

BLACKROCK MUNICIPAL INCOME QUALITY TRUST

Form N-CSR

November 05, 2012

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number 811-21178

Name of Fund: BlackRock Municipal Income Quality Trust (BYM)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock Municipal Income Quality Trust, 55 East 52nd Street, New York, NY 10055

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 08/31/2012

Date of reporting period: 08/31/2012

Table of Contents

Item 1 Report to Stockholders

Table of Contents

August 31, 2012

Annual Report

BlackRock Municipal Bond Investment Trust (BIE)

BlackRock Municipal Bond Trust (BBK)

BlackRock Municipal Income Investment Quality Trust (BAF)

BlackRock Municipal Income Quality Trust (BYM)

BlackRock Municipal Income Trust II (BLE)

BlackRock MuniHoldings Investment Quality Fund (MFL)

BlackRock MuniVest Fund, Inc. (MVF)

Not FDIC Insured No Bank Guarantee May Lose Value

Table of Contents

Table of Contents

	Page
<u>Dear Shareholder</u>	3
Annual Report:	
<u>Municipal Market Overview</u>	4
<u>Trust Summaries</u>	5
<u>The Benefits and Risks of Leveraging</u>	12
<u>Derivative Financial Instruments</u>	13
Financial Statements:	
<u>Schedules of Investments</u>	14
<u>Statements of Assets and Liabilities</u>	46
<u>Statements of Operations</u>	47
<u>Statements of Changes in Net Assets</u>	48
<u>Statements of Cash Flows</u>	50
<u>Financial Highlights</u>	51
<u>Notes to Financial Statements</u>	58
<u>Report of Independent Registered Public Accounting Firm</u>	67
<u>Important Tax Information</u>	67
<u>Disclosure of Investment Advisory Agreements and Sub-Advisory Agreements</u>	68
<u>Automatic Dividend Reinvestment Plans</u>	72
<u>Officers and Trustees</u>	73
<u>Additional Information</u>	77

Table of Contents

Dear Shareholder

About this time one year ago, financial markets had been upended by sovereign debt turmoil in the United States and Europe as well as growing concerns about the future of the global economy. Since then, asset prices have waxed and waned in broad strokes as investors reacted to developments in Europe's financial situation, mixed US economic news and global central bank policy action.

After confidence crumbled in the third quarter of 2011, October brought improving economic data and more concerted efforts among European leaders toward stemming the region's debt crisis, gradually drawing investors back to the markets. Improving sentiment carried over into early 2012 as investors felt some relief from the world's financial woes. Volatility abated and risk assets (including stocks, commodities and high yield bonds) moved boldly higher through the first two months of 2012 while climbing Treasury yields pressured higher-quality fixed income assets.

Markets reversed course in the spring when Europe's debt problems boiled over once again. High levels of volatility returned as political instability in Greece threatened the country's membership in the euro zone. Spain faced severe deficit issues while the nation's banks clamored for liquidity. Yields on Spanish and Italian government debt rose to levels deemed unsustainable. European leaders conferred and debated vehemently over the need for fiscal integration among the 17 nations comprising the euro currency bloc as a means to resolve the crisis for the long term.

Alongside the drama in Europe, investors were discouraged by gloomy economic reports from various parts of the world. A slowdown in China, a key powerhouse for global growth, became particularly worrisome. In the United States, disappointing jobs reports dealt a crushing blow to sentiment. Risk assets sold off in the second quarter as investors again retreated to safe haven assets.

Despite the continuation of heightened market volatility, most asset classes enjoyed a robust summer rally. Global economic data continued to be mixed, but the spate of downside surprises seen in the second quarter began to recede and, outside of Europe, the risk of recession largely subsided. Central bank policy action has been a major driver of market sentiment in 2012. Investors' anticipation for economic stimulus drove asset prices higher over the summer as the European Central Bank stepped up its efforts to support the region's troubled nations and the US Federal Reserve reiterated its readiness to take action if economic conditions warrant.

On the whole, most asset classes advanced during the reporting period. US large cap stocks delivered strong returns for the 12 months ended August 31, 2012, while small cap stocks and high yield bonds also performed well. Despite the risk-asset rally in recent months, higher-quality investments including tax-exempt municipal bonds and US Treasury bonds posted exceptional gains by historical standards and outperformed investment-grade corporate bonds. International and emerging equities, however, lagged other asset classes amid ongoing global uncertainty. Near-zero short term interest rates kept yields on money market securities near their all-time lows.

We know that investors continue to face a world of uncertainty and volatile markets, but we also believe these challenging times present many opportunities. We remain committed to working with you and your financial professional to identify actionable ideas for your portfolio. We encourage you to visit www.blackrock.com/newworld for more information.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

We know that investors continue to face a world of uncertainty and volatile markets, but we also believe these challenging times present many opportunities.

Rob Kapito

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President, BlackRock Advisors, LLC

Total Returns as of August 31, 2012

	6-month	12-month
US large cap equities	4.14%	18.00%
(S&P 500® Index)		
US small cap equities (Russell 2000® Index)	0.89	13.40
International equities	(4.00)	(0.04)
(MSCI Europe, Australasia, Far East Index)		
Emerging market equities (MSCI Emerging Markets Index)	(10.51)	(5.80)
3-month Treasury bill	0.06	0.06
(BofA Merrill Lynch 3-Month US Treasury Bill Index)		
US Treasury securities	5.25	9.14
(BofA Merrill Lynch 10-Year US Treasury Index)		
US investment grade bonds (Barclays US Aggregate Bond Index)	2.97	5.78
Tax-exempt municipal bonds (S&P Municipal Bond Index)	3.24	9.37
US high yield bonds	4.80	13.84
(Barclays US Corporate High Yield 2% Issuer Capped Index)		

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

THIS PAGE NOT PART OF YOUR FUND REPORT

3

Table of Contents**Municipal Market Overview****For the 12-Month Period Ended August 31, 2012**

Municipal bonds delivered exceptional performance during the reporting period, with the S&P Municipal Bond Index gaining 9.37% for the 12 months ended August 31, 2012. In the later part of 2011, heightened volatility in equity markets led to increased demand for municipal bonds as investors flocked to more stable asset classes. The municipal market benefited from an exuberant Treasury market amid global uncertainty in addition to muted new issuance. Supply was constrained while demand from both traditional and non-traditional buyers was strong, pushing long-term municipal bond yields lower and sparking a curve-flattening trend that continued through year end. Ultimately, 2011 was one of the strongest performance years in municipal market history and municipal bonds outperformed most fixed income asset classes for the year.

Market conditions remained favorable even though supply picked up considerably in 2012. As the fiscal situation for municipalities continued to improve, the rate of new issuance came back in line with historical averages. Total new issuance for the first eight months of 2012 was \$253 billion as compared to \$288 billion for the entire year of 2011. It is important to note that refunding activity has accounted for a large portion of supply in 2012 as issuers refinanced their debt at lower interest rates. Refunding issues are easily absorbed by the market because when seasoned bonds are refinanced, issuers re-enter the market via cheaper and predominantly shorter-maturity financing. Investors, in turn, support these new issues with the proceeds from bond maturities or coupon payments.

Increased supply was met with the continuation of strong demand in 2012 as investors remained starved for yield in a low-rate environment. Investors poured into municipal bond mutual funds, particularly those with long-duration and high-yield investment mandates as they tend to provide higher levels of income. Year-to-date through August 2012, flows into municipal funds have totaled \$38.812 billion (according to the Investment Company Institute). Following an extensive period of significant outflows from late 2010 through mid-2011, these robust 2012 inflows are telling of the complete turnaround in confidence. Municipal market supply-and-demand technicals typically strengthen considerably upon the conclusion of tax season as net negative supply takes hold (i.e., more bonds are being called and maturing than being issued) and this theme remained intact for 2012. In the spring, a resurgence of concerns about Europe's financial crisis and weakening US economic data drove municipal bond yields lower and prices higher. In addition to income and capital preservation, investors were drawn to the asset class for its relatively low volatility. As global sentiment improved over the summer, municipal bonds outperformed the more volatile US Treasury market. Given these positive market factors, the S&P Municipal Bond Index has gained 5.99% year-to-date through August 31, 2012.

Overall, the municipal yield curve flattened during the period from August 31, 2011 to August 31, 2012. As measured by Thomson Municipal Market Data, yields declined by 100 basis points (bps) to 2.89% on AAA-rated 30-year municipal bonds and by 51 bps to 1.74% on 10-year bonds, while yields on 5-year issues fell 20 bps to 0.69%. While the entire municipal curve flattened over the 12-month time period, the spread between 2- and 30-year maturities tightened by 99 bps, and in the 2- to 10-year range, the spread tightened by 50 bps.

The fundamental picture for municipalities continues to improve. Austerity has been the general theme across the country as states set their budgets, although a small number of states continue to rely on a "kick-the-can" approach to close their budget gaps, using aggressive revenue projections and accounting gimmicks. It has been more than a year and a half since the fiscal problems plaguing state and local governments first became highly publicized and the prophecy of widespread defaults across the municipal market has not materialized. Year-to-date through August 2012, total outstanding municipal bonds entering into debt service cash-payment default for the first time had an aggregate par value of \$1.16 billion. This amount represents only 0.5% of total issuance for the same period and 0.031% of total municipal bonds outstanding. This compares favorably to data for the full year 2011 when first-time defaults totaled 0.84% of issuance and 0.065% of outstanding. (Data provided by Bank of America Merrill Lynch.) BlackRock maintains the view that municipal bond defaults will remain in the periphery and the overall market is fundamentally sound. We continue to recognize that careful credit research and security selection remain imperative amid uncertainty in this economic environment.

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

Table of Contents**Trust Summary** as of August 31, 2012**BlackRock Municipal Bond Investment Trust****Trust Overview**

BlackRock Municipal Bond Investment Trust's (BIE) (the Trust) investment objective is to provide current income exempt from regular federal income tax and Florida intangible personal property tax. The Trust seeks to achieve its investment objective by investing primarily in municipal bonds exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax). Under normal market conditions, the Trust invests at least 80% of its assets in municipal bonds that are investment grade quality at the time of investment. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust's investment objective will be achieved.

Performance

For the 12 months ended August 31, 2012, the Trust returned 24.21% based on market price and 22.36% based on net asset value (NAV). For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 22.25% based on market price and 18.93% based on NAV. All returns reflect reinvestment of dividends. The Trust's discount to NAV, which narrowed during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Trust's long duration posture (greater sensitivity to interest rates) contributed positively to performance as the municipal yield curve flattened (i.e., longer-term interest rates fell more than shorter rates) and bond prices moved higher on the long end of the curve. The Trust's longer-dated holdings in the health, transportation and utilities sectors experienced the strongest price appreciation. The Trust's small position in US Treasury futures as a strategy for hedging interest rate risk was a slight detractor from performance as rates generally declined during the period.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Information

Symbol on New York Stock Exchange (NYSE)	BIE
Initial Offering Date	April 30, 2002
Yield on Closing Market Price as of August 31, 2012 (\$16.61) ¹	5.85%
Tax Equivalent Yield ²	9.00%
Current Monthly Distribution per Common Share ³	\$0.081
Current Annualized Distribution per Common Share ³	\$0.972
Economic Leverage as of August 31, 2012 ⁴	39%

¹ Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

² Tax equivalent yield assumes the maximum federal tax rate of 35%.

³ The Monthly Distribution per Common Share, declared on October 1, 2012, was decreased to \$0.078 per share. The Yield on Closing Market Price, Current Monthly Distribution per Common Share and Current Annualized Distribution per Common Share do not reflect the new distribution rate. The new distribution rate is not constant and is subject to change in the future.

⁴ Represents Variable Rate Demand Preferred Shares (VRDP Shares) and tender option bond trusts (TOBs) as a percentage of total managed assets, which is the total assets of the Trust, including any assets attributable to VRDP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 12.

The table below summarizes the changes in the Trust's market price and NAV per share:

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	8/31/12	8/31/11	Change	High	Low
Market Price	\$ 16.61	\$ 14.22	16.81%	\$ 17.20	\$ 14.18
Net Asset Value	\$ 16.88	\$ 14.67	15.06%	\$ 16.93	\$ 14.67

The following charts show the sector and credit quality allocations of the Trust's long-term investments:

Sector Allocations

	8/31/12	8/31/11
County/City/Special District/School District	19%	17%
Transportation	18	21
Health	17	23
Utilities	16	19
Education	12	7
State	12	6
Housing	4	5
Corporate	1	1
Tobacco	1	1

Credit Quality Allocations⁵

	8/31/12	8/31/11
AAA/Aaa	15%	10%
AA/Aa	60	62
A	20	21
BBB/Baa	5	6
BB/Ba		1

⁵ Using the higher of Standard & Poor's (S&P's) or Moody's Investors Service (Moody's) ratings.

Table of Contents**Trust Summary** as of August 31, 2012**BlackRock Municipal Bond Trust****Trust Overview**

BlackRock Municipal Bond Trust's (BBK) (the Trust) investment objective is to provide current income exempt from regular federal income tax. The Trust seeks to achieve its investment objective by investing primarily in municipal bonds exempt from regular federal income taxes (except that the interest may be subject to the federal alternative minimum tax). The Trust invests, under normal market conditions, at least 80% of its assets in municipal bonds that are investment grade quality. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust's investment objective will be achieved.

Performance

For the 12 months ended August 31, 2012, the Trust returned 23.45% based on market price and 23.96% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 22.25% based on market price and 18.93% based on NAV. All returns reflect reinvestment of dividends. The Trust's premium to NAV, which narrowed during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Trust's neutral-to-long average duration (greater sensitivity to interest rates) contributed positively to performance as interest rates generally declined over the one-year period. A preference for longer-dated maturities enhanced returns as the municipal yield curve flattened (long-term interest rates fell more than short and intermediate rates). The Trust benefited from a tightening of credit spreads during the period, with particularly strong performance from its allocations to the health sector. Narrowing spreads also bode well for the Trust's holdings of lower-coupon bonds, which tend to offer higher yield and duration relative to their stated maturity. However, the Trust held limited exposure to tobacco, which was the strongest performing sector during the period. The Trust's small position in US Treasury futures as a strategy for hedging interest rate risk was a slight detractor from performance as rates generally declined during the period.

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Trust Information

Symbol on NYSE	BBK
Initial Offering Date	April 30, 2002
Yield on Closing Market Price as of August 31, 2012 (\$17.16) ¹	5.84%
Tax Equivalent Yield ²	8.98%
Current Monthly Distribution per Common Share ³	\$0.0835
Current Annualized Distribution per Common Share ³	\$1.0020
Economic Leverage as of August 31, 2012 ⁴	35%

¹ Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

² Tax equivalent yield assumes the maximum federal tax rate of 35%.

³ The distribution rate is not constant and is subject to change.

⁴ Represents Variable Rate Muni Term Preferred Shares (VMTP Shares) and TOBs as a percentage of total managed assets, which is the total assets of the Trust, including any assets attributable to VMTP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 12.

The table below summarizes the changes in the Trust's market price and NAV per share:

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	8/31/12	8/31/11	Change	High	Low
Market Price	\$ 17.16	\$ 14.86	15.48%	\$ 17.91	\$ 14.80
Net Asset Value.	\$ 16.79	\$ 14.48	15.95%	\$ 16.79	\$ 14.48

The following charts show the sector and credit quality allocations of the Trust's long-term investments:

Sector Allocations

	8/31/12	8/31/11
Health	25%	21%
State	14	14
County/City/Special District/School District	13	12
Transportation	13	10
Education	11	10
Utilities	8	7
Housing	8	14
Corporate	5	10
Tobacco	3	2

Credit Quality Allocations⁵

	8/31/12	8/31/11
AAA/Aaa	9%	11%
AA/Aa	35	35
A	26	18
BBB/Baa	18	22
BB/Ba	4	1
B	2	6
CCC/Caa		1
Not Rated ⁶	6	6

⁵ Using the higher of S&P's or Moody's ratings.

⁶ The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of August 31, 2012 and August 31, 2011, the market value of these securities was \$3,199,110, representing 1%, and \$4,464,558, representing 2%, respectively, of the Trust's long-term investments.

Table of Contents**Trust Summary** as of August 31, 2012**BlackRock Municipal Income Investment Quality Trust****Trust Overview**

BlackRock Municipal Income Investment Quality Trust's (BAF) (the Trust) investment objective is to provide current income exempt from federal income tax, including the alternative minimum tax and Florida intangible property tax. The Trust seeks to achieve its investment objective by investing, under normal circumstances, at least 80% of its assets in municipal bonds exempt from federal income taxes, including the alternative minimum tax. The Trust also invests at least 80% of its assets in municipal bonds that are investment grade quality at the time of investment. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust's investment objective will be achieved.

Performance

For the 12 months ended August 31, 2012, the Trust returned 23.59% based on market price and 20.76% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 22.25% based on market price and 18.93% based on NAV. All returns reflect reinvestment of dividends. The Trust's discount to NAV, which narrowed during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Trust's long duration posture (greater sensitivity to interest rates) contributed positively to performance as the municipal yield curve flattened (i.e., longer-term interest rates fell more than shorter rates) and bond prices moved higher on the long end of the curve. The Trust's longer-dated holdings in the health, transportation and utilities sectors experienced the strongest price appreciation. The Trust's small position in US Treasury futures as a strategy for hedging interest rate risk was a slight detractor from performance as rates generally declined during the period.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Information

Symbol on NYSE	BAF
Initial Offering Date	October 31, 2002
Yield on Closing Market Price as of August 31, 2012 (\$16.24) ¹	5.36%
Tax Equivalent Yield ²	8.25%
Current Monthly Distribution per Common Share ³	\$0.0725
Current Annualized Distribution per Common Share ³	\$0.8700
Economic Leverage as of August 31, 2012 ⁴	35%

¹ Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

² Tax equivalent yield assumes the maximum federal tax rate of 35%.

³ The Monthly Distribution per Common Share, declared on October 1, 2012, was decreased to \$0.0685 per share. The Yield on Closing Market Price, Current Monthly Distribution per Common Share and Current Annualized Distribution per Common Share do not reflect the new distribution rate. The new distribution rate is not constant and is subject to change in the future.

⁴ Represents VMTP Shares and TOBs as a percentage of total managed assets, which is the total assets of the Trust, including any assets attributable to VMTP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 12.

The table below summarizes the changes in the Trust's market price and NAV per share:

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	8/31/12	8/31/11	Change	High	Low
Market Price	\$ 16.24	\$ 13.92	16.67%	\$ 16.92	\$ 13.76
Net Asset Value	\$ 16.53	\$ 14.50	14.00%	\$ 16.61	\$ 14.50

The following charts show the sector and credit quality allocations of the Trust's long-term investments:

Sector Allocations

	8/31/12	8/31/11
County/City/Special District/School District	29%	34%
Utilities	20	22
Transportation	19	16
Health	12	9
Education	10	9
State	8	8
Housing	1	1
Tobacco	1	1

Credit Quality Allocations⁵

	8/31/12	8/31/11
AAA/Aaa	11%	14%
AA/Aa	74	70
A	14	12
BBB/Baa	1	4

⁵ Using the higher of S&P's or Moody's ratings.

Table of Contents**Trust Summary** as of August 31, 2012**BlackRock Municipal Income Quality Trust****Trust Overview**

BlackRock Municipal Income Quality Trust's (BYM) (the Trust) investment objective is to provide current income exempt from federal income taxes, including the alternative minimum tax. The Trust seeks to achieve its investment objective by investing, under normal circumstances, at least 80% of its assets in municipal bonds exempt from federal income taxes, including the alternative minimum tax. The Trust also invests at least 80% of its assets in municipal bonds that are investment grade quality at the time of investment. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust's investment objective will be achieved.

Performance

For the 12 months ended August 31, 2012, the Trust returned 28.40% based on market price and 21.54% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 22.25% based on market price and 18.93% based on NAV. All returns reflect reinvestment of dividends. The Trust moved from a discount to NAV to a premium by period end, which accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. Over the one-year period, the Trust benefited from the declining interest rate environment (bond prices rise when interest rates fall), the flattening of the yield curve (long-term rates fell more than short and intermediate rates) and the tightening of credit spreads. The Trust's exposure to zero-coupon bonds and the health sector had a positive impact on performance as these types of bonds derived the greatest benefit from the decline in interest rates and spread tightening. The Trust's small position in US Treasury futures as its strategy for hedging interest rate risk was a modest detractor from performance as rates generally declined during the period.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Information

Symbol on NYSE	BYM
Initial Offering Date	October 31, 2002
Yield on Closing Market Price as of August 31, 2012 (\$16.73) ¹	5.59%
Tax Equivalent Yield ²	8.60%
Current Monthly Distribution per Common Share ³	\$0.078
Current Annualized Distribution per Common Share ³	\$0.936
Economic Leverage as of August 31, 2012 ⁴	36%

¹ Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

² Tax equivalent yield assumes the maximum federal tax rate of 35%.

³ The distribution rate is not constant and is subject to change.

⁴ Represents VMTP Shares and TOBs as a percentage of total managed assets, which is the total assets of the Trust, including any assets attributable to VMTP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 12.

The table below summarizes the changes in the Trust's market price and NAV per share:

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	8/31/12	8/31/11	Change	High	Low
Market Price	\$ 16.73	\$ 13.85	20.79%	\$ 17.02	\$ 13.76
Net Asset Value	\$ 16.11	\$ 14.09	14.34%	\$ 16.15	\$ 14.09

The following charts show the sector and credit quality allocations of the Trust's long-term investments:

Sector Allocations

	8/31/12	8/31/11
Transportation	21%	24%
County/City/Special District/School District	19	18
Utilities	19	21
State	17	14
Health	9	8
Education	6	6
Tobacco	5	6
Corporate	3	2
Housing	1	1

Credit Quality Allocations⁵

	8/31/12	8/31/11
AAA/Aaa	17%	21%
AA/Aa	55	58
A	19	13
B	1	
BBB/Baa	7	8
Not Rated	1 ⁶	

⁵ Using the higher of S&P's or Moody's ratings.

⁶ The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of August 31, 2012, the market value of these securities was \$8,360,761, representing 1% of the Trust's long-term investments.

Table of Contents**Trust Summary** as of August 31, 2012**BlackRock Municipal Income Trust II****Trust Overview**

BlackRock Municipal Income Trust II's (BLE) (the Trust) investment objective is to provide current income exempt from regular federal income tax. The Trust seeks to achieve its investment objective by investing primarily in municipal bonds exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax). The Trust invests, under normal market conditions, at least 80% of its assets in municipal bonds that are investment grade quality at the time of investment. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust's investment objective will be achieved.

Performance

For the 12 months ended August 31, 2012, the Trust returned 26.61% based on market price and 23.25% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 22.25% based on market price and 18.93% based on NAV. All returns reflect reinvestment of dividends. The Trust's premium to NAV, which widened during the period, accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Trust's long duration (greater sensitivity to interest rates) contributed positively to performance as interest rates generally declined over the one-year period. A preference for longer-dated maturities enhanced returns as the municipal yield curve flattened (long-term interest rates fell more than short and intermediate rates). The Trust's heavier concentrations in the strong-performing health and transportation sectors had a positive impact, as did exposure to lower-quality issues as credit spreads tightened during the period. However, the Trust held limited exposure to tobacco, which outperformed the broader market. The Trust's small position in US Treasury futures as a strategy for hedging interest rate risk was a slight detractor from performance as rates generally declined during the period.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Information

Symbol on NYSE Amex	BLE
Initial Offering Date	July 30, 2002
Yield on Closing Market Price as of August 31, 2012 (\$16.74) ¹	6.09%
Tax Equivalent Yield ²	9.37%
Current Monthly Distribution per Common Share ³	\$0.085
Current Annualized Distribution per Common Share ³	\$1.020
Economic Leverage as of August 31, 2012 ⁴	39%

¹ Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

² Tax equivalent yield assumes the maximum federal tax rate of 35%.

³ The distribution rate is not constant and is subject to change.

⁴ Represents VMTP Shares and TOBs as a percentage of total managed assets, which is the total assets of the Trust, including any assets attributable to VMTP Shares and TOBs, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Trust, please see The Benefits and Risks of Leveraging on page 12.

The table below summarizes the changes in the Trust's market price and NAV per share:

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	8/31/12	8/31/11	Change	High	Low
Market Price	\$ 16.74	\$ 14.13	18.47%	\$ 17.05	\$ 13.85
Net Asset Value	\$ 16.10	\$ 13.96	15.33%	\$ 16.11	\$ 13.96

The following charts show the sector and credit quality allocations of the Trust's long-term investments:

Sector Allocations

	8/31/12	8/31/11
Health	18%	21%
Transportation	17	13
State	16	16
Utilities	15	13
County/City/Special District/School District	11	10
Education	9	8
Corporate	7	10
Tobacco	4	4
Housing	3	5

Credit Quality Allocations⁵

	8/31/12	8/31/11
AAA/Aaa	13%	10%
AA/Aa	36	32
A	25	26
BBB/Baa	17	16
BB/Ba	2	5
B	1	4
Not Rated ⁶	6	7

⁵ Using the higher of S&P's or Moody's ratings.

⁶ The investment advisor has deemed certain of these non-rated securities to be of investment grade quality. As of August 31, 2012 and August 31, 2011, the market value of these securities was \$12,361,560 and \$11,677,703, each representing 2%, respectively, of the Trust's long-term investments.

Table of Contents**Trust Summary** as of August 31, 2012**BlackRock MuniHoldings Investment Quality Fund****Trust Overview**

BlackRock MuniHoldings Investment Quality Fund's (MFL) (the Trust) investment objective is to provide shareholders with current income exempt from federal income tax and to provide shareholders with the opportunity to own shares the value of which is exempt from Florida intangible personal property tax. The Trust seeks to achieve its investment objective by investing primarily in long-term, investment grade municipal obligations exempt from federal income taxes (except that the interest may be subject to the federal alternative minimum tax). Under normal market conditions, the Trust invests at least 80% of its assets in municipal obligations with remaining maturities of one year or more at the time of investment. The Trust may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Trust's investment objective will be achieved.

Performance

For the 12 months ended August 31, 2012, the Trust returned 23.93% based on market price and 21.22% based on NAV. For the same period, the closed-end Lipper General & Insured Municipal Debt Funds (Leveraged) category posted an average return of 22.25% based on market price and 18.93% based on NAV. All returns reflect reinvestment of dividends. The Fund moved from a discount to NAV to a premium by period end, which accounts for the difference between performance based on price and performance based on NAV. The following discussion relates to performance based on NAV. The Trust's long duration posture (greater sensitivity to interest rates) contributed positively to performance as the municipal yield curve flattened (i.e., longer-term interest rates fell more than shorter rates) and bond prices moved higher on the long end of the curve. The Trust's longer-dated holdings in the health, transportation and utilities sectors experienced the strongest price appreciation. The Trust's small position in US Treasury futures as a strategy for hedging interest rate risk was a slight detractor from performance as rates generally declined during the period.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Trust Information

Symbol on NYSE	MFL
Initial Offering Date	September 26, 1997
Yield on Closing Market Price as of August 31, 2012 (\$16.13) ¹	5.69%
Tax Equivalent Yield ²	8.75%
Current Monthly Distribution per Common Share ³	\$0.0765
Current Annualized Distribution per Common Share ³	\$0.9180
Economic Leverage as of August 31, 2012 ⁴	40%

¹ Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

² Tax equivalent yield assumes the maximum federal tax rate of 35%.

³ The distribution rate is not constant and is subject to change.

⁴ Represents VRDP Shares and TOBs as a percentage of total managed assets, whi