% of the Trust's assets must be issued or guaranteed by the U.S. Government or its agencies or rated "AAA" by Standard & Poor's or "Aaa" by Moody's at the time of purchase (up to 5% can be unrated and deemed by the Adviser to be of equivalent credit quality); the remaining 15% of the Trust's assets must be rated at least "AA" by Standard & Poor's or "Aa" by

Moody's at the time of purchase.

The table below summarizes the performance of the Trust's stock price and NAV over the period:

| | 10/31/96 | 10/31/95 | CHANGE | HIGH | LOW |
|---|---|---|---|---|---|
| STOCK PRICE | $6.25 | $7.25 | (13.79%) | $7.25 | $5.875 |
| NET ASSET VALUE (NAV) | $7.61 | $7.66 | (0.65%) | $7.85 | $7.27 |

For the twelve months ended October 31, 1996, the Trust posted a NAV total return of 7.51%, which matched the average total return for its Lipper peer group of U.S. Mortgage Closed-End Bond Funds. The Trust's stock price continues to trade at a discount to its NAV, however, reflecting the overall weakness in demand for closed-end mortgage funds. As an example, the average discount of the Trust's peer group widened by over 20% during the past twelve months. Recently, the Trust's stock price has shown some strength, climbing to $6.25 on October 31, 1996 after trading at $5.875 as recently as July 5.

THE FIXED INCOME MARKETS

Significant swings in the pace of U.S. economic growth influenced the performance of the fixed income markets during the year ended October 31, 1996. Throughout the fourth quarter of 1995 and through the first six weeks of 1996, weak inflationary data and sluggish retail demand spurred two reductions of short term interest rates totaling 50 basis points (0.50%) by the Federal Reserve to 5.25%. In response to these reductions, as well as the sharp decline in interest rates throughout 1995, economic growth began to pick up in mid-February and accelerated throughout the second quarter of 1996. Economic growth as measured by Gross Domestic Product (GDP) was measured at an annualized 4.7% for the second quarter of 1996, which led investors to believe that the Federal Reserve would be forced to raise interest rates for the first time in over a year to curb the pace of the economy. However, the pace of economic growth has slowed during the past few months. Softer economic data and continued moderation in the broad inflation measures during the third quarter of 1996 allowed the Fed to leave short term interest rates unchanged at their August and September policy meetings.



Yields of most maturity Treasuries posted minimal net changes over the past twelve months. As an example, the yield of the 10-Year Treasury note ended October 1996 at 6.34%, 32 basis points higher than the October 31, 1995 closing yield of 6.02%. However, the modest net change in yield levels masks considerable intra-year movements. After falling to a low of 5.52% in mid-January, the yield of the 10-year Treasury rose to 7.05% in July in response to stronger economic data before rallying to 6.34% at the end of the fiscal year.

The market for mortgage-backed securities (MBS) posted strong performance versus the broader investment grade bond market during 1996. Prepayments, as measured by the MBA Refinancing Index, displayed considerable stability as homeowners refinanced their mortgages at a relatively steady rate. An equally important contributor to mortgage performance was a strong technical environment, as new issue supply declined from its May peak. Additionally, financial institution demand for MBS increased in light of an overall scarcity of high quality fixed income products with a yield advantage over Treasuries.

THE TRUST'S PORTFOLIO AND INVESTMENT STRATEGY

BlackRock actively manages the Trust's portfolio holdings consistent with BlackRock's overall market outlook and the Trust's investment objectives. The Trust is managed to maintain an interest rate sensitivity (or duration) resembling that of the Salomon Brothers Mortgage Index; this means that the portfolio's NAV will change similarly to the price of the Index given a change in interest rates. The following chart compares the Trust's current and October 31, 1995 asset composition.

| COMPOSITION | OCTOBER 31, 1996 | OCTOBER 31, 1995 |
|---|---|---|

| | | |
|---|---|---|
| Stripped Mortgage-Backed Securities | 17% | 10% |
| Adjustable & Inverse Floating Rate Mortgages | 16% | 18% |
| FHA Project Loans | 14% | 15% |
| U.S. Government Securities | 14% | 2% |
| Agency Multiple Class Mortgage Pass-Throughs | 14% | 16% |
| Mortgage Pass-Throughs | 11% | 24% |
| Non-Agency Multiple Class Mortgage Pass-Throughs | 7% | 7% |
| Asset-Backed Securities | 3% | 4% |
| Commercial Mortgage-Backed Securities | 3% | 1% |
| CMO Residuals | 1% | 3% |

</TABLE>

The Trust took advantage of the strong 1996 year-to-date total return performance of the mortgage-backed securities (MBS) market, which saw mortgages as represented by the Lehman Brothers Mortgage Index outperform the broader investment grade bond market (represented by the Lehman Brothers Aggregate Index) by 4.41% to 2.84%. Over the past few months, however, BlackRock has taken a decidedly defensive outlook on the mortgage market given the tight yield spread levels at which mortgages are currently trading and our anticipation of a pick-up in interest rate volatility. Accordingly, the Trust's overall mortgage exposure has been reduced from 94% as of October 31, 1995 to approximately 83% on October 31, 1996.

The reduction in mortgage allocation was most pronounced in the pass-through and adjustable-rate mortgage (ARM) sectors. Within the mortgage pass-through sector, the Trust has aggressively sold generic, or newly issued, pass-throughs. The Fund's remaining mortgage pass-through holdings emphasize seasoned securities, which have weathered several interest rate cycles and are expected to provide more prepayment stability should interest rates decline significantly. As of October 31, 1996, over half of the Trust's pass-through holdings were seasoned mortgages versus less than 20% one year ago. The Trust also took advantage of strong year-to-date ARM performance by selling approximately two-thirds of its ARM



holdings, as we have become less positive onthat market due to the potential for increased ARM supply and already tight yield spreads.

The overall reduction in mortgage securities has allowed for an increase in the Fund's allocation to Treasuries and Agency bonds. The Fund purchased 10- and 20-year Small Business Administration Loans (SBAs), which offer agency credit quality, attractive yield spreads over Treasuries and relatively strong prepayment protection. The Trust has also added inverse floating rate mortgages, which are securities backed by government agency collateral whose coupons move inversely to interest rates. The Trust purchased these securities at attractive price levels and significant yields above Treasuries. Because of their coupon structure, inverse floating rate mortgages are good securities to own in a declining or stable interest rate environment. Securities with low dollar prices and good convexity characteristics, which are expected to aid their performance in a market rally, were emphasized. As we currently are modestly bullish on the domestic bond market and believe that interest rates will continue to fall, we expect that these securities will perform well while offering a significant yield advantage over Treasuries.

We look forward to continuing to manage the Trust to benefit from the opportunities available to investors in the fixed income markets as well as to maintain the Trust's ability to meet its investment objectives. We thank you for your investment in the BlackRock Income Trust Inc. Please feel free to contact our marketing center at (800) 227-7BFM (7236) if you have specific questions which were not addressed in this report.

Sincerely,

| | |
|---|---|
| /s/Robert Kapito | /s/Michael P. Lustig |
| Robert Kapito | Michael P. Lustig |
| Vice Chairman and Portfolio Manager | Principal and Portfolio Manager |
| BlackRock Financial Management, Inc. | BlackRock Financial Management, Inc. |

| | |
|---|---|
| Symbol on New York Stock Exchange: | BKT |
| Initial Offering Date: | July 22, 1988 |
| Closing Stock Price as of 10/31/96: | $6.25 |
| Net Asset Value as of 10/31/96: | $7.61 |
| Yield on Closing Stock Price as of 10/31/96 ($6.25)1: | 9.00% |
| Current Monthly Distribution per Share2: | $0.046875 |
| Current Annualized Distribution per Share2: | $0.56250 |

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1Yield on Closing Stock Price is calculated by dividing the current annualized distribution per share by the closing stock price per share.

2The distribution is not constant and is subject to change.



THE BLACKROCK INCOME TRUST INC.
PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1996

| S&P/ MOODY'S RATING* (UNAUDITED) | PRINCIPAL AMOUNT (000) | DESCRIPTION | VALUE (NOTE 1) |
|---|---|---|---|
| | | LONG-TERM INVESTMENTS--139.2% | |
| | | MORTGAGE PASS-THROUGHS--32.7% | |
| | | Federal Home Loan Mortgage Corporation, | |
| | $ 505 | 6.50%, 4/01/26 ........ ............... | $ 483,846 |
| | 38 | 6.702%, 2/01/18, 1 year CMT (ARM) ..... | 38,796 |
| | 126 | 7.00%, 2/01/26 ........................ | 123,889 |
| | 6,449+ | 7.50%, 7/01/07 - 2/01/23 ............. | 6,560,852 |
| | 1,455++ | 8.00%, 11/01/15 ...................... | 1,519,731 |
| | 3,176+ | 8.50%, 5/01/01 - 3/01/08, 15 year ..... | 3,307,811 |
| | 1,678 | 8.50%, 6/01/06 - 4/01/25 ............. | 1,749,942 |
| | 4,426++ | 9.00%, 9/01/20 ........................ | 4,697,163 |
| | 42 | 10.50%, 6/01/19 ...................... | 46,803 |
| | | Federal Housing Administration, | |
| | 1,908 | Altercare Bucyrus, 8.25%, 6/25/34 ..... | 1,954,118 |
| | 2,323 | Beachwood Manor, 8.25%, 10/01/34 ...... | 2,378,999 |
| | 4,290 | Brookville, 7.50%, 8/01/28 ........... | 4,223,336 |
| | 3,743 | Country Estates, 8.375%, 1/01/35 ...... | 3,835,242 |
| | 1,515 | Elkton Care Center, 7.30%, 6/01/35 .... | 1,476,251 |
| | | GMAC, | |
| | 6,325 | Series 33, 7.43%, 9/01/21 .......... | 6,456,068 |
| | 2,193 | Series 46, 7.43%, 1/01/22 .......... | 2,238,541 |
| | 906 | Series 48, 7.43%, 6/01/22 .......... | 923,563 |
| | 502 | Series 51, 7.43%, 2/01/23 .......... | 512,048 |
| | 7,936 | Series 56, 7.43%, 11/01/22 ......... | 8,101,700 |
| | | Merrill | |
| | 1,285 | Series 54, 7.43%, 5/15/23 .......... | 1,314,863 |
| | 1,418 | Series 95, 7.43%, 3/01/22 .......... | 1,447,289 |
| | 1,257 | Middlesex, 8.625%, 9/01/34 ............. | 1,287,944 |
| | 1,684 | Overlook Green South, 7.50%, 9/01/34 .... | 1,694,986 |
| | 4,802 | Parkside, 7.30%, 2/01/13 ................ | 4,747,439 |
| | 1,913 | Providence Apartments, 7.25%, 12/01/34 .. | 1,854,814 |
| | | Reilly | |
| | 1,885 | Series 41, 8.28%, 3/01/20 .......... | 1,981,036 |
| | 563 | Series 74, 7.43%, 10/01/23 ......... | 551,996 |
| | 3,129 | Series 34, 7.43%, 8/01/19 .......... | 3,178,787 |
| | 2,338 | Retreat at Windmere, 7.375%, 11/01/34 ... | 2,339,109 |
| | 2,115 | Rosewood, 7.875%, 12/01/34 ............. | 2,128,474 |
| | 1,520 | Senaca Hills, 8.525%, 8/01/34 ........... | 1,572,581 |
| | 1,479 | St. Camillus Nursing, 7.875%, 5/01/35 ... | 1,488,834 |
| | 2,323 | Summit Place, 7.90%, 11/01/34 .......... | 2,342,613 |
| | 2,879 | Tuttle Grove, 7.25%, 10/01/35 .......... | 2,790,898 |
| | | USGI, | |
| | 4,412 | Polaris 982, 7.43%, 11/01/21 ....... | 4,504,285 |
| | 938 | Series 87, 7.43%, 12/01/22 ......... | 959,963 |

| | | | |
|---|---|---|---|
| | 5,023 | Series 99, 7.43%, 10/01/23 ......... | 5,106,832 |
| | 2,785 | Series 1003, 7.43%, 3/01/24 ........ | 2,718,463 |
| | 2,796 | Series 6302, 7.43%, 12/01/21 ....... | 2,843,214 |
| | 7,150 | Yorkville 6094, 7.43%, 6/01/21 .......... | 7,299,485 |
| | 3,622 | Waterford, 8.625%, 7/25/27 ............. | 3,774,421 |
| | 1,415 | Whitehall, 8.25%, 5/25/35 .............. | 1,449,634 |
| | | Federal National Mortgage Association, | |
| | 2,500 | 6.50%, Series 1994-M1, Class B, 10/25/03 Multifamily............................ | 2,476,172 |
| | 1,866++ | 7.00%, 11/01/08 ........................ | 1,895,785 |
| | 150 | 7.50%, 2/01/22 - 9/01/23 ............... | 150,557 |
| | 5,680 | 7.50%, 11/01/24, 18 year Multifamily .... | 5,813,125 |
| | 2,072 | 7.785%, 1/01/01, 7 year Multifamily ..... | 2,152,249 |
| | 7,235+++ | 8.00%, 5/01/08 - 5/01/22 ............... | 7,461,028 |
| | 735 | 9.317%, 6/01/19, 10 year Multifamily .... | 806,469 |
| | 1,876+ | 9.484%, 7/01/19, Multifamily ........... | 2,070,882 |
| | 1,460 | 9.497%, 6/01/24, Multifamily ........... | 1,611,523 |
| | 259 | 9.50%, 1/01/19 - 6/01/20 ............... | 278,871 |
| | 783 | 9.732%, 7/01/19, 10 year Multifamily .... | 865,270 |
| | | Government National Mortgage Association, | |
| | 3,051+ | 6.00%, 3/15/09 - 4/15/09, 15 year ....... | 2,964,195 |
| | 12,319++ | 6.50%, 2/20/23, 1 year CMT (ARM) ........ | 12,489,809 |
| | 681 | 7.00%, 10/15/17 ........................ | 667,423 |
| | 2,313 | 7.25%, 3/15/02-11/15/04 ................ | 2,347,297 |
| | 80 | 8.50%, 5/15/01 - 2/15/17 ............... | 82,689 |
| | 1,252 | 9.00%, 6/15/18 - 9/15/21 ............... | 1,323,589 |
| | 14 | 9.50%, 7/15/16 ......................... | 14,758 |
| | 219 | 10.00%, 7/15/17 - 11/15/19 ............. | 239,703 |
| | 567 | 11.00%, 8/15/18 - 6/15/20 .............. | 645,897 |
| | | | 156,363,950 |
| | | MULTIPLE CLASS MORTGAGE PASS-THROUGHS--53.6% | |
| AAA | 2,100 | Citicorp Mortgage Securities Inc., Series 1994-9, Class A4, 6/25/09 ....... | 1,969,191 |
| AAA | 663 | Collateralized Mortgage Obligation Trust 13, Class Q, 1/20/03 ............ | 735,767 |
| AAA | 25,845@@ | Community Program Loan Trust, Series 1987-A, Class A-4, 10/01/18 .............................. | 22,194,390 |
| | | Federal Home Loan Mortgage Corporation, Multiclass Mortgage Participation Certificate, | |
| | 27,426++ | Series G13, Class 13-PP, 5/25/21 (I) ...................... | 8,976,121 |
| | 8,000+ | Series 120, Class 120-H, 2/15/21 .......................... | 8,354,960 |
| | 1,000 | Series 1388, Class 1388-H, 6/15/07 .......................... | 828,630 |
| | 8,143+ | Series 1443, Class 1443-OC, 12/15/22 (ARM) ................... | 7,352,292 |
| | 1,034 | Series 1508, Class 1508-OC, 5/15/23 (ARM) .................... | 692,133 |
| | 2,000 | Series 1523, Class 1523-SA, 6/15/23 (ARM) .................... | 1,325,140 |
| | 2,000 | Series 1526, Class 1526- SA, 6/15/23 (ARM) .................... | 1,432,500 |

See Notes to Financial Statements.



| S&P/ MOODY'S RATING* (UNAUDITED) | PRINCIPAL AMOUNT (000) | DESCRIPTION | VALUE (NOTE 1) |
|---|---|---|---|
| | | MULTIPLE CLASS MORTGAGE PASS-THROUGH (cont'd) | |
| | $ 4,152 | Series 1530, Class 1530-OA, 6/15/23 (ARM) ....................... | $ 2,366,608 |
| | 908 | Series 1541, Class 1541-T, 7/15/23 ............................. | 764,391 |
| | 3,700++ | Series 1552, Class 1552-W, 8/15/23 (ARM) ....................... | 2,590,000 |

| | | |
|---|---|---|
| 17,384@@+ | Series 1584, Class 1584-FB, 9/15/23 (ARM) | 17,731,354 |
| 1,804 | Series 1596, Class 1596-SB, 12/15/12 (ARM) | 1,307,089 |
| 2,356 | Series 1609, Class 1609-LE, 11/15/23 | 1,778,509 |
| 6,387+ | Series 1621, Class 1621-SB, 10/15/21 (ARM) | 5,085,783 |
| 6,543 | Series 1627, Class 1627-S, 12/15/23 (ARM) | 4,078,645 |
| 3,084 | Series 1629, Class 1629-OD, 12/15/23 (ARM) | 1,665,204 |
| 23,765@@ | Series 1632, Class 1632-S, 4/15/23 (ARM) | 940,840 |
| 4,000 | Series 1637, Class 1637-TA, 7/15/23 (ARM) | 2,965,000 |
| 4,520 | Series 1686, Class 1686-SB, 2/15/24 (ARM) | 3,028,609 |
| 3,799 | Series 1710, Class 1710-GF, 4/15/24 (ARM) | 3,839,732 |
| 32,000 | Series 1809, Class 1809-SC, 12/15/23 (ARM) | 3,240,000 |
| | FEDERAL NATIONAL MORTGAGE ASSOCIATION, REMIC PASS-THROUGH CERTIFICATES, | |
| 4,181 | Trust 1988-16, Class16-B, 6/25/18 | 4,469,657 |
| 1,607 | Trust 1990-12, Class 12-G, 2/25/20 | 1,351,386 |
| 2,341 | Trust 1991-38, Class 38-SA, 4/25/21 (ARM) | 2,236,998 |
| 3,069 | Trust 1991-38, Class 38-F, 4/25/21 (ARM) | 3,257,820 |
| 3,514 | Trust 1991-87, Class 87-S, 8/25/21 (ARM) | 3,575,524 |
| 22 | Trust G1992-12 Class C 2/25/22 (I) | 596,503 |
| 25,649 | Trust G1992-20, Class 20-SB, 10/25/22 (ARM) | 1,202,929 |
| 6,000 | Trust 1992-43,Class 43-E, 4/25/22 | 6,038,700 |
| 36,264@@+ | Trust 1992-69, Class 69-Z, 5/25/22 | 38,039,644 |
| 9,840 | Trust 1992-187, Class 187-JA, 10/25/06 (I) | 1,000,907 |
| 45,614 | Trust 1992-216, Class 216-S, 12/25/22 (ARM) | 4,732,428 |
| 768 | Trust G1993-27, Class 27-SB, 8/25/23 (ARM) | 496,215 |
| 1,504 | Trust 1993-50, Class 50-SH, 1/25/23 (ARM) | 1,193,988 |
| 434 | Trust 1993-94, Class 94-S, 5/25/23 (ARM) | 262,653 |
| 864 | Trust 1993-97, Class 97-TA, 5/25/23 | 754,720 |
| 4,780 | Trust 1993-107, Class 107-SA, 6/25/08 (ARM) | 3,755,270 |
| 628 | Trust 1993-116, Class 116-SB, 7/25/23 (ARM) | 433,613 |
| 2,000 | Trust 1993-120, Class 120-SN, 7/25/23 (ARM) | 1,288,900 |
| 1,749 | Trust 1993-129, Class 129-SE, 8/25/08 (ARM) | 1,556,820 |
| 2,793 | Trust 1993-139, Class 139-SJ, 8/25/23 (ARM) | 1,658,115 |
| 809 | Trust 1993-141, Class 141-SB, 3/25/23 (ARM) | 635,086 |
| 6,000 | Trust 1993-169, Class 169-SC, 3/25/23 | 3,860,640 |
| 8,464 | Trust 1993-178, Class 178-SA, 9/25/23 (ARM) | 5,311,310 |
| 1,346 | Trust 1993-179, Class 179-VC, 10/25/21 (ARM) | 849,622 |
| 2,783 | Trust 1993-183, Class 183-SE, 10/25/23 (ARM) | 2,198,920 |
| 3,314 | Trust 1993-187, Class 187-S, 9/25/23 (ARM) | 2,495,787 |
| 499 | Trust 1993-202, Class 202-VS, 2/25/23 (ARM) | 459,484 |
| 1,000 | Trust 1993-223, Class 223-SJ, | |

| | | |
|---|---|---|
| | 12/25/23 (ARM) ...................... | 635,230 |
| 1,988 | Trust 1993-224, Class 224-SH, 11/25/23 (ARM) ...................... | 1,346,809 |
| 1,908 | Trust 1993-224, Class 224-SH, 11/25/23 (ARM) ...................... | 1,339,285 |
| 1,467 | Trust 1993-256, Class 256-F, 11/25/23 (ARM) ...................... | 1,247,144 |
| 23,927 | Trust G1994-6, Class 6-PK, 11/17/22 (I) ........................ | 3,804,084 |
| 3,777 | Trust 1994-14, Class 14-S, 10/25/23 (ARM) ...................... | 1,869,477 |
| 2,602 | Trust 1994-19, Class 19-SB, 1/25/24 (ARM) ....................... | 1,265,452 |
| 387 | Trust 1994-27, Class 27-SE, 3/25/23 (ARM) ....................... | 367,672 |
| 5,294 | Trust 1994-29, Class 29-SD, 7/25/23 (ARM) ....................... | 3,289,474 |
| 6,797 | Trust 1996-14, Class 14-M, 10/25/21 ............................ | 5,450,424 |
| 14,300 | Trust 1996-14, Class 14-PE, 8/25/23 (P) ......................... | 4,245,312 |
| 149,103 | Trust 1996-43, Class 43-SA, 10/25/03 (ARM) ...................... | 5,718,750 |

See Notes to Financial Statements.



| S&P/ MOODY'S RATING* (UNAUDITED) | PRINCIPAL AMOUNT (000) | DESCRIPTION | VALUE (NOTE 1) |
|---|---|---|---|
| | | Prudential Home Mortgage Securities Co., Mortgage Pass-Through Certificate | |
| AAA | $7,182 | Series 1992-41, Class A1 (ARM) .............................. | $ 7,289,462 |
| AAA | 743 | Series 1993-43, Class A-16 (ARM) .................... | 581,318 |
| AAA | 2,500 | Series 1993-48, Class A8 (ARM) ......... | 1,850,000 |
| AAA | 3,605 | Series 1993-55, Class A1 (ARM) ......... | 3,682,709 |
| AAA | 600 | Resolution Trust Corporation, Mortgage Pass-Through Certificates, Series 1992-2, Class B-3, 11/25/21 .................. | 603,264 |
| AAA | 12,144 | Salomon Capital Access Corporation, Collaterized Mortgage Obligations, Series 1986-1, Class C, 9/01/15 ...... | 12,416,913 |
| | | | 255,959,306 |
| | | COMMERCIAL MORTGAGE-BACKED SECURITIES--3.8% | |
| AAA | 140,000 | KPAC, Series 1994-C1, Zero Coupon, 2/01/01 ................. | 1,400 |
| AAA | 6,000 | ML Mortgage Investments, Series 1996-C1, Class A3, 7.42%, 4/25/28 ....................... | 6,129,715 |
| AAA | 10,250 | NYC Mortgage Loan Trust, Series 1996, Class A-2, 144A 6.75%, 6/25/11 ....................... | 9,843,203 |
| AA | 2,000 | PaineWebber Mortgage Acceptance Corporation IV, Series1995-M1, Class B, 6.95%, 1/15/07 ....................... | 2,002,870 |
| | | | 17,977,188 |
| | | ASSET-BACKED SECURITIES--3.7% | |
| Aaa | 11,247@@ | Chase Manhattan Grantor Trust, Series 1996-Class A Automobile Loan Pass-Through, 5.20%, 2/15/02 ............................. | 11,126,995 |
| AAA | 7,200++ | Discover Card Master Trust, Series 1996-3, Class A, 6.05%, | |

| | | | |
|---|---|---|---|
| | | 8/18/08 | 6,774,696 |
| | | | ----------- |
| | | | 17,901,691 |
| | | | ----------- |
| | | STRIPPED MORTGAGE-BACKED SECURITIES--23.6% | |
| AAA | 1,109 | Chase Mortgage Finance Corporation, Mortgage Pass-Through Certificates, Series 1994-A, Class AP, 1/25/10 (P/O) | 824,899 |
| | | Collateralized Mortgage Obligation, | |
| AAA | 1,422 | Trust 36, Class A, 10/25/17 (P/O) | 1,068,303 |
| AAA | 1,497 | Trust 29, Class A, Zero Coupon, 5/23/17 (P/O) | 1,122,661 |
| | | DBL, Collateralized Mortgage Obligation, | |
| AAA | 573 | Trust K, Class K-1, 9/23/17 (P/O) | 321,030 |
| AAA | 5,755 | Trust V, Class V-1, 9/01/18 (P/O) | 4,323,768 |
| | | Federal Home Loan Mortgage Corporation, | |
| | 37,500 | Series G-54 Class S, 3/18/25 (I/O) | 2,812,500 |
| 53 | | Series 188, Class 188-G, 9/15/21 (I/O) | 1,763,410 |
| | 112 | Series 194, Class F, 9/15/21 (I/O) | 4,882,395 |
| | 26 | Series 1003-0, Class 1003-0 10/15/20 (I/O) | 814,157 |
| | 677 | Series 1418, Class 1418-M, 11/15/22 (P/O) | 210,796 |
| | 2,474 | Series 1473, Class 1473-JA, 2/15/05 (I/O) | 176,676 |
| | 9,461 | Series 1690, Class 1690-B, 11/15/23 (P/O) | 3,731,105 |
| | 14,069+ | Series 1828, Class 1828-A, 5/15/24 (P/O) | 7,922,577 |
| | | Federal National Mortgage Association, | |
| | 52 | Trust A, Class A-2, 8/01/10 (I/O) | 1,104,178 |
| | 14,289 | Trust 2, Class 2, 2/01/17 (I/O) | 4,338,536 |
| | 12 | Trust G50, Class 50-G, 12/25/21 (I/O) | 656,770 |
| | 6,301 | Trust 225, Class 1, 2/01/23 (P/O) | 4,674,709 |
| | 32,742 | Trust G-233, Class 2, 8/01/23 (I/O) | 10,559,197 |
| | 88 | Trust 1991-24, Class 24-O, 3/25/21, (I/O) | 4,165,069 |
| | 53 | Trust G1992-34, Class 34-A, 4/25/22 (I/O) | 1,645,767 |
| | 41 | Trust 1992-68, Class 68-K, 10/25/05 (I/O) | 686,619 |
| | 1,405 | Trust G1993-2, Class 2-KB, 1/25/23 (P/O) | 347,436 |
| | 7,152 | Trust 1993-159, Class 159-C, 7/25/23 (P/O) | 3,672,022 |
| | 14,844 | Trust 1993-213, Class 213-H, 9/25/23 (P/O) | 11,483,893 |
| | 4,956 | Trust 1994-57, Class 57-C, 1/25/24 (P/O) | 3,475,818 |
| | 22,710+ | Trust 1994-61, Class 61-DB, 3/25/24 (P/O) | 14,505,721 |
| | 9,963 | Trust 1996- 38, Class 38-E, 8/25/23 (P/O) | 4,277,863 |
| | 2,444 | Trust 1996-56, Class 56-E, 4/25/23 (P/O) | 1,622,070 |
| | | First Boston Mortgage Securities Corporation, | |
| AAA | 1,507 | Series 1987-C, Class Z, 4/25/17 (I/O) | 369,213 |
| AAA | 20,164 | Series 1988-E Class 2, 10/01/18 (I/O) | 5,645,928 |
| | | Housing Security Incorporated, | |
| AAA | 456 | Series 1992-EB, Class B-8, 9/25/22 (P/O) | 275,395 |
| AAA | 672 | Series 1993-D, Class D-8, 6/25/23 (P/O) | 399,627 |
| | | Kidder Peabody Acceptance Corporation, | |
| AAA | 2,014 | Series 87, Class B-1, 4/22/18 (P/O) | 1,563,420 |
| AAA | 2,014 | Series 87, Class B-2, | |

| | | | |
|---|---|---|---|
| | | 4/22/18 (1/0) ..................... | 605,988 |
| AAA | 590 | ML Trust XIX, Collateralized Mortgage Obligation, Class B, Zero Coupon, 11/25/17 (P/O) ......... | 442,829 |
| AAA | 1 | Prudential Home Mortgage Securities Co., Mortgage Pass-Through Certificates, Series 1993-29, Class A18, 8/25/08 (I/O) ............ | 3,380,000 |

See Notes to Financial Statements



| S&P/ MOODY'S RATING* (UNAUDITED) | PRINCIPAL AMOUNT (000) | DESCRIPTION | VALUE (NOTE 1) |
|---|---|---|---|
| AAA | $ 5 | Prudential Securities, Inc. Collateralized Mortgage Obligation, Trust 15, Class 1G, 5/20/21 (I/O) .... | $ 666,288 |
| AAA | 62 | Structured Asset Securities Corporation, Series 1991-2, Class GA, 12/20/21 (I/O) ............ | 1,640,639 |
| AAA | 1,042 | Structured Mortgage Asset Trust, Series 1993-3C, Class CX, 4/25/24 (P/O) ....................... | 610,581 |
| | | | 112,789,853 |
| | | CMO RESIDUALS**--1.7% | |
| AAA | 5,435 | American Housing Trust III, Senior Mortgage Pass-Through Certificates, Series 1, Class 4, (REMIC)#, 3/25/19 .............................. | 848,046 |
| AAA | 375 | American Housing Trust VII, Senior Mortgage Pass-Through Certificates, Series A, Class R, (REMIC) 11/25/20 .................... | 2,143,254 |
| AAA | 25 | Collateralized Mortgage Obligation, Trust 13#, 1/20/03 .................. | 752,480 |
| AAA | 4 | Collateralized Mortgage Securities Corporation, Series 1990-3, Class 3-R, (REMIC), 5/25/20 ......... | 283,861 |
| AAA | 45 | FBC Mortgage Securities Trust 16, Variable Rate Collateralized Mortgage Obligation, Series A#, 7/01/17 .................. | 1,026,576 |
| AAA | 3,115 | FBC Mortgage Securities Trust 19, Variable Rate Collateralized Mortgage Obligation, Series A#, 10/20/18 ................. | 218,400 |
| AAA | 7,310 | ML Collateralized Mortgage Obligations, Trust V#, 3/20/18 ............................ | 2,280,564 |
| AAA | 10 | P-B Collateralized Mortgage Obligation, Trust 8, Class 8-H, (REMIC)#, 3/01/19 ................... | 200,000 |
| AAA | 43 | PaineWebber, Collateralized Mortgage Obligation, Series N, Class 7, (REMIC), 1/01/19 ............................ | 332,015 |
| | | | 8,085,196 |
| | | U.S. GOVERNMENT SECURITIES--20.1% | |
| | | Small Business Administration, | |
| | 4,755 | Series 1996 20-E, 7.60%, 5/01/16 .......................... | 4,861,987 |
| | 4,301 | Series 1996 20-G7, 7.70%, 6/01/16 .......................... | 4,436,750 |
| | 4,000 | Series 1996 20-F, 7.55%, 6/01/16 .......................... | 4,102,500 |
| | 4,300 | Series 1995-10, Class 10-C, 7.35%, 8/01/05 .................... | 4,353,750 |
| | 4,000 | Series 1996 20-H, 7.25%, 8/01/16 ................... | 4,060,000 |

| PRINCIPAL AMOUNT (000) | DESCRIPTION | VALUE (NOTE 1) |
|---|---|---|
| $26,450++ | United States Treasury Bonds, 6.75%, 8/15/26 ................ | $26,763,962 |
| | United States Treasury Notes, | |
| 5,980 | 6.00%, 8/15/99 ................ | 5,995,907 |
| 18,730++ | 6.375%, 5/15/99-3/31/01 ........ | 18,951,914 |
| 12,500++ | 6.50%, 10/15/06 ............... | 12,623,000 |
| 8,600++ | 6.625%, 6/30/01 ............... | 8,781,374 |
| 1,250 | 7.00%, 7/15/06 ................ | 1,305,075 |
| | | 96,236,219 |
| | Total Long-Term Investments 139.2% (cost $ 654,654,391) .......... | 665,313,403 |
| | Liabilities in excess of other assets--(39.2%) ......... | (187,228,210) |
| | NET ASSETS--100% .................... | $478,085,193 |

-------

* Using the higher of Standard & Poor's or Moody's rating.

** Illiquid securities representing 1.2% of portfolio assets.

\# Private placements restricted as to resale.

\+ Entire principal amount pledged as collateral for futures transactions.

++ $5,254,658 principal amount pledged as collateral for futures transactions.

@ Entire principal amount pledged as collateral for mortgage swap.

@@ $11,557,439 principal amount pledged as collateral for mortgage swap.

\+ $106,158,630 principal amount pledged as collateral for reverse repurchase agreements.

++ Entire principal amount pledged as collateral for reverse repurchase agreements.

KEY TO ABBREVIATIONS

| | |
|---|---|
| ARM | -- Adjustable Rate Mortgage. |
| CMO | -- Collateralized Mortgage Obligation. |
| CMT | -- Constant Maturity Treasury. |
| I | -- Denotes a CMO with interest only characteristics. |
| I/O | -- Interest Only. |
| P | -- Denotes a CMO with principal only characteristics. |
| P/O | -- Principal Only. |
| REMIC | -- Real Estate Mortgage Investment Conduit. |

See Notes to Financial Statements



THE BLACKROCK INCOME TRUST INC.
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1996

| | |
|---|---|
| ASSETS | |
| Investments, at value (cost $654,654,391) (Note 1) .. | $665,313,403 |
| Cash ............................................... | 255,386 |
| Receivable for investments sold .................... | 21,593,002 |
| Interest receivable ................................ | 7,206,246 |
| | 694,368,037 |
| LIABILITIES | |
| Reverse repurchase agreements (Note 4) ............. | 204,437,538 |

| | |
|---|---|
| Payable for investments purchased .................. | 9,320,497 |
| Due to broker-variation margin ..................... | 716,802 |
| Swap option written, at value | |
| (Premium received $954,250) ....................... | 322,666 |
| Interest payable ................................... | 345,772 |
| Dividends payable .................................. | 267,627 |
| Advisory fee payable (Note 2) ...................... | 260,585 |
| Administration fee payable (Note 2) ................ | 80,180 |
| Unrealized depreciation on interest rate cap | |
| (Notes 1 & 3) ..................................... | 7,379 |
| Other accrued expenses ............................. | 523,798 |
| | 216,282,844 |
| NET ASSETS | $478,085,193 |
| Net assets were comprised of: | |
| Common stock, at par (Note 5) ..................... | $ 628,499 |
| Paid-in capital in excess of par .................. | 563,355,769 |
| | 563,984,268 |
| Distributions in excess of net investment income... | (2,522,559) |
| Accumulated net realized losses ................... | (88,725,353) |
| Net unrealized appreciation ....................... | 5,348,837 |
| Net assets, October 31, 1996 ...................... | $478,085,193 |
| Net asset value per share: | |
| ($478,085,193 / 62,849,878 shares of | |
| common stock issued and outstanding) .............. | $7.61 |
| NET INVESTMENT INCOME | |
| Income | |
| Interest (net of premium amortization of $15,335,337 | |
| and interest expense of $10,913,445) .............. | 39,883,411 |
| Expenses | |
| Investment advisory ............................... | 3,091,171 |
| Administration .................................... | 951,130 |
| Reports to shareholders ........................... | 250,000 |
| Custodian ......................................... | 210,000 |
| Transfer agent .................................... | 185,000 |
| Directors ......................................... | 78,000 |
| Audit ............................................. | 61,500 |
| Legal ............................................. | 25,000 |
| Miscellaneous ..................................... | 237,725 |
| Total operating expenses ........................ | 5,089,526 |
| Net investment income ............................. | 34,793,885 |
| REALIZED AND UNREALIZED GAIN (LOSS) | |
| ON INVESTMENTS (NOTE 3) | |
| Net realized gain (loss) | |
| Investments ....................................... | (16,349,944) |
| Futures ........................................... | (2,976,786) |
| Short sales ....................................... | (120,063) |
| | (19,446,793) |
| Net change in unrealized appreciation (depreciation) | |
| Investments ....................................... | 23,924,925 |
| Futures ......................................... | (5,802,828) |
| Options ......................................... | 631,584 |
| | 18,753,681 |
| Net loss on investments ........................... | (693,112) |
| NET INCREASE IN NET ASSETS | |
| RESULTING FROM OPERATIONS .......................... | $ 34,100,773 |

See Notes to Financial Statements.



THE BLACKROCK INCOME TRUST INC.
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 1996

| | |
|---|---|
| INCREASE (DECREASE) IN CASH | |
| Cash flows provided by operating activities: | |
| Interest received .................................... | $65,523,532 |
| Operating expenses paid ............................... | (4,958,575) |
| Interest expense paid ................................. | (11,156,941) |
| Proceeds from disposition of short-term portfolio investments including options, net .................... | 2,252,922 |
| Purchase of long-term portfolio investments ............ | (3,246,526,955) |
| Proceeds from disposition of long-term portfolio investments ............................... | 3,250,326,599 |
| Variation margin on futures ........................... | (8,032,179) |
| Net cash flows provided by operating activities ......... | 47,428,403 |
| Cash flows used for financing activities: | |
| Decrease in reverse repurchase agreements .............. | (10,000,337) |
| Cash dividends paid ................................... | (37,510,689) |
| Net cash used for financing activities ................... | (47,511,026) |
| Net decrease in cash .................................... | (82,623) |
| Cash at beginning of year ............................... | 338,009 |
| Cash at end of year ..................................... | $255,386 |

| | |
|---|---|
| RECONCILIATION OF NET INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Net increase in net assets resulting from operations ............................................. | $34,100,773 |
| Decrease in investments .................................. | 27,788,065 |
| Increase in interest receivable .......................... | (608,661) |
| Decrease in receivable for investments sold ............... | 38,069,081 |
| Increase in appreciation on mortgage swap ................. | (2,502,451) |
| Decrease in variation margin receivable ................... | 747,435 |
| Net realized loss ........................................ | 19,446,793 |
| Increase in unrealized depreciation ....................... | (18,753,681) |
| Increase in options ...................................... | 322,666 |
| Decrease in payable for investments purchased ............. | (50,384,123) |
| Decrease in interest payable .............................. | (243,496) |
| Decrease in depreciation of interest rate cap ............. | (684,949) |
| Increase in accrued expenses and other liabilities ............................................ | 130,951 |
| Total adjustments ...................................... | 13,327,630 |
| Net cash provided by operating activities ................. | $47,428,403 |

THE BLACKROCK INCOME TRUST INC.
STATEMENTS OF CHANGES
IN NET ASSETS

INCREASE (DECREASE)
IN NET ASSETS
<TABLE>
<CAPTION>

| | YEAR ENDED OCTOBER 31, 1996 | YEAR ENDED OCTOBER 31, 1996 |
|---|---|---|
| Operations: | | |

<S> <C> <C>

| | | |
|---|---|---|
| Net investment income .................... | $34,793,885 | $31,941,790 |
| Net realized loss on investments, futures, short sales and options ....... | (19,446,793) | (16,509,006) |
| Net change in net unrealized appreciation on investments, futures, short sales and options ................ | 18,753,681 | 57,353,523 |
| Net increase in net assets resulting from operations ............................ | 34,100,773 | 72,786,307 |
| Dividends from net investment income .................................. | (34,793,885) | (41,414,771) |
| Distributions in excess of net investment income ....................... | (2,522,559) | (192,946) |
| Return of capital ......................... | ---- | (5,529,060) |
| Total increase (decrease) ................ | (3,215,671) | 25,649,530 |
| NET ASSETS | | |
| Beginning of year ...................... | 481,300,864 | 455,651,334 |
| End of year ........................... | $478,085,193 | $481,300,864 |

</TABLE>

See Notes to Financial Statements.



THE BLACKROCK INCOME TRUST INC.
FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

| | Year Ended October 31, | | | | |
|---|---|---|---|---|---|
| PER SHARE OPERATING PERFORMANCE: | 1996 | 1995 | 1994 | 1993 | 1992 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Net asset value, beginning of year .................... | $ 7.66 | $ 7.25 | $ 8.75 | $ 8.90 | $ 9.43 |
| Net investment income (net of $.17, $.22, $.10, $.09, and $.09, respectively, of interest expense) | .55 | .51 | .73 | .91 | .74 |
| Net realized and unrealized gain (losses) on investments, short sales, futures and options ......................................... | (.01) | .65 | (1.45) | (.21) | (.31) |
| Net increase (decrease) from investment operations .... | .54 | 1.16 | (.72) | .70 | .43 |
| Dividends from net investment income .................. | (.55) | (.66) | (.78) | (.85) | (.83) |
| Distributions in excess of net investment income ...... | (.04) | -- | -- | -- | (.05) |
| Return of capital distribution ........................ | -- | (.09) | -- | -- | (.08) |
| Total dividends and distributions .................. | (.59) | (.75) | (.78) | (.85) | (.96) |
| Net asset value, end of year* ......................... | $ 7.61 | $ 7.66 | $ 7.25 | $ 8.75 | $ 8.90 |
| Per share market value, end of year* ................. | $ 6 1/4 | $7 1/4 | $6 3/8 | $ 8 3/8 | $9 1/8 |

| | | | | | |
|---|---|---|---|---|---|
| TOTAL INVESTMENT RETURN+ | (5.36%) | 26.50% | (15.31%) | 1.01% | (.55%) |
| RATIOS TO AVERAGE NET ASSETS: | | | | | |
| Operating expenses# | 1.08% | 1.08% | 1.10% | 1.03% | 1.02% |
| Net investment income | 7.36% | 6.85% | 9.21% | 10.19% | 7.85% |
| SUPPLEMENTAL DATA: | | | | | |
| Average net assets (in thousands) | $473,056 | $466,449 | $496,707 | $558,530 | $582,984 |
| Portfolio turnover | 440% | 267% | 223% | 121% | 131% |
| Net assets, end of year (in thousands) | $478,085 | $481,301 | $455,651 | $549,755 | $555,737 |
| Reverse repurchase agreements outstanding, end of year (in thousands) | $204,438 | $214,438 | $109,286 | $ 74,700 | $168,150 |
| Asset coverage++ | $ 3,339 | $ 3,244 | $ 5,169 | $ 8,360 | $ 4,305 |

</TABLE>

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* NAV and market value are published in The Wall Street Journal each Monday.

** Annualized.

\# The ratios of operating expenses including interest expense to average net assets were 3.38%, 4.08%, 2.32%, 2.02%, and 1.97% for the periods indicated above, respectively.

\+ Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the current market price on the last day of each year reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Trust's dividend reinvestment plan. This calculation does not reflect brokerage commissions. Total investment returns for periods of less than one full year are not annualized.

++ Per $1,000 of reverse repurchase agreement outstanding. The information above represents the audited operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data, for each of the periods indicated. This information has been determined based upon financial information provided in the financial statements and market value data for the Trust's shares.

See Notes to Financial Statements.



THE BLACKROCK INCOME TRUST INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

The BlackRock Income Trust Inc. (the "Trust"), a Maryland corporation, is a diversified closed-end management investment company. The investment objective of the Trust is to achieve high monthly income consistent with preservation of capital. The ability of issuers of debt securities held by the Trust to meet their obligations may be affected by economic developments in a specific industry or region. No assurance can be given that the Trust's investment objective will be achieved.

The following is a summary of significant accounting policies followed by the Trust.

SECURITIES VALUATION: The Trust values mortgage-backed, asset-backed and other debt securities on the basis of current market quotations provided by dealers or pricing services approved by the Trust's Board of Directors. In determining the value of a particular security, pricing services may use certain informatio with respect to transactions in such securities, quotations from dealers, market transactions in comparable securities, various relationships observed in the market between securities, and calculated yield measures based on valuation technology commonly employed in the market for such securities. Exchange-traded options are valued at their last sales price as of the close of options trading on the applicable exchanges. In the absence of a last sale, options are valued at the average of the quoted bid and asked prices as of the close of business. A futures contract is valued at the last sale price as of the close of the commodities exchange on which it trades unless the Trust's Board of Directors determines that such price does not reflect its fair value, in which case it will be valued at its fair value as determined by the Trust's Board of Directors. Any securities or other assets for which current market quotations are not readily available are valued at fair value as determined in good faith under procedures established by and under the general supervision and responsibility of the Trust's Board of Directors.

Short-term securities which mature in more than 60 days are valued at current market quotations. Short-term securities which mature in 60 days or less are valued at amortized cost, if their term to maturity from date of purchase was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if their original term to maturity from date of purchase exceeded 60 days.

In connection with transactions in repurchase agreements, the Trust's custodian takes possession of the underlying collateral securities, the value of which at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to ensure the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Trust may be delayed or limited.

OPTION SELLING/PURCHASING: When the Trust sells or purchases an option, an amount equal to the premium received or paid by the Trust is recorded as a liability or an asset and is subsequently adjusted to the current market value of the option written or purchased. Premiums received or paid from writing or purchasing options which expire unexercised are treated by the Trust on the expiration date as realized gains or losses. The difference between the premium and the amount paid or received on effecting a closing purchase or sale transaction, including brokerage commissions, is also treated as a realized gain or loss. If an option is exercised, the premium paid or received is added to the proceeds from the sale or cost of the purchase in determining whether the Trust has realized a gain or a loss on investment transactions. The Trust, as writer of an option, may have no control over whether the underlying securities may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the security underlying the written option.

Options, when used by the Trust, help in maintaining a targeted duration. Duration is a measure of the price sensitivity of a security or a portfolio to relative changes in interest rates. For instance, a duration of "one" means that a portfolio's or a security's price would be expected to change by approximately one percent with a one percent change in interest rates, while a duration of five would imply that the price would move approximately five percent in relation to a one percent change in interest rates.

Option selling and purchasing is used by the Trust to effectively "hedge" more volatile positions so that changes in interest rates do not change the duration of the portfolio unexpectedly. In general, the Trust uses options to hedge a long or short position or an overall portfolio that is longer or shorter than the benchmark security. A call option gives the purchaser of the option the right (but not obligation) to buy, and obligates the seller to sell (when the option is exercised), the underlying position at the exercise price at any time or at a specified time during the option period. A put option gives the holder the



right to sell and obligates the writer to buy the underlying position at the exercise price at any time or at a specified time during the option period. Put options can be purchased to effectively hedge a position or a portfolio against price declines if a portfolio is long. In the same sense, call options can be purchased to hedge a portfolio that is shorter than its benchmark against price changes. The Trust can also sell (or write) covered call options and put options to hedge portfolio positions.

The main risk that is associated with purchasing options is that the option expires without being exercised. In this case, the option expires worthless and the premium paid for the option is considered the loss. The risk associated with writing call options is that the Trust may forego the opportunity for a profit if the market value of the underlying position increases and the option is exercised. The risk in writing put options is that the Trust may incur a loss if the market value of the underlying position decreases and the option is exercised. In addition, as with futures contracts, the Trust risks not being able to enter into a closing transaction for the written option as the result of an illiquid market.

SWAP OPTIONS: The swap option is similar to an option on securities except that instead of purchasing the right to buy a security, the purchaser of the swap option has the right to enter into a previously agreed upon interest rate swap agreement at any time before the expiration of the option. Premiums received from writing options are recorded as liabilities, and are subsequently adjusted to the current value of the options written. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or are closed are offset against the proceeds or amount paid on the transaction to determine the realized gain or loss. The Trust, as writer of an option, bears the market risk of an unfavorable change in the value of the swap contract underlying the written option. Written interest rate swap options may be used as part of an income producing strategy reflecting the view of the Trust's management on the direction of interest rates.

FINANCIAL FUTURES CONTRACTS: A futures contract is an agreement between two parties to buy and sell a financial instrument for a set price on a future date. Initial margin deposits are made upon entering into futures contracts and can be either cash or securities. During the period the futures contract is open, changes in the value of the contract are recognized as unrealized gains or losses by "marking-to-market" on a daily basis to reflect the market value of the contract at the end of each day's trading. Variation margin payments are made or received, depending upon whether unrealized gains or losses are incurred. When the contract is closed, the Trust records a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust's basis in the contract.

Financial futures contracts, when used by the Trust, help in maintaining a targeted duration. Duration is a measure of the price sensitivity of a security or a portfolio to relative changes in interest rates. For instance, a duration of "one" means that a portfolio's or a security's price would be expected to change by approximately one percent with a one percent change in interest rates, while a duration of "five" would imply that the price would move approximately five percent in relation to a one percent change in interest rates. Futures contracts can be sold to effectively shorten an otherwise longer duration portfolio. In the same sense, futures contracts can be purchased to lengthen a portfolio that is shorter than its duration target. Thus, by buying or selling futures contracts, the Trust can effectively "hedge" more volatile positions so that changes in interest rates do not change the duration of the portfolio unexpectedly.

The Trust may invest in financial futures contracts primarily for the purpose of hedging its existing portfolio securities or securities the Trust intends to purchase against fluctuations in value caused by changes in prevailing market interest rates. Should interest rates move unexpectedly, the Trust may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates and the underlying hedged assets. The Trust is also at the risk of not being able to enter into a closing transaction for the futures contract because of an illiquid secondary market. In addition, since futures are used to shorten or lengthen a portfolio's duration, there is a risk that the portfolio may have temporarily performed better without the hedge or that the Trust may lose the opportunity to realize appreciation in the market price of the underlying positions.

SHORT SALES: The Trust may make short sales of securities as a method of hedging potential price declines in similar securities owned. When the Trust makes a short sale, it may borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Trust may have to pay a fee to borrow the particular securities and may be obligated to pay over any payments received on such borrowed securities. A gain, limited to the price at which the Trust sold the security short, or a loss, unlimited as to dollar amount, will be recognized upon the termination of a short sale if the market price is greater or less than the proceeds originally received.

SECURITIES LENDING: The Trust may lend its portfolio securities to qualified institutions. The loans are secured by collateral



at least equal, at all times,to the market value of the securities loaned. The Trust may bear the risk of delay in recovery of, or even loss of rights in, the securities loaned should the borrower of the securities fail financially. The Trust receives compensation for lending its securities in the form of interest on the loan. The Trust also continues to receive interest on the securities loaned, and any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Trust. The Trust did not engage in securities lending during the year ended October 31, 1996.

MORTGAGE SWAPS: Mortgage swaps are a variation on interest rate swaps. In a simple interest rate swap, one investor pays a floating rate of interest on a notional principal amount and receives a fixed rate of interest on the same notional principal amount for a specified period of time. Alternatively, an investor may pay a fixed rate and receive a floating rate. Rate swaps were conceived as asset/liability management tools. In more complex swaps, the notional principal amount may decline (or amortize) over time. Mortgage swaps combine the fixed/floating concept with an amortizing feature that is indexed to mortgage securities. Scheduled amortization and prepayments on the index pools reduce the notional amount.

During the term of the swap, changes in the value of the swap are recognized as unrealized gains or losses by "marking-to-market" to reflect the market value of the swap. When the swap is terminated, the Trust will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Trust's basis in the contract, if any.

Mortgage swaps are intended to enhance the Trust's income earning ability by effectively owning mortgage pass-throughs and locking-in the financing rate at a very attractive spread to market levels. This allows mortgage pass-throughs to be held more cheaply than if they were owned outright and financed, but at a decreased level of liquidity.

The Trust is exposed to credit loss in the event of non-performance by the other party to the mortgage swap. However, the Trust does not anticipate non-performance by any counterparty.

INTEREST RATE CAPS: Interest rate caps are similar to interest rate swaps, except that one party agrees to pay a fee, while the other party pays the excess, if any, of a floating rate over a specified fixed rate.

Interest rate caps are intended to both manage the duration of the Trust's portfolio and its exposure to changes in short term rates. Duration is a measure of the price sensitivity of a security or a portfolio to relative changes in interest rates. For instance, a duration of "one" means that a portfolio's or a security's price would be expected to change by approximately one percent with a one percent change in interest rates, while a duration of "five" would imply that the price would move approximately five percent in relation to a one percent change in interest rates. Owning interest rate caps reduces the portfolio's duration, making it less sensitive to changes in interest rates from a market value perspective. The effect on income involves protection from rising short term rates, which the Trust experiences primarily in the form of leverage.

The Trust is exposed to credit loss in the event of non-performance by the other party to the interest rate cap. However, the Trust does not anticipate non-performance by any counterparty.

INTEREST RATE FLOORS: Interest rate floors are similar to interest rate swaps, except that one party agrees to pay a fee, while the other party pays the excess, if any, of a floating rate under a specified fixed rate.

Interest rate floors are used by the Trust to both manage the duration of the portfolio and its exposure to changes in short-term interest rates. Duration is a measure of the price sensitivity of a security or a portfolio to relative changes in interest rates. For instance, a duration of "one" means that a portfolio's or a security's price would be expected to change by approximately one percent with a one percent change in interest rates, while a duration of "five" would imply that the price would move approximately five percent in relation to a one percent change in interest rates. Owning interest rate floors reduces the portfolio's duration, making it less sensitive to changes in interest rates from a market value perspective. The effect on income involves protection from falling short term rates, which the Trust experiences primarily in the form of leverage.

The Trust is exposed to credit loss in the event of non-performance by the other party to the interest rate floor. However, the Trust does not anticipate non-performance by any counterparty.

SECURITIES TRANSACTIONS AND NET INVESTMENT INCOME: Securities transactions are recorded on the trade date. Realized and unrealized gains and losses are calculated on the identified cost basis. Interest income is recorded on the accrual basis and the Trust accretes discount and amortizes premium on securities purchased using the interest method. Expenses are recorded on the accrual basis which may require the use of certain estimates by management.

TAXES: It is the Trust's intention to continue to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all



of its taxable income to shareholders. Therefore, no federal income tax provision is required.

DIVIDENDS AND DISTRIBUTIONS: The Trust declares and pays dividends and distributions monthly, first from net investment income, then from realized short-term capital gains and other sources, if necessary. Net long-term capital gains, if any, in excess of loss carryforwards are distributed at least annually. Dividends and distributions are recorded on the ex-dividend date.

Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles.

ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. AGREEMENTS

The Trust has an Investment Advisory Agreement with BlackRock Financial Management, Inc. (the "Adviser"), a wholly- owned corporate subsidiary of PNC Asset Management Group, Inc., the holding company for PNC's asset management business, and an Administration Agreement with Prudential Mutual Fund Management LLC ("PMF"), an indirect, wholly-owned subsidiary of The Prudential Insurance Co. of America.

The investment fee paid to the Adviser is computed weekly and payable monthly at an annual rate of 0.65% of the Trust's average weekly net assets. The administration fee paid to PMF is also computed weekly and payable monthly at an annual rate of 0.20% of the first $500 million of the Trust's average weekly net assets and 0.15% of any excess.

Pursuant to the agreements, the Adviser provides continuous supervision of the investment portfolio and pays the compensation of officers of the Trust. PMF pays occupancy and certain clerical and accounting costs of the Trust. The Trust bears all other costs and expenses.

NOTE 3. PORTFOLIO SECURITIES

Purchases and sales of investment securities, other than short-term investments and dollar rolls, for the year ended October 31, 1996 aggregated $3,194,850,406 and $3,186,712,482, respectively.

The Trust may invest without limit in securities which are not readily marketable, including those which are restricted as to disposition under securities law ("restricted securities") although the Trust does not expect that such investments will generally exceed 25% of its portfolio assets. At October 31, 1996, the Trust held 1.2% of its portfolio assets in illiquid securities all of which were securities restricted as to resale.

The Trust may from time to time purchase in the secondary market certain mortgage pass-through securities packaged or master serviced by PNC Mortgage Securities Corp. (or Sears Mortgage if PNC Mortgage Securities Corp. succeeded to rights and duties of Sears) or mortgage related securities containing loans or mortgages originated by PNC Bank or its affiliates. It is possible under certain circumstances, PNC Mortgage Securities Corp. or its affiliates could have interests that are in conflict with the holders of these mortgage backed securities, and such holders could have rights against PNC Mortgage Securities Corp. or its affiliates.

The federal income tax basis of the Trust's investments at October 31, 1996 was $657,082,491 and, accordingly, net unrealized appreciation for federal income tax purposes was $8,230,912 (gross unrealized appreciation-$25,477,268; gross unrealized depreciation-$17,246,356).

For federal income tax purposes, the Trust has a capital loss carryforward at October 31, 1996 of approximately $92,357,300 of which approximately $6,398,700 will expire in 1997, approximately $4,473,500 will expire in 1998, approximately $15,072,600 will expire in 2001, approximately $23,358,200 will expire in 2002, approximately $15,428,200 will expire in 2003 and $27,626,100 will expire in 2004. Accordingly, no capital gains distribution is expected to be paid to shareholders until net gains have been realized in excess of such amounts.

During the year ended October 31, 1996, the Trust entered into financial futures contracts. Details of open contracts at October 31, 1996 are as follows:

<TABLE>

<CAPTION>

| NUMBER OF CONTRACTS | TYPE | EXPIRATION DATE | VALUE AT TRADE DATE | VALUE AT OCTOBER 31, 1996 | UNREALIZED APPRECIATION/ (DEPRECIATION) |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| | Short positions: | | | | |
| 915 | 10 yr. T-Note | Dec. 1996 | $97,341,199 | $100,306,875 | $(2,965,676) |
| 1.154 | 30 yr. T-Bond | Dec. 1996 | 127,790,171 | 130,402,000 | (2,611,829) |
| 375 | Eurodollar | Dec. 1996 | 88,101,594 | 88,212,625 | (111,033) |
| 270 | Eurodollar | Mar. 1997 | 63,512,333 | 63,591,000 | (78,667) |
| 260 | Eurodollar | June 1997 | 61,091,135 | 61,173,500 | (82,365) |
| 255 | Eurodollar | Sept.1997 | 59,850,440 | 59,935,250 | (84,810) |
| | | | | | $(5,934,380) |

</TABLE>

The Trust sold a swap option ("swaption") which settled on October 3, 1996 with a notional amount of $275 million. Under this swaption, the Trust received $954,250. The contract consists of an option for the purchaser to enter into a swap agreement with the trust. The swap would involve the Trust receiving a fixed rate of 8.1% and the Trust paying a variable rate of 6-month LIBOR, both based on the $275 million notional amount, for a period of ten years. The option expires on April 3, 1997. At October 31, 1996, unrealized appreciation was $631,584.



The Trust entered into an interest rate cap which settled on November 5, 1991 with a notional amount of $200 million. Under this agreement, the Trust receives the excess, if any, of three-month LIBOR over the fixed rate of 8.50%. The agreement terminates on November 5, 1996. At October 31, 1996 unrealized depreciation was $7,379.

NOTE 4. BORROWINGS REVERSE REPURCHASE AGREEMENTS: The Trust enters into reverse repurchase agreements with qualified, third party broker-dealers as determined by and under the direction of the Trust's Board of Directors. Interest on the value of reverse repurchase agreements issued and outstanding is based upon competitive market rates at the time of issuance. At the time the Trust enters into a reverse repurchase agreement, it establishes and maintains a segregated account with the lender containing liquid high grade securities having a value not less than the repurchase price, including accrued interest, of the reverse repurchase agreement.

The average daily balance of reverse repurchase agreements outstanding during the year ended October 31, 1996 was approximately $185,200,932 at a weighted average interest rate of approximately 5.52%. The maximum amount of reverse repurchase agreements outstanding at any month-end during the period was $243,918,988 as of November 30, 1995, which was 23.0% of total assets.

DOLLAR ROLLS: The Trust enters into dollar rolls in which the Trust sells securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period the Trust forgoes principal and interest paid on the securities. The Trust is compensated by the interest earned on the cash proceeds of the initial sale and by the lower repurchase price at the future date.

The average monthly balance of dollar rolls outstanding during the year ended October 31, 1996 was approximately $19,074,457. The maximum amount of dollar rolls outstanding at any month-end during the year was $31,133,190 as of April 30, 1996 which was 4.5% of total assets.

NOTE 5. CAPITAL There are 200 million shares of $.01 par value common stock authorized. Of the 62,849,878 shares outstanding at October 31, 1996, the Adviser owned 10,753 shares.

NOTE 6. DIVIDENDS Since October 31, 1996, the Board of Directors of the Trust declared dividends from undistributed earnings of $0.046875 per share payable November 29, 1996 to shareholders of record on November 15, 1996.

NOTE 7. QUARTERLY DATA

(UNAUDITED)

| QUARTERLY PERIOD | TOTAL INCOME | NET INVESTMENT INCOME AMOUNT | NET INVESTMENT INCOME PER SHARE | NET REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS, SHORT SALES AND FUTURES AND OPTIONS AMOUNT | NET REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS, SHORT SALES AND FUTURES AND OPTIONS PER SHARE |
|---|---|---|---|---|---|
| November 1, 1994 to January 31, 1995 | $ 7,966,522 | 6,718,106 | $.11 | 6,924,347 | $.11 |
| February 1, 1995 to April 30, 1995 | 13,875,262 | 12,635,132 | .20 | 12,679,455 | .20 |
| May 1, 1995 to July 31, 1995 | 9,186,628 | 7,888,261 | .13 | 4,537,191 | .07 |
| August 1, 1995 to October 31, 1995 | 5,947,291 | 4,700,291 | .07 | 16,703,524 | .27 |
| November 1, 1995 to January 31, 1996 | 11,192,969 | 9,880,763 | .16 | 21,999,110 | .35 |
| February 1, 1996 to April 30, 1996 | 10,119,137 | 8,832,056 | .14 | (36,326,097) | (.58) |
| May 1, 1996 to July 31, 1996 | 8,280,416 | 6,895,691 | .11 | (244,568) | -- |
| August 1, 1996 to October 31, 1996 | 10,290,889 | 9,185,375 | .14 | 13,878,448 | .22 |

| QUARTERLY PERIOD | NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS AMOUNT | NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS PER SHARE | DIVIDENDS AND DISTRIBUTIONS AMOUNT | DIVIDENDS AND DISTRIBUTIONS PER SHARE | SHARE PRICE HIGH | SHARE PRICE LOW | PERIOD END NET ASSET VALUE |
|---|---|---|---|---|---|---|---|
| November 1, 1994 to January 31, 1995 | $13,642,453 | $.22 | $11,784,164 | $.188 | $6 7/8 | $5 7/8 | $7.28 |
| February 1, 1995 to April 30, 1995 | 25,314,587 | .40 | 11,784,196 | .188 | 7 1/4 | 6 5/8 | 7.49 |
| May 1, 1995 to July 31, 1995 | 12,425,452 | .20 | 11,784,243 | .188 | 7 3/8 | 6 7/8 | 7.50 |
| August 1, 1995 to October 31, 1995 | 21,403,815 | .34 | 11,784,174 | .188 | 7 3/8 | 6 7/8 | 7.66 |
| November 1, 1995 to January 31, 1996 | 31,879,873 | .51 | 10,802,096 | .172 | 7 1/4 | 6 1/4 | 8.00 |
| February 1, 1996 to April 30, 1996 | (27,494,041) | (.44) | 8,838,134 | .141 | 6 5/8 | 6 | 7.42 |
| May 1, 1996 to July 31, 1996 | 6,651,123 | .11 | 8,838,114 | .141 | 6 1/4 | 5 7/8 | 7.39 |
| August 1, 1996 to October 31, 1996 | 23,063,823 | .36 | 8,838,100 | .141 | 6 1/2 | 6 1/8 | 7.61 |



THE BLACKROCK INCOME TRUST INC.
REPORT OF INDEPENDENT AUDITORS

The Shareholders and Board of Directors of
The BlackRock Income Trust Inc.:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of The BlackRock Income Trust Inc. as of October 31, 1996 and the related statements of operations and of cash flows for the year then ended and of 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 generally accepted auditing standards. 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 at October 31, 1996 by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. 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, such financial statements and financial highlights present fairly, in all material respects, the financial position of The BlackRock Income Trust Inc. at October 31, 1996 and the results of its operations, its cash flows, the changes in its net assets and the financial highlights for the respective stated periods in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

New York, New York
December 6, 1996



## THE BLACKROCK INCOME TRUST INC.
## TAX INFORMATION

We wish to advise you as to the federal tax status of dividends and distributions paid by the Trust during its fiscal year ended October 31, 1996.

During the fiscal year ended October 31, 1996, the Trust paid dividends and distributions of $.59 per share from net investment income. For federal income tax purposes, the aggregate of any dividends and short-term capital gains distributions you received are reportable in your 1996 federal income tax return as ordinary income.Further, we wish to advise you that your income dividends do not qualify for the dividends received deduction.

For the purpose of preparing your 1996 annual federal income tax return, however, you should report the amounts as reflected on the appropriate Form 1099 DIV which will be mailed to you in January 1997.

## DIVIDEND REINVESTMENT PLAN

Pursuant to the Trust's Dividend Reinvestment Plan (the "Plan"), shareholders may elect to have all distributions of dividends and capital gains automatically reinvested by State Street Bank & Trust Company. (the "Plan Agent") in Trust shares pursuant to the Plan. Shareholders who do not participate in the Plan will receive all distributions in cash paid by check in United States dollars mailed directly to the shareholders of record (or if the shares are held in street or other nominee name, then to the nominee) by the Custodian, as dividend disbursing agent.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Trust declares a dividend or determines to make a capital gain distribution, the Plan Agent will, as agent for the participants, receive the cash payment and use it to buy Trust shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts. The Trust will not issue shares under the Plan below net asset value.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent and will receive certificates for whole Trust shares and a cash payment will be made for any fraction of a Trust share.

The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by the Trust. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends and distributions. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income taxes that may be payable on such dividend or distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Trust reserves the right to amend or terminate the Plan as applied to any dividend or distribution paid subsequent to written notice of the change sent to all shareholders of the Trust at least 90 days before the record date for the dividend or distribution. The Plan also may be amended or terminated by the Plan Agent upon at least 90 days' written notice to all shareholders of the Trust. All correspondence concerning the Plan should be directed to the Plan Agent at (800) 699-1BFM. The addresses are on the front of this report.

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## ADDITIONAL INFORMATION

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There have been no material changes in the Trust's investment objectives or policies that have not been approved by the shareholders, or to its charter or by-laws, or in the principal risk factors associated with investment in the Trust. There have been no changes in the persons who are primarily responsible for the day-to-day management of the Trust's portfolio.



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## THE BLACKROCK INCOME TRUST INC.
## INVESTMENT SUMMARY

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### THE TRUST'S INVESTMENT OBJECTIVE

The Trust's investment objective is to manage a portfolio of high quality securities to achieve high monthly income consistent with preservation of capital. The Trust will seek to distribute monthly income that is greater than that obtainable on an annualized basis by investment in United States Treasury securities having the same maturity as the average dollar weighted maturity of the Trust's investments.

### WHO MANAGES THE TRUST?

BlackRock Financial Management, Inc. ("BlackRock") is the investment adviser for the Trust. BlackRock is a registered investment adviser specializing in fixed income securities. Currently, BlackRock manages over $43 billion of assets across the government, mortgage, corporate and municipal sectors. These assets are managed on behalf of institutional and individual investors in 21 closed-end funds, which trade on either the New York or American stock exchanges, several open-end funds and separate accounts for more than 100 clients in the U.S. and overseas. BlackRock is a subsidiary of PNC Asset Management Group which is a division of PNC Bank, one of the nation's largest banking organizations.

### WHAT CAN THE TRUST INVEST IN?

The Trust will invest at least 65% of its assets in mortgage-backed securities. At least 85% of the Trust's assets must be rated at least "AAA" by Standard & Poor's or "Aaa" by Moody's at the time of purchase; of this 85% at least 80% of the Trust's assets must be rated at least "AAA" by Standard & Poor's at the time of purchase while the remaining 5% can be invested in securities at least "AAA" by Standard & Poor's, "Aaa" by Moody's or deemed "AAA" by the Advisor at the time of purchase. Additionally, 15% of the Trust's assets can be invested in securities rated at least "AA" by Standard & Poor's or "Aa" by Moody's at time of purchase. Under current market conditions, BlackRock expects that the primary investments of the Trust will be U.S. government securities, securities backed by government agencies (such as mortgage-backed securities), privately issued mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities.

WHAT IS THE ADVISER'S INVESTMENT STRATEGY?

The Adviser will seek to meet the Trust's investment objective by managing the assets of the Trust so as to provide high monthly income consistent with the preservation of capital. The Trust will seek to provide monthly income that is greater than that which could be obtained by investing in U.S. Treasury securities with an average life similar to that of the Trust's assets. Under current market conditions, the average life of the Trust's assets is expected to be in the range of seven to ten years. Under other market conditions, the Trust's average life may vary and may not be predictable using any formula. In seeking the investment objective, the Adviser may actively manage among various types of securities in different interest rate environments.

Traditional mortgage pass-through securities make interest and principal payments on a monthly basis and can be a source of attractive levels of income to the Trust. While mortgage-backed securities in the Trust are of high credit quality, they typically offer a yield spread above Treasuries due to the uncertainty of the timing of their cash flows as they are subject to changes in the rate of prepayments when interest rates change and either a larger or smaller proportion of mortgage holders refinance their mortgages or move. While mortgage-backed securities offer the opportunity for attractive yields, they subject a portfolio to interest rate risk and prepayment exposure which result in reinvestment risk when prepaid principal must be reinvested.

Multiple-class mortgage pass-through securities, or collateralized mortgage obligations (CMOs), are also an investment that may be used in the Trust's portfolio. These securities are issued in multiple classes each of which has a different coupon rate, stated maturity and prioritization on the timing of receipt of cash flows coming from interest and principal payments on the underlying mortgages. Principal prepayments can be allocated among the different classes of a CMO in a number of ways; for instance, they can be applied to each of the classes in the order of their respective stated maturities. This feature allows an investor to better plan the average life of their investment. As a result, these securities may be used by the Trust to help manage prepayment risk and align the assets of the portfolio more closely with its targeted average life.

Additionally, in order to attempt to protect the portfolio from interest rate risk, the Adviser will attempt to locate securities with call protection, such as commercial mortgage-backed securities with prepayment penalties or lockouts. Securities with call protection should provide the portfolio with some degree of protection against reinvestment risk during times of lower prevailing interest rates.



HOW ARE THE TRUST'S SHARES PURCHASED AND SOLD? DOES THE TRUST PAY DIVIDENDS REGULARLY?

The Trust's shares are traded on the New York Stock Exchange which provides investors with liquidity on a daily basis. Orders to buy or sell shares of the Trust must be placed through a registered broker or financial advisor. The Trust pays monthly dividends which are typically paid on the last business day of the month. For shares held in the shareholder's name, dividends may be reinvested in additional shares of the fund through the Trust's transfer agent, State Street Bank & Trust Company. Investors who wish to hold shares in a brokerage account should check with their financial advisor to determine whether their brokerage firm offers dividend reinvestment services.

LEVERAGE CONSIDERATIONS IN THE TRUST

Under current market conditions, leverage increases the income earned by the Trust. The Trust employs leverage primarily through the use of reverse repurchase agreements and dollar rolls. Leverage permits the Trust to borrow money at short-term rates and reinvest that money in longer-term assets which typically offer higher interest rates. The difference between the cost of the borrowed funds and the income earned on the proceeds that are invested in longer term assets is the benefit to the Trust from leverage. In general, the portfolio is typically leveraged at approximately 33.33% of total assets.

Leverage also increases the duration (or price volatility of the net assets) of the Trust, which can improve the performance of the fund in a declining rate environment, but can cause net assets to decline faster than the market in a rapidly rising rate environment. BlackRock's portfolio managers continuously monitor and regularly review the Trust's use of leverage and the Trust may reduce, or unwind, the amount of leverage employed should BlackRock consider that reduction to be in the best interests of shareholders.

## SPECIAL CONSIDERATIONS AND RISK FACTORS RELEVANT TO THE TRUST

The Trust is intended to be a long-term investment and is not a short-term trading vehicle.

INVESTMENT OBJECTIVE. Although the objective of the Trust is to provide high monthly income consistent with preservation of capital, there can be no assurance that this objective will be achieved.

DIVIDEND CONSIDERATIONS. Dividends paid by the Trust are likely to vary over time as fixed income market conditions change. Future dividends may be higher or lower than the dividend the Trust is currently paying.

LEVERAGE. The Trust utilizes leverage through reverse repurchase agreements and dollar rolls, which involves special risks. The Trust's net asset value and market value may be more volatile due to its use of leverage.

MARKET PRICE OF SHARES. The shares of closed-end investment companies such as the Trust trade on the New York Stock Exchange (NYSE symbol: BKT) and as such are subject to supply and demand influences. As a result, shares may trade at a discount or a premium to their net asset value.

MORTGAGE-BACKED AND ASSET-BACKED SECURITIES. The cash flow and yield characteristics of these securities differ from traditional debt securities. The major differences typically include more frequent payments and the possibility of prepayments which will change the yield to maturity of the security.

ILLIQUID SECURITIES. The Trust may invest in securities that are illiquid, although under current market conditions the Trust expects to do so to only a limited extent. These securities involve special risks.

ANTITAKEOVER PROVISIONS. Certain antitakeover provisions will make a change in the Trust's business or management more difficult without the approval of the Trust's Board of Directors and may have the effect of depriving shareholders of an opportunity to sell their shares at a premium above the prevailing market price.



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## GLOSSARY

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| | |
|---|---|
| ADJUSTABLE RATE MORTGAGE-BACKED SECURITIES (ARMS): | Mortgage instruments with interest rates that adjust at periodic intervals at a fixed amount over the market levels of interest rates as reflected in specified indexes. ARMS are backed by mortgage loans secured by real property. |
| ASSET-BACKED SECURITIES: | Securities backed by various types of receivables such as automobile and credit card receivables. |
| CLOSED-END FUND: | Investment vehicle which initially offers a fixed number of shares and trades on a stock exchange. The fund invests in a portfolio of securities in accordance with its stated investment objectives and policies. |
| COLLATERALIZED MORTGAGE OBLIGATIONS (CMOS): | Mortgage-backed securities which separate mortgage pools into short-, medium-, and long-term securities with different |

priorities for receipt of principal and interest. Each class is paid a fixed or floating rate of interest at regular intervals. Also known as multiple-class mortgage pass-throughs.

DISCOUNT: When a fund's net asset value is greater than its stock price the fund is said to be trading at a discount.

DIVIDEND: This is income generated by securities in a portfolio and distributed to shareholders after the deduction of expenses. This Trust declares and pays dividends on a monthly basis.

DIVIDEND REINVESTMENT: Shareholders may elect to have all distributions of dividends and capital gains automatically reinvested into additional shares of the Trust.

FHA: Federal Housing Administration, a government agency that facilitates a secondary mortgage market by providing an agency that guarantees timely payment of interest and principal on mortgages.

FHLMC: Federal Home Loan Mortgage Corporation, a publicly owned, federally chartered corporation that facilitates a secondary mortgage market by purchasing mortgages from lenders such as savings institutions and reselling them to investors by means of mortgage-backed securities. Obligations of FHLMC are not guaranteed by the U.S. government, however; they are backed by FHLMC's authority to borrow from the U.S. government. Also known as Freddie Mac.

FNMA: Federal National Mortgage Association, a publicly owned, federally chartered corporation that facilitates a secondary mortgage market by purchasing mortgages from lenders such as savings institutions and reselling them to investors by means of mortgage-backed securities. Obligations of FNMA are not guaranteed by the U.S. government, however; they are backed by FNMA's authority to borrow from the U.S. government. Also known as Fannie Mae.

GNMA: Government National Mortgage Association, a government agency that facilitates a secondary mortgage market by providing an agency that guarantees timely payment of interest and principal on mortgages. GNMA's obligations are supported by the full faith and credit of the U.S. Treasury. Also known as Ginnie Mae.

GOVERNMENT SECURITIES: Securities issued or guaranteed by the U.S. government, or one of its agencies or instrumentalities, such as GNMA (Government National Mortgage Association), FNMA (Federal National Mortgage Association) and FHLMC (Federal Home Loan Mortgage Corporation).

INTEREST-ONLY SECURITIES (I/O): Mortgage securities that receive only the interest cash flows from an underlying pool of mortgage loans or underlying pass-through securities. Also known as a STRIP.

MARKET PRICE: Price per share of a security trading in the secondary market. For a closed-end fund, this is the price at which one share of the fund trades on the stock exchange. If you were to buy or sell shares, you would pay or receive the market price.

| | |
|---|---|
| MORTGAGE DOLLAR ROLLS: | A mortgage dollar roll is a transaction in which the Trust sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (although not the same) securities on a specified future date. During the "roll" period, the Trust does not receive principal and interest payments on the securities, but is compensated for giving up these payments by the difference in the current sales price (for which the security is sold) and lower price that the Trust pays for the similar security at the end date as well as the interest earned on the cash proceeds of the initial sale. |
| MORTGAGE PASS-THROUGHS: | Mortgage-backed securities issued by Fannie Mae, Freddie Mac or Ginnie Mae. |
| MULTIPLE-CLASS PASS-THROUGHS: | Collateralized Mortgage Obligations. |
| NET ASSET VALUE (NAV): | Net asset value is the total market value of all securities held by the Trust, plus income accrued on its investments, minus any liabilities including accrued expenses, divided by the total number of outstanding shares. It is the underlying value of a single share on a given day. Net asset value for the Trust is calculated weekly and published in Barron's on Saturday and The Wall Street Journal each Monday. |
| PRINCIPAL-ONLY SECURITIES (P/O): | Mortgage securities that receive only the principal cash flows from an underlying pool of mortgage loans or underlying pass-through securities. Also known as a STRIP. |
| PROJECT LOANS: | Mortgages for multi-family, low- to middle-income housing. |
| PREMIUM: | When a fund's stock price is greater than its net asset value, the fund is said to be trading at a premium. |
| REMIC: | A real estate mortgage investment conduit is a multiple-class security backed by mortgage-backed securities or whole mortgage loans and formed as a trust, corporation, partnership, or segregated pool of assets that elects to be treated as a REMIC for federal tax purposes. Generally, Fannie Mae REMICs are formed as trusts and are backed by mortgage-backed securities. |
| RESIDUALS: | Securities issued in connection with collateralized mortgage obligations that generally represent the excess cash flow from the mortgage assets underlying the CMO after payment of principal and interest on the other CMO securities and related administrative expenses. |
| REVERSE REPURCHASE AGREEMENTS: | In a reverse repurchase agreement, the Trust sells securities and agrees to repurchase them at a mutually agreed date and price. During this time, the Trust continues to receive the principal and interest payments from that security. At the end of the term, the Trust receives the same securities that were sold for the same initial dollar amount plus interest on the cash proceeds of the initial sale. |
| STRIPPED MORTGAGE BACKED SECURITIES: | Arrangements in which a pool of assets is separated into two classes that receive different proportions of the interest and |

principal distribution from underlying mortgage-backed securities. IO's and PO's are examples of STRIPs.



BLACKROCK FINANCIAL MANAGEMENT, INC.
SUMMARY OF CLOSED-END FUNDS

TAXABLE TRUSTS

| PERPETUAL TRUSTS | STOCK SYMBOL | MATURITY DATE |
|---|---|---|
| The BlackRock Income Trust Inc. | BKT | N/A |
| The BlackRock North American Government Income Trust Inc. | BNA | N/A |
| TERM TRUSTS | | |
| The BlackRock 1998 Term Trust Inc. | BBT | 12/98 |
| The BlackRock 1999 Term Trust Inc. | BNN | 12/99 |
| The BlackRock Target Term Trust Inc. | BTT | 12/00 |
| The BlackRock 2001 Term Trust Inc. | BLK | 06/01 |
| The BlackRock Strategic Term Trust Inc. | BGT | 12/02 |
| The BlackRock Investment Quality Term Trust Inc. | BQT | 12/04 |
| The BlackRock Advantage Term Trust Inc. | BAT | 12/05 |
| The BlackRock Broad Investment Grade 2009 Term Trust Inc. | BCT | 12/09 |

TAX-EXEMPT TRUSTS

| PERPETUAL TRUSTS | STOCK SYMBOL | MATURITY DATE |
|---|---|---|
| The BlackRock Investment Quality Municipal Trust Inc. | BKN | N/A |
| The BlackRock California Investment Quality Municipal Trust Inc. | RAA | N/A |
| The BlackRock Florida Investment Quality Municipal Trust | RFA | N/A |
| The BlackRock New Jersey Investment Quality Municipal Trust Inc. | RNJ | N/A |
| The BlackRock New York Investment Quality Municipal Trust Inc. | RNY | N/A |
| TERM TRUSTS | | |
| The BlackRock Municipal Target Term Trust Inc. | BMN | 12/06 |
| The BlackRock Insured Municipal 2008 Term Trust Inc. | BRM | 12/08 |
| The BlackRock California Insured Municipal 2008 Term Trust Inc. | BFC | 12/08 |
| The BlackRock Florida Insured Municipal 2008 Term Trust | BRF | 12/08 |
| The BlackRock New York Insured Municipal 2008 Term Trust Inc. | BLN | 12/08 |
| The BlackRock Insured Municipal Term Trust Inc. | BMT | 12/10 |

IF YOU WOULD LIKE FURTHER INFORMATION PLEASE DO NOT HESITATE TO CALL BLACKROCK AT (800) 227-7BFM (7236) OR CONSULT WITH YOUR FINANCIAL ADVISOR.



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This report is for shareholder information. This is not a prospectus intended for use in the purchase or sale of any securities.

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# THE BLACKROCK INCOME TRUST INC.

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