Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This report, and other statements that BlackRock may make, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act, with respect to BlackRock's future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as "trend," "potential," "opportunity," "pipeline," "believe," "comfortable," "expect," "anticipate," "current," "intention," "estimate," "position," "assume," "outlook," "continue," "remain," "maintain," "sustain," "seek," "achieve," and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may" and similar expressions.

BlackRock cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made, and BlackRock assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

In addition to risk factors previously disclosed in BlackRock's Securities and Exchange Commission ("SEC") reports and those identified elsewhere in this report, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: (1) the introduction, withdrawal, success and timing of business initiatives and strategies; (2) changes and volatility in political, economic or industry conditions, the interest rate environment, foreign exchange rates or financial and capital markets, which could result in changes in demand for products or services or in the value of assets under management ("AUM"); (3) the relative and absolute investment performance of BlackRock's investment products; (4) the impact of increased competition; (5) the impact of future acquisitions or divestitures; (6) the unfavorable resolution of legal proceedings; (7) the extent and timing of any share repurchases; (8) the impact, extent and timing of technological changes and the adequacy of intellectual property, information and cyber security protection; (9) the impact of legislative and regulatory actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, and regulatory, supervisory or enforcement actions of government agencies relating to BlackRock or The PNC Financial Services Group, Inc. ("PNC"); (10) terrorist activities, international hostilities and natural disasters, which may adversely affect the general economy, domestic and local financial and capital markets, specific industries or BlackRock; (11) the ability to attract and retain highly talented professionals; (12) fluctuations in the carrying value of BlackRock's economic investments; (13) the impact of changes to tax legislation, including income, payroll and transaction taxes, and taxation on products or transactions, which could affect the value proposition to clients and, generally, the tax position of the Company; (14) BlackRock's success in maintaining the distribution of its products; (15) the impact of BlackRock electing to provide support to its products from time to time and any potential liabilities related to securities lending or other indemnification obligations; and (16) the impact of problems at other financial institutions or the failure or negative performance of products at other financial institutions.

OVERVIEW

BlackRock, Inc. (together, with its subsidiaries, unless the context otherwise indicates, "BlackRock" or the "Company") is a leading publicly traded investment management firm with $4.652 trillion of AUM at December 31, 2014. With approximately 12,200 employees in more than 30 countries, BlackRock provides a broad range of investment and risk management services to institutional and retail clients worldwide.

For further information see Note 1, *Introduction and Basis of Presentation*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K.

EXECUTIVE SUMMARY

(in millions, except per share data)	2014	2013	2012
GAAP basis:			
Total revenue	**$ 11,081**	$ 10,180	$ 9,337
Total expense	**6,607**	6,323	5,813
Operating income	**$ 4,474**	$ 3,857	$ 3,524
Operating margin	**40.4%**	37.9%	37.7%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests(1)	**(49)**	97	(36)
Income tax expense	**(1,131)**	(1,022)	(1,030)
Net income attributable to BlackRock	**$ 3,294**	$ 2,932	$ 2,458
% attributable to common shares	**100.0%**	100.0%	99.9%
Net income attributable to common shares	**$ 3,294**	$ 2,932	$ 2,455
Diluted earnings per common share	**$ 19.25**	$ 16.87	$ 13.79
Effective tax rate	**25.6%**	25.8%	29.5%
As adjusted(2):			
Total revenue	**$ 11,081**	$ 10,180	$ 9,337
Total expense	**6,518**	6,156	5,763
Operating income	**$ 4,563**	$ 4,024	$ 3,574
Operating margin	**42.9%**	41.4%	40.4%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests(1)	**(56)**	7	(42)
Income tax expense	**(1,197)**	(1,149)	(1,094)
Net income attributable to BlackRock	**$ 3,310**	$ 2,882	$ 2,438
% attributable to common shares	**100.0%**	100.0%	99.9%
Net income attributable to common shares	**$ 3,310**	$ 2,882	$ 2,435
Diluted earnings per common share	**$ 19.34**	$ 16.58	$ 13.68
Effective tax rate	**26.6%**	28.5%	31.0%
Other:			
Assets under management (end of period)	**$ 4,651,895**	$ 4,324,088	$ 3,791,588
Diluted weighted-average common shares outstanding(3)	**171,112,261**	173,828,902	178,017,679
Common and preferred shares outstanding (end of period)	**166,921,863**	168,724,763	171,215,729
Book value per share(4)	**$ 164.06**	$ 156.69	$ 148.20
Cash dividends declared and paid per share	**$ 7.72**	$ 6.72	$ 6.00

(1) Net of net income (loss) attributable to noncontrolling interests ("NCI") (redeemable and nonredeemable).

(2) As adjusted items are described in more detail in *Non-GAAP Financial Measures*.

(3) Nonvoting participating preferred shares are considered to be common stock equivalents for purposes of determining basic and diluted earnings per share calculations. In addition, unvested restricted stock units ("RSUs") that contain nonforfeitable rights to dividends are not included for 2012 as they were deemed to be participating securities in accordance with accounting principles generally accepted in the United States ("GAAP"). Upon vesting of the participating RSUs, the shares were added to the weighted-average shares outstanding that resulted in an increase to the percentage of net income attributable to common shares. The Company's remaining participating securities vested in January 2013.

(4) Total BlackRock stockholders' equity, excluding an appropriated retained deficit of $19 million for 2014 and appropriated retained earnings of $22 million and $29 million for 2013 and 2012, respectively, divided by total common and preferred shares outstanding at December 31 of the respective year-end.

2014 COMPARED WITH 2013

GAAP. Operating income of $4,474 million increased $617 million from 2013, reflecting growth in base fees and *BlackRock Solutions* and advisory revenue, partially offset by higher expense. The Company's 2014 expense reflected higher revenue-related expense, including compensation and direct fund expense. Expense for 2014 also included a $50 million reduction of an indemnification asset recorded in general and administration expense (offset by a $50 million tax benefit—see *Income Tax Expense* within *Discussion of Financial Results* for more information) and $11 million of closed-end fund launch costs. The 2013 expense included $124 million of expense related to the Charitable Contribution described below and $18 million of closed-end fund launch costs.

Nonoperating income (expense), less net income (loss) attributable to NCI, decreased $146 million from 2013. The prior year included a $39 million noncash, nonoperating pre-tax gain related to the carrying value of the Company's equity method investment as a result of an initial public offering of PennyMac Financial Services, Inc. (the "PennyMac IPO"). In addition, in 2013, the Company made a charitable contribution of approximately six million units of the Company's investment in PennyMac to a donor advised fund (the "Charitable Contribution"). In connection with the Charitable Contribution, the Company also recorded a noncash, nonoperating pre-tax gain of $80 million related to the contributed investment. The decrease in nonoperating income (expense) also reflected net lower returns on the co-investment and seed portfolio and higher interest expense resulting from a long-term debt issuance in March 2014, partially offset by the positive impact of the monetization of a nonstrategic, opportunistic private equity investment during 2014.

Income tax expense of $1,131 million included $94 million of tax benefits, including the $50 million tax benefit mentioned above. Income tax expense for 2014 and 2013 reflected the revaluation of deferred income tax liabilities related to intangible assets and goodwill. Income tax expense for 2014 included a $9 million net noncash tax benefit arising primarily from state and local income tax changes and a $73 million net tax benefit related to several favorable nonrecurring items. Income tax expense for 2013 included a $69 million noncash tax benefit, primarily related to legislation enacted in the United Kingdom and state and local income tax changes. In addition, 2013 income tax expense included a tax benefit of approximately $48 million recognized in connection with the Charitable Contribution, a tax benefit of approximately $29 million, primarily due to the realization of tax loss carryforwards, and benefits from certain nonrecurring items.

Earnings per diluted common share rose $2.38, or 14%, from 2013 due to higher net income and the benefit of share repurchases.

As Adjusted. Operating income of $4,563 million and operating margin of 42.9% increased $539 million and 150 basis points, respectively, from 2013. The current year results excluded a $50 million general and administrative expense related to the reduction of an indemnification asset. The 2014 income tax expense included a $73 million net tax benefit and excluded a $50 million tax benefit associated with the reduction of the same indemnification asset and $9 million of net noncash benefits described above. The 2013 results excluded the financial impact of the Charitable Contribution, but included the $39 million pre-tax nonoperating gain related to the PennyMac IPO. The 2013 income tax expense included a tax benefit of approximately $29 million and benefits from certain nonrecurring items and excluded the $69 million net noncash benefit, described above. Earnings per diluted common share rose $2.76, or 17%, from 2013.

2013 COMPARED WITH 2012

GAAP. Operating income of $3,857 million increased $333 million from 2012, reflecting growth in base fees, strong performance fees and higher *BlackRock Solutions* and advisory revenue, partially offset by higher expenses, primarily due to the previously mentioned $124 million expense related to the Charitable Contribution and higher revenue-related expense. Operating income in 2012 included a $30 million charge related to a contribution to certain of the Company's bank-managed short-term investment funds ("STIFs"). Nonoperating income (expense), less net income (loss) attributable to NCI, increased $133 million due to the $39 million pre-tax gain related to the PennyMac IPO and the $80 million related to the Charitable Contribution and higher net positive marks on investments during 2013 compared with 2012. Income tax expense included a $69 million net noncash benefit for 2013 and a $30 million net noncash benefit for 2012. The net noncash benefits for both periods primarily related to the revaluation of certain deferred income tax liabilities, including legislation enacted in the United Kingdom and domestic state and local income tax changes. In addition, 2013 income tax expense included a tax benefit of approximately $48 million recognized in connection with the Charitable Contribution, a tax benefit of approximately $29 million, primarily due to the realization of tax loss carryforwards and benefits from certain nonrecurring items. Earnings per diluted common share rose $3.08, or 22%, compared with 2012 due to higher net income and the benefit of share repurchases.

As Adjusted. Operating income of $4,024 million and operating margin of 41.4% increased $450 million and 100 basis points, respectively, from 2012. The current year results included the previously mentioned $39 million pre-tax nonoperating gain related to the PennyMac IPO. Income tax expense included a tax benefit of approximately $29 million, primarily due to the realization of tax loss carryforwards, and benefits from certain nonrecurring items and excluded the $69 million net noncash benefit in 2013 and the $30 million net noncash benefit in 2012 described above. Earnings per diluted common share rose $2.90, or 21%, from 2012. The financial impact related to the Charitable Contribution has been excluded from as adjusted results for 2013.

See *Non-GAAP Financial Measures* for further information on as adjusted items.

For further discussion of BlackRock's revenue, expense, nonoperating results and income tax expense, see *Discussion of Financial Results* herein.

BUSINESS OUTLOOK

BlackRock's highly diversified multi-product platform was created to meet the needs of its clients in all market environments. BlackRock is positioned to provide active and index investment solutions across asset classes and geographies and leverage *BlackRock Solutions'* world-class risk management, analytics and advisory capabilities on behalf of clients. BlackRock serves a diverse mix of institutional and retail clients across the globe, including investors in *iShares* ETFs, maintaining differentiated client relationships and a fiduciary focus.

BlackRock's Retail strategy is focused on an outcome-oriented approach to creating client solutions, including active, index and alternative products, and enhanced distribution. In the United States, BlackRock is leveraging its integrated wholesaler force to further penetrate wirehouse distribution platforms and gain share amongst registered investment advisors. Internationally, BlackRock continues to diversify the range of investment solutions available to clients, penetrate new distribution channels and capitalize on regulatory change impacting retrocession arrangements.

iShares growth strategy is centered on increasing global *iShares* market share and driving global market expansion. BlackRock will seek to achieve these goals by pursuing global growth themes in client and product segments including core investments, financial instruments and precision exposures.

BlackRock believes Institutional results will be driven by strength in specialty areas, including Defined Contribution, Financial Institutions, Official Institutions and Foundations, Family Offices and Endowments; deepening client relationships through effective cross-selling efforts; enhancing BlackRock's solutions-oriented approach and leveraging *BlackRock Solutions'* analytical and risk management expertise.

Assuming a stable market environment, BlackRock anticipates that organic growth, coupled with the benefits of scale, should result in increasing operating margins over time.

BlackRock believes that earnings growth and shareholder returns should also be positively impacted by the Company's commitment to a consistent and predictable capital management strategy.

NON-GAAP FINANCIAL MEASURES

BlackRock reports its financial results in accordance with GAAP; however, management believes evaluating the Company's ongoing operating results may be enhanced if investors have additional non-GAAP financial measures. Management reviews non-GAAP financial measures to assess ongoing operations and, for the reasons described below, considers them to be effective indicators, for both management and investors, of BlackRock's financial performance over time. BlackRock's management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

Computations for all periods are derived from the consolidated statements of income as follows:

(1) Operating income, as adjusted, and operating margin, as adjusted:

Operating income, as adjusted, equals operating income, GAAP basis, excluding certain items management deems nonrecurring, recurring infrequently or transactions that ultimately will not impact BlackRock's book value. Management believes operating income, as adjusted, and operating margin, as adjusted, are effective indicators of BlackRock's financial performance over time and, therefore, provide useful disclosure to investors.

(in millions)	2014	2013	2012
Operating income, GAAP basis	**$ 4,474**	$ 3,857	$ 3,524
Non-GAAP expense adjustments:			
PNC LTIP funding obligation	**32**	33	22
Reduction of indemnification asset	**50**	—	—
Charitable Contribution	**—**	124	—
U.K. lease exit costs	**—**	—	(8)
Contribution to STIFs	**—**	—	30
Compensation expense related to appreciation (depreciation) on deferred compensation plans	**7**	10	6
Operating income, as adjusted	**4,563**	4,024	3,574
Closed-end fund launch costs	**10**	16	22
Closed-end fund launch commissions	**1**	2	3
Operating income used for operating margin measurement	**$ 4,574**	$ 4,042	$ 3,599
Revenue, GAAP basis	**$ 11,081**	$ 10,180	$ 9,337
Non-GAAP adjustments:			
Distribution and servicing costs	**(364)**	(353)	(364)
Amortization of deferred sales commissions	**(56)**	(52)	(55)
Revenue used for operating margin measurement	**$ 10,661**	$ 9,775	$ 8,918
Operating margin, GAAP basis	**40.4%**	37.9%	37.7%
Operating margin, as adjusted	**42.9%**	41.4%	40.4%

- **Operating income, as adjusted,** includes non-GAAP expense adjustments. The portion of compensation expense associated with certain long-term incentive plans ("LTIP") funded, or to be funded, through share distributions to participants of BlackRock stock held by PNC has been excluded because it ultimately does not impact BlackRock's book value. In 2014, general and administration expense relating to the reduction of an indemnification asset has been excluded since it is directly offset by a tax benefit of the same amount and, consequently, does not impact BlackRock's book value. In 2013, the $124 million expense related to the Charitable Contribution has been excluded from operating income, as adjusted, due to its nonrecurring nature and because the noncash, nonoperating pre-tax gain of $80 million directly related to the contributed PennyMac investment is reported in nonoperating income (expense). The U.K. lease exit amount in 2012 represents an adjustment related to the estimated lease exit costs initially recorded in 2011 and the contribution to STIFs represents a contribution to certain of the Company's bank-managed STIFs. Both the U.K. lease exit amount and contribution to STIFs have been excluded from operating income, as adjusted due to their nonrecurring nature. Compensation expense associated with appreciation (depreciation) on investments related to certain BlackRock deferred compensation plans has been excluded as returns on investments set aside for these plans, which substantially offset this expense, are reported in nonoperating income (expense).

Management believes operating income exclusive of these items is a useful measure in evaluating BlackRock's operating performance and helps enhance the comparability of this information for the reporting periods presented.

- **Operating margin, as adjusted,** allows BlackRock to compare performance from period to period by adjusting for items that may not recur, recur infrequently or may have an economic offset in nonoperating income (expense). BlackRock also uses operating margin, as adjusted, to monitor corporate performance and efficiency and as a benchmark to compare its performance with other companies. Management uses both GAAP and non-GAAP financial measures in evaluating BlackRock's financial performance. The non-GAAP measure by itself may pose limitations because it does not include all of BlackRock's revenue and expense.

Operating income used for measuring operating margin, as adjusted, is equal to operating income, as adjusted, excluding the impact of closed-end fund launch costs and related commissions. Management believes the exclusion of such costs and related commissions is useful because these costs can fluctuate considerably and revenue associated with the expenditure of these costs will not fully impact BlackRock's results until future periods.

Revenue used for operating margin, as adjusted, excludes distribution and servicing costs paid to related parties and other third parties. Management believes the exclusion of such costs is useful because it creates consistency in the treatment for certain contracts for similar services, which due to the terms of the contracts, are accounted for under GAAP on a net basis within investment advisory, administration fees and securities lending revenue. Amortization of deferred sales commissions is excluded from revenue used for operating margin measurement, as adjusted, because such costs, over time, substantially offset distribution fee revenue the Company earns. For each of these items, BlackRock excludes from revenue used for operating margin, as adjusted, the costs related to each of these items as a proxy for such offsetting revenue.

(2) Nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted,

Nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted, equals nonoperating income (expense), GAAP basis, less net income (loss) attributable to NCI, adjusted for compensation expense associated with (appreciation) depreciation on investments related to certain BlackRock deferred compensation plans. The compensation expense offset is recorded in operating income. This compensation expense has been included in nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted, to offset returns on investments set aside for these plans, which are reported in nonoperating income (expense), GAAP basis.

Management believes nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted, provides comparability of information among reporting periods and is an effective measure for reviewing BlackRock's nonoperating contribution to results. As compensation expense associated with (appreciation) depreciation on investments related to certain deferred compensation plans, which is included in operating income, substantially offsets the gain (loss) on the investments set aside for these plans, management believes nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted, provides a useful measure, for both management and investors, of BlackRock's nonoperating results that impact book value. During 2013, the noncash, nonoperating pre-tax gain of $80 million related to the contributed PennyMac investment has been excluded from nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted due to its nonrecurring nature and because the more than offsetting associated Charitable Contribution expense of $124 million is reported in operating income.

(in millions)	2014	2013	2012
Nonoperating income (expense), GAAP basis	**$ (79)**	$ 116	$ (54)
Less: Net income (loss) attributable to NCI	**(30)**	19	(18)
Nonoperating income (expense), net of NCI	**(49)**	97	(36)
Gain related to Charitable Contribution	**—**	(80)	—
Compensation expense related to (appreciation) depreciation on deferred compensation plans	**(7)**	(10)	(6)
Nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted	**$ (56)**	$ 7	$ (42)

(3) Net income attributable to BlackRock, as adjusted:

Management believes net income attributable to BlackRock, Inc., as adjusted, and diluted earnings per common share, as adjusted, are useful measures of BlackRock's profitability and financial performance. Net income attributable to BlackRock, Inc., as adjusted, equals net income attributable to BlackRock, Inc., GAAP basis, adjusted for significant nonrecurring items, charges that ultimately will not impact BlackRock's book value or certain tax items that do not impact cash flow.

(in millions, except per share data)	2014	2013	2012
Net income attributable to BlackRock, GAAP basis	**$ 3,294**	$ 2,932	$2,458
Non-GAAP adjustments, net of tax:			
PNC LTIP funding obligation	**25**	23	14
Income tax matters	**(9)**	(69)	(50)
Amount related to the Charitable Contribution	**—**	(4)	—
U.K. lease exit costs	**—**	—	(5)
Contribution to STIFs	**—**	—	21
Net income attributable to BlackRock, as adjusted	**$ 3,310**	$ 2,882	$2,438
Allocation of net income, as adjusted, to common shares[4]	**$ 3,310**	$ 2,882	$2,435
Diluted weighted-average common shares outstanding[5]	**171.1**	173.8	178.0
Diluted earnings per common share, GAAP basis[5]	**$ 19.25**	$ 16.87	$13.79
Diluted earnings per common share, as adjusted[5]	**$ 19.34**	$ 16.58	$13.68

See aforementioned discussion regarding operating income, as adjusted, and operating margin, as adjusted, for information on the PNC LTIP funding obligation, Charitable Contribution, U.K. lease exit costs and contribution to STIFs.

For each period presented, the non-GAAP adjustments, including the PNC LTIP funding obligation, U.K. lease exit costs and contribution to STIFs were tax effected at the respective blended rates applicable to the adjustments. Amounts for 2013 included a tax benefit of approximately $48 million recognized in connection with the Charitable Contribution. The tax benefit has been excluded from net income attributable to BlackRock, Inc., as adjusted due to the nonrecurring nature of the Charitable Contribution.

Non-GAAP adjustments for 2014, 2013 and 2012 reflected the revaluation of deferred income tax liabilities related to intangible assets and/or goodwill. The amount for 2014 included a $9 million net noncash tax benefit arising primarily from state and local income tax changes. The amount for 2013 included a $69 million noncash tax benefit, primarily related to legislation enacted in the United Kingdom and state and local income tax changes. The amount for 2012 included a $50 million noncash tax benefit, primarily related to the effect of legislation enacted in the United Kingdom and the state and local income tax effect resulting from changes in the Company's organizational structure. Such amounts for 2014, 2013 and 2012 have been excluded from as adjusted results as they will not have a cash flow impact and to ensure comparability among periods presented.

(4) Amounts for 2012 exclude net income attributable to participating securities (see below).

(5) Nonvoting participating preferred stock is considered to be a common stock equivalent for purposes of determining basic and diluted earnings per share calculations.

Prior to 2013, certain unvested RSUs were not included in diluted weighted-average common shares outstanding as they were deemed participating securities. Average outstanding participating securities were 0.2 million in 2012. For further information, see Note 21, *Earnings per Share*, to the consolidated financial statements.

Assets Under Management

AUM for reporting purposes generally is based upon how investment advisory and administration fees are calculated for each portfolio. Net asset values, total assets, committed assets or other measures may be used to determine portfolio AUM.

AUM and Net Inflows (Outflows) by Client Type

	AUM			Net Inflows (Outflows)		
(in millions)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012[1]**
Retail	**$ 534,329**	$ 487,777	$ 403,484	$ 54,944	$ 38,804	$ 11,556
iShares	**1,024,228**	914,372	752,706	100,601	63,971	85,167
Institutional:						
Active	**959,160**	932,410	884,695	(10,420)	(928)	(24,046)
Index	**1,816,124**	1,677,650	1,441,481	36,128	15,266	(75,142)
Institutional subtotal	**2,775,284**	2,610,060	2,326,176	25,708	14,338	(99,188)
Long-term	**4,333,841**	**4,012,209**	**3,482,366**	**181,253**	**117,113**	**(2,465)**
Cash management	**296,353**	275,554	263,743	25,696	10,056	5,048
Advisory[2]	**21,701**	36,325	45,479	(13,173)	(7,442)	(74,540)
Total	**$ 4,651,895**	**$ 4,324,088**	**$ 3,791,588**	**$ 193,776**	**$ 119,727**	**$ (71,957)**

AUM and Net Inflows (Outflows) by Product Type

	AUM			Net Inflows (Outflows)		
(in millions)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012[1]**
Equity	**$ 2,451,111**	$ 2,317,695	$ 1,845,501	$ 52,420	$ 69,257	$ 54,016
Fixed income	**1,393,653**	1,242,186	1,259,322	96,406	11,508	(66,829)
Multi-asset	**377,837**	341,214	267,748	28,905	42,298	15,817
Alternatives						
Core	**88,006**	85,026	68,367	3,061	2,703	(3,922)
Currency and commodities[3]	**23,234**	26,088	41,428	461	(8,653)	(1,547)
Subtotal	**111,240**	111,114	109,795	3,522	(5,950)	(5,469)
Long-term	**4,333,841**	**4,012,209**	**3,482,366**	**181,253**	**117,113**	**(2,465)**
Cash management	**296,353**	275,554	263,743	25,696	10,056	5,048
Advisory[2]	**21,701**	36,325	45,479	(13,173)	(7,442)	(74,540)
Total	**$ 4,651,895**	**$ 4,324,088**	**$ 3,791,588**	**$ 193,776**	**$ 119,727**	**$ (71,957)**

(1) Amounts include the effect of two single client low-fee institutional index fixed income outflows of $36.0 billion and $74.2 billion.

(2) Advisory AUM represents long-term portfolio liquidation assignments. Outflows include planned client distributions.

(3) Amounts include commodity *iShares*.

The following table presents the component changes in BlackRock's AUM for 2014, 2013 and 2012.

(in millions)	December 31, 2014	2013	2012
Beginning assets under management	**$ 4,324,088**	$ 3,791,588	$ 3,512,681
Net inflows (outflows)			
Long-term[1]	**181,253**	117,113	(2,465)
Cash management	**25,696**	10,056	5,048
Advisory[2]	**(13,173)**	(7,442)	(74,540)
Total net inflows (outflows)	**193,776**	119,727	(71,957)
Acquisitions[3]	**—**	26,932	13,742
Market change	**261,682**	398,707	321,377
FX impact[4]	**(127,651)**	(12,866)	15,745
Total change	**327,807**	532,500	278,907
Ending assets under management	**$ 4,651,895**	$ 4,324,088	$ 3,791,588

(1) In 2012, amounts include the effect of two single client low-fee institutional index fixed income outflows of $36.0 billion and $74.2 billion.

(2) Advisory AUM represents long-term portfolio liquidation assignments. Outflows include planned client distributions.

(3) Amounts include AUM acquired from the Company's acquisition of MGPA in October 2013 of $11.0 billion, the Credit Suisse ETF franchise in July 2013 (the "Credit Suisse ETF Transaction") of $16.0 billion, the Swiss Re Private Equity Partners acquisition (the "SRPEP Transaction") in September 2012 of $6.2 billion and the Claymore Investments, Inc. acquisition (the "Claymore Transaction") in March 2012 of $7.6 billion.

(4) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

BlackRock has historically grown aggregate AUM through organic growth and acquisitions. Management believes that the Company will be able to continue to grow AUM by focusing on strong investment performance, efficient delivery of beta for index products, client service, developing new products and optimizing distribution capabilities.

Component Changes in AUM for 2014

The following table presents the component changes in AUM by client type and product for 2014.

(in millions)	December 31, 2013	Net inflows (outflows)	Market change	FX impact[1]	December 31, 2014	Full Year Average AUM[2]
Retail:						
Equity	$ 203,035	$ 1,582	$ 1,831	$ (6,003)	**$ 200,445**	$ 207,280
Fixed income	151,475	36,995	3,698	(2,348)	**189,820**	170,490
Multi-asset	117,054	13,366	(4,080)	(999)	**125,341**	123,619
Alternatives	16,213	3,001	152	(643)	**18,723**	18,487
Retail subtotal	487,777	54,944	1,601	(9,993)	**534,329**	519,876
iShares:						
Equity	718,135	59,626	26,517	(14,211)	**790,067**	751,830
Fixed income	178,835	40,007	4,905	(6,076)	**217,671**	199,410
Multi-asset	1,310	439	37	(13)	**1,773**	1,535
Alternatives	16,092	529	(1,722)	(182)	**14,717**	16,453
iShares subtotal	914,372	100,601	29,737	(20,482)	**1,024,228**	969,228
Institutional:						
Active:						
Equity	138,726	(18,648)	9,935	(4,870)	**125,143**	131,779
Fixed income	505,109	(6,943)	34,062	(13,638)	**518,590**	515,411
Multi-asset	215,276	15,835	23,435	(11,633)	**242,913**	233,729
Alternatives	73,299	(664)	1,494	(1,615)	**72,514**	73,075
Active subtotal	932,410	(10,420)	68,926	(31,756)	**959,160**	953,994
Index:						
Equity	1,257,799	9,860	102,549	(34,752)	**1,335,456**	1,305,930
Fixed income	406,767	26,347	56,086	(21,628)	**467,572**	440,047
Multi-asset	7,574	(735)	1,652	(681)	**7,810**	7,001
Alternatives	5,510	656	(693)	(187)	**5,286**	6,061
Index subtotal	1,677,650	36,128	159,594	(57,248)	**1,816,124**	1,759,039
Institutional subtotal	2,610,060	25,708	228,520	(89,004)	**2,775,284**	2,713,033
Long-term	**4,012,209**	**181,253**	**259,858**	**(119,479)**	**4,333,841**	**$ 4,202,137**
Cash management	275,554	25,696	715	(5,612)	**296,353**	
Advisory[3]	36,325	(13,173)	1,109	(2,560)	**21,701**	
Total	**$ 4,324,088**	**$ 193,776**	**$ 261,682**	**$ (127,651)**	**$ 4,651,895**	

(1) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

(2) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.

(3) Advisory AUM represents long-term portfolio liquidation assignments.

The following table presents component changes in AUM by product for 2014.

(in millions)	December 31, 2013	Net inflows (outflows)	Market change	FX impact(1)	December 31, 2014	Full Year Average AUM(2)
Equity:						
Active	$ 317,262	$ (24,882)	$ 9,867	$ (9,445)	**$ 292,802**	$ 310,551
iShares	718,135	59,626	26,517	(14,211)	**790,067**	751,830
Non-ETF index	1,282,298	17,676	104,448	(36,180)	**1,368,242**	1,334,438
Equity subtotal	2,317,695	52,420	140,832	(59,836)	**2,451,111**	2,396,819
Fixed income:						
Active	652,209	27,694	36,942	(15,521)	**701,324**	680,078
iShares	178,835	40,007	4,905	(6,076)	**217,671**	199,410
Non-ETF index	411,142	28,705	56,904	(22,093)	**474,658**	445,870
Fixed income subtotal	1,242,186	96,406	98,751	(43,690)	**1,393,653**	1,325,358
Multi-asset	341,214	28,905	21,044	(13,326)	**377,837**	365,884
Alternatives:						
Core	85,026	3,061	1,808	(1,889)	**88,006**	87,689
Currency and commodities(3)	26,088	461	(2,577)	(738)	**23,234**	26,387
Alternatives subtotal	**111,114**	**3,522**	**(769)**	**(2,627)**	**111,240**	**114,076**
Long-term	**4,012,209**	**181,253**	**259,858**	**(119,479)**	**4,333,841**	**$ 4,202,137**
Cash management	275,554	25,696	715	(5,612)	**296,353**	
Advisory(4)	36,325	(13,173)	1,109	(2,560)	**21,701**	
Total	**$ 4,324,088**	**$ 193,776**	**$ 261,682**	**$ (127,651)**	**$ 4,651,895**	

(1) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

(2) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.

(3) Amounts include commodity *iShares*.

(4) Advisory AUM represents long-term portfolio liquidation assignments.

AUM increased $327.8 billion, or 8%, to $4.652 trillion at December 31, 2014 from $4.324 trillion at December 31, 2013. The increase in AUM was driven by net market appreciation of $261.7 billion and net inflows of $193.8 billion, partially offset by foreign exchange movements.

Net market appreciation of $261.7 billion included $140.8 billion of growth in equity products primarily due to higher U.S. equity markets, and appreciation of $98.8 billion and $21.0 billion in fixed income and multi-asset products, respectively, across the majority of strategies.

AUM decreased $127.7 billion from foreign exchange movements, primarily resulting from the strengthening of the U.S. dollar against the euro, the British pound and the Japanese yen.

Component Changes in AUM for 2013

The following table presents the component changes in AUM by client type and product for 2013.

(in millions)	December 31, 2012	Net inflows (outflows)	Adjustments[(1)]	Acquisitions[(2)]	Market change	FX impact[(3)]	December 31, 2013	Full Year Average AUM[(4)]
Retail:								
Equity	$ 164,748	$ 3,641	$ 13,066	$ —	$ 20,743	$ 837	**$ 203,035**	$ 173,886
Fixed income	138,425	14,197	3,897	—	(5,338)	294	**151,475**	143,929
Multi-asset	90,626	14,821	2,663	—	9,039	(95)	**117,054**	102,276
Alternatives	9,685	6,145	—	136	136	111	**16,213**	12,585
Retail subtotal	**403,484**	**38,804**	**19,626**	**136**	**24,580**	**1,147**	487,777	**432,676**
iShares:								
Equity	534,648	74,119	—	13,021	95,335	1,012	**718,135**	620,113
Fixed income	192,852	(7,450)	—	1,294	(8,477)	616	**178,835**	186,264
Multi-asset	869	355	—	—	96	(10)	**1,310**	1,115
Alternatives	24,337	(3,053)	—	1,645	(6,863)	26	**16,092**	20,084
iShares subtotal	**752,706**	**63,971**	**—**	**15,960**	**80,091**	**1,644**	914,372	**827,576**
Institutional:								
Active:								
Equity	129,024	(16,504)	—	—	27,930	(1,724)	**138,726**	131,254
Fixed income	518,102	(3,560)	—	—	(6,247)	(3,186)	**505,109**	504,769
Multi-asset	166,708	28,955	3,335	—	14,193	2,085	**215,276**	184,958
Alternatives	70,861	(9,819)	—	10,836	2,593	(1,172)	**73,299**	68,364
Active subtotal	**884,695**	**(928)**	**3,335**	**10,836**	**38,469**	**(3,997)**	932,410	**889,345**
Index:								
Equity	1,017,081	8,001	(18,238)	—	260,333	(9,378)	**1,257,799**	1,145,499
Fixed income	409,943	8,321	(4,723)	—	(4,840)	(1,934)	**406,767**	405,502
Multi-asset	9,545	(1,833)	—	—	476	(614)	**7,574**	8,913
Alternatives	4,912	777	—	—	(259)	80	**5,510**	5,440
Index subtotal	1,441,481	15,266	(22,961)	—	255,710	(11,846)	**1,677,650**	1,565,354
Institutional subtotal	2,326,176	14,338	(19,626)	10,836	294,179	(15,843)	**2,610,060**	2,454,699
Long-term	**3,482,366**	**117,113**	**—**	**26,932**	**398,850**	**(13,052)**	4,012,209	**$ 3,714,951**
Cash management	263,743	10,056	—	—	395	1,360	**275,554**	
Advisory[(5)]	45,479	(7,442)	—	—	(538)	(1,174)	**36,325**	
Total	**$ 3,791,588**	**$ 119,727**	**$ —**	**$ 26,932**	**$ 398,707**	**$(12,866)**	**$ 4,324,088**	

(1) Amounts include $19.6 billion of AUM related to fund ranges reclassed from institutional to retail and $6.0 billion of AUM reclassed from non-ETF index equity and fixed income to multi-asset.

(2) Amounts represent $16.0 billion of AUM acquired in the Credit Suisse ETF Transaction in July 2013 and $11.0 billion of AUM acquired in the MGPA acquisition in October 2013.

(3) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

(4) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.

(5) Advisory AUM represents long-term portfolio liquidation assignments. Outflows include planned client distributions.

The following table presents component changes in AUM by product for 2013.

(in millions)	December 31, 2012	Net inflows (outflows)	Adjustments[1]	Acquisitions[2]	Market change	FX impact[3]	December 31, 2013	Full Year Average AUM[4]
Equity:								
Active	$ 287,215	$ (15,377)	$ —	$ —	$ 46,530	$ (1,106)	**$ 317,262**	$ 295,776
iShares	534,648	74,119	—	13,021	95,335	1,012	**718,135**	620,113
Non-ETF index	1,023,638	10,515	(5,172)	—	262,476	(9,159)	**1,282,298**	1,154,863
Equity subtotal	**1,845,501**	**69,257**	**(5,172)**	**13,021**	**404,341**	**(9,253)**	**2,317,695**	**2,070,752**
Fixed income:								
Active	656,331	10,443	—	—	(11,584)	(2,981)	**652,209**	648,143
iShares	192,852	(7,450)	—	1,294	(8,477)	616	**178,835**	186,264
Non-ETF index	410,139	8,515	(826)	—	(4,841)	(1,845)	**411,142**	406,057
Fixed income subtotal	**1,259,322**	**11,508**	**(826)**	**1,294**	**(24,902)**	**(4,210)**	**1,242,186**	**1,240,464**
Multi-asset	267,748	42,298	5,998	—	23,804	1,366	**341,214**	297,262
Alternatives:								
Core	68,367	2,703	—	10,972	3,012	(28)	**85,026**	73,827
Currency and commodities[5]	41,428	(8,653)	—	1,645	(7,405)	(927)	**26,088**	32,646
Alternatives subtotal	**109,795**	**(5,950)**	**—**	**12,617**	**(4,393)**	**(955)**	**111,114**	**106,473**
Long-term	**3,482,366**	**117,113**	**—**	**26,932**	**398,850**	**(13,052)**	**4,012,209**	**$ 3,714,951**
Cash management	263,743	10,056	—	—	395	1,360	**275,554**	
Advisory[6]	45,479	(7,442)	—	—	(538)	(1,174)	**36,325**	
Total	**$ 3,791,588**	**$ 119,727**	**$ —**	**$ 26,932**	**$ 398,707**	**$ (12,866)**	**$ 4,324,088**	

(1) Amounts include $6.0 billion of AUM reclassed from non-ETF index equity and fixed income to multi-asset.

(2) Amounts represent $16.0 billion of AUM acquired in the Credit Suisse ETF Transaction in July 2013 and $11.0 billion of AUM acquired in the MGPA acquisition in October 2013.

(3) Foreign exchange reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

(4) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.

(5) Advisory AUM represents long-term portfolio liquidation assignments. Outflows include planned client distributions.

(6) Amounts include commodity *iShares*.

AUM increased $532.5 billion, or 14%, to $4.324 trillion at December 31, 2013 from $3.792 trillion at December 31, 2012. The increase in AUM was driven by net market appreciation of $398.7 billion, net inflows of $119.7 billion and acquired AUM related to the MGPA acquisition and the Credit Suisse ETF Transaction, partially offset by foreign exchange movements.

Net market appreciation of $398.7 billion included $404.3 billion from equity products, primarily due to positive movements in U.S. and global equity markets.

The $12.9 billion decrease in AUM from foreign exchange movements was due to the strengthening of the U.S. dollar, primarily against the Japanese yen and the Canadian dollar, partially offset by the weakening of the U.S. dollar against the British pound and the euro.

DISCUSSION OF FINANCIAL RESULTS

Introduction

BlackRock derives a substantial portion of its revenue from investment advisory and administration fees, which are recognized as the services are performed. Such fees are primarily based on predetermined percentages of the market value of AUM or percentages of committed capital during investment periods of certain alternative products and are affected by changes in AUM, including market appreciation or depreciation, foreign exchange translation and net inflows or outflows. Net inflows or outflows represent the sum of new client assets, additional fundings from existing clients (including dividend reinvestment), withdrawals of assets from, and termination of, client accounts and distributions to investors representing return of capital and return on investments to investors. Market appreciation or depreciation includes current income earned on, and changes in the fair value of, securities held in client accounts. Foreign exchange translation reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

BlackRock also earns revenue by lending securities on behalf of clients to highly rated banks and broker-dealers. The securities loaned are secured by collateral in the form of cash or securities, with minimum collateral generally ranging from approximately 102% to 112% of the value of the loaned securities. Generally, the revenue earned is shared between BlackRock and the funds or accounts managed by the Company from which the securities are borrowed. Historically, securities lending revenue in the second quarter exceeds the other quarters during the year driven by higher seasonal demand.

Investment advisory agreements for certain separate accounts and investment funds provide for performance fees based upon relative and/or absolute investment performance, in addition to base fees based on AUM. Investment advisory performance fees generally are earned after a given period of time and when investment performance exceeds a contractual threshold. As such, the timing of recognition of performance fees may increase the volatility of BlackRock's revenue and earnings. The magnitude of performance fees can fluctuate quarterly due to the timing of carried interest recognition on alternative products; however the third and fourth quarters have a greater number of nonalternative products with performance measurement periods that end on either September 30 or December 31.

BlackRock provides a variety of risk management, investment analytic and investment system and advisory services to financial institutions, pension funds, asset managers, foundations, consultants, mutual fund sponsors, real estate investment trusts and government agencies. These services are provided under the brand name *BlackRock Solutions* and include a wide array of risk management services, valuation services related to illiquid securities, disposition and workout assignments (including long-term portfolio liquidation assignments), strategic planning and execution, and enterprise investment system outsourcing to clients. The Company's *Aladdin®* operating platform serves as the investment/risk solutions system for BlackRock and other institutional investors. Fees earned for *BlackRock Solutions* and advisory services are determined using some, or all, of the following methods: (i) percentages of various attributes of advisory AUM or value of positions on the *Aladdin* platform, (ii) fixed fees and (iii) performance fees if contractual thresholds are met.

BlackRock builds upon its leadership position to meet the growing need for investment and risk management solutions. Through its scale and diversity of products, it is able to provide its clients with customized solutions including fiduciary outsourcing for liability-driven investments and overlay strategies for pension plan sponsors, balance sheet management and related services for insurance companies and target date and target return funds, as well as asset allocation portfolios, for retail investors. BlackRock is also able to service these clients via its *Aladdin* platform to provide risk management and other outsourcing services for institutional investors and custom and tailored solutions to address complex risk exposures.

The Company earns fees for transition management services primarily comprised of commissions from acting as a broker-dealer in connection with buying and selling securities on behalf of its customers. Commissions related to transition management services are recorded on a trade-date basis as securities transactions occur.

The Company also earns revenue related to certain strategic investments accounted for as equity method investments.

Operating expense reflects employee compensation and benefits, distribution and servicing costs, amortization of deferred sales commissions, direct fund expense, general and administration expense and amortization of finite-lived intangible assets.

- Employee compensation and benefits expense includes salaries, commissions, temporary help, deferred and incentive compensation, employer payroll taxes, severance and related benefit costs.
- Distribution and servicing costs, which are primarily AUM driven, include payments made to Merrill Lynch-affiliated entities under a global distribution agreement, to PNC and Barclays, as well as other third parties, primarily associated with obtaining and retaining client investments in certain BlackRock products.
- Direct fund expense primarily consist of third-party nonadvisory expense incurred by BlackRock related to certain funds for the use of index trademarks, reference data for indices, custodial services, fund administration, fund accounting, transfer agent services, shareholder reporting services, legal expense, audit and tax services as well as other fund-related expense directly attributable to the nonadvisory operations of the fund. These expenses may vary over time with fluctuations in AUM, number of shareholder accounts, or other attributes directly related to volume of business.
- General and administration expense includes marketing and promotional, occupancy and office-related costs, portfolio services (including clearing expense related to transition management services), technology, professional services, communications, closed-end fund launch costs and other general and administration expense, including the impact of foreign currency remeasurement.

Approximately 75% of the Company's revenue is generated in U.S. dollars. The Company's revenue and expense generated in foreign currencies (primarily the euro and British pound) are impacted by foreign exchange rates. Any effect of foreign exchange rate change on revenue is partially offset by a change in expense driven by the Company's considerable non-dollar expense base related to its operations outside the United States.

Nonoperating income (expense) includes the effect of changes in the valuations on investments (excluding available-for-sale investments) and earnings on equity method investments as well as interest and dividend income and interest expense. Other comprehensive income includes changes in valuations related to available-for-sale investments. BlackRock primarily holds seed and co-investments in sponsored investment products that invest in a variety of asset classes, including private equity, hedge funds and real estate. Investments generally are made for co-investment purposes, to establish a performance track record, to hedge exposure to certain deferred compensation plans or for regulatory purposes, including Federal Reserve Bank stock. BlackRock does not engage in proprietary trading activities that could conflict with the interests of its clients.

In addition, nonoperating income (expense) includes the impact of changes in the valuations of consolidated sponsored investment funds and consolidated collateralized loan obligations ("CLOs"). The portion of nonoperating income (expense) not attributable to BlackRock is allocated to NCI on the consolidated statements of income.

Revenue

The following table presents the Company's revenue for 2014, 2013 and 2012.

(in millions)	2014	2013	2012
Investment advisory, administration fees and securities lending revenue:			
Equity:			
Active	**$ 1,844**	$ 1,741	$ 1,753
iShares	**2,705**	2,390	1,941
Non-ETF index	**677**	594	552
Equity subtotal	**5,226**	4,725	4,246
Fixed income:			
Active	**1,396**	1,269	1,182
iShares	**484**	464	441
Non-ETF index	**260**	238	229
Fixed income subtotal	**2,140**	1,971	1,852
Multi-asset	**1,204**	1,039	957
Alternatives:			
Core	**638**	576	525
Currency and commodities	**89**	107	131
Alternatives subtotal	**727**	683	656
Long-term	**9,297**	8,418	7,711
Cash management	**292**	321	361
Total base fees	**9,589**	8,739	8,072
Investment advisory performance fees:			
Equity	**111**	91	88
Fixed income	**31**	25	48
Multi-asset	**32**	24	15
Alternatives	**376**	421	312
Total	**550**	561	463
BlackRock Solutions and advisory	**635**	577	518
Distribution fees	**70**	73	71
Other revenue	**237**	230	213
Total revenue	**$ 11,081**	$ 10,180	$ 9,337

The table below lists the asset type mix of investment advisory, administration fees and securities lending revenue (collectively "base fees") and mix of average AUM by asset class:

	Mix of Base Fees			Mix of Average AUM by Asset Class(1)		
	2014	2013	2012	2014	2013	2012
Equity:						
Active	**18%**	20%	22%	**7%**	7%	8%
iShares	**28%**	26%	23%	**17%**	16%	13%
Non-ETF index	**7%**	7%	7%	**30%**	29%	26%
Equity subtotal	**53%**	53%	52%	**54%**	52%	47%
Fixed income:						
Active	**15%**	15%	15%	**15%**	16%	18%
iShares	**5%**	5%	5%	**4%**	5%	5%
Non-ETF index	**3%**	3%	3%	**10%**	10%	13%
Fixed income subtotal	**23%**	23%	23%	**29%**	31%	36%
Multi-asset	**13%**	12%	12%	**8%**	7%	7%
Alternatives:						
Core	**7%**	7%	7%	**2%**	2%	2%
Currency and commodities	**1%**	1%	2%	**1%**	1%	1%
Alternatives subtotal	**8%**	8%	9%	**3%**	3%	3%
Long-term	**97%**	**96%**	**96%**	**94%**	**93%**	**93%**
Cash management	**3%**	4%	4%	**6%**	7%	7%
Total excluding Advisory AUM	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

(1) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.

2014 Compared with 2013

Revenue increased $901 million, or 9%, from 2013, reflecting growth in markets, long-term net inflows and strength in *BlackRock Solutions* and advisory revenue.

Investment advisory, administration fees and securities lending revenue of $9,589 million for 2014 increased $850 million from $8,739 million in 2013 due to higher long-term average AUM, reflecting organic growth and market appreciation. Securities lending fees increased $30 million from 2013 to $477 million in 2014.

BlackRock Solutions and advisory revenue in 2014 totaled $635 million compared with $577 million in 2013. The current year reflected higher revenue from *Aladdin* mandates and higher revenue from advisory assignments. *BlackRock Solutions* and advisory revenue included $474 million in *Aladdin* business revenue compared with $433 million in 2013.

2013 Compared with 2012

Revenue increased $843 million, or 9%, from 2012, reflecting growth in markets, long-term net inflows and strength in performance fees and *BlackRock Solutions* and advisory revenue.

Investment advisory, administration fees and securities lending revenue of $8,739 million for 2013 increased $667 million from $8,072 million in 2012 due to growth in long-term average AUM. Securities lending fees decreased $63 million from 2012 to $447 million in 2013 driven by lower spreads consistent with industry trends, partially offset by an increase in average balances of securities on loan.

Investment advisory performance fees were $561 million in 2013 compared with $463 million in 2012, primarily reflecting higher fees from alternative products, including fund of funds and single-strategy hedge funds. Both years reflected significant fees from the liquidation of opportunistic funds.

BlackRock Solutions and advisory revenue in 2013 totaled $577 million compared with $518 million in 2012. The amount for 2013 reflected a $49 million increase in *Aladdin* business revenue to $433 million and higher advisory assignments revenue.

Other revenue increased $17 million, largely reflecting higher transition management service fees and higher earnings from certain strategic investments.

Expense

The following table presents the Company's expenses for 2014, 2013 and 2012.

(in millions)	2014	2013	2012
Expense, GAAP:			
Employee compensation and benefits	**$ 3,829**	$ 3,560	$ 3,287
Distribution and servicing costs	**364**	353	364
Amortization of deferred sales commissions	**56**	52	55
Direct fund expense	**748**	657	591
General and administration:			
Marketing and promotional	**413**	409	384
Occupancy and office related	**267**	277	248
Portfolio services	**215**	203	196
Technology	**164**	160	150
Professional services	**126**	128	114
Communications	**39**	37	39
Regulatory, filing and license fees	**36**	31	17
Closed-end fund launch costs	**10**	16	22
Charitable Contribution	**—**	124	—
Reduction of indemnification asset	**50**	—	—
Other general and administration	**133**	155	189
Total general and administration expense	**1,453**	1,540	1,359
Amortization of intangible assets	**157**	161	157
Total expense, GAAP	**$ 6,607**	**$ 6,323**	**$ 5,813**
Less non-GAAP expense adjustments:			
Employee compensation and benefits:			
PNC LTIP funding obligation	**32**	33	22
Compensation expense related to appreciation (depreciation) on deferred compensation plans	**7**	10	6
Subtotal	**39**	43	28
General and administration:			
Reduction of indemnification asset	**50**	—	—
Charitable Contribution	**—**	124	—
U.K. lease exit costs	**—**	—	(8)
Contribution to STIFs	**—**	—	30
Subtotal	**50**	124	22
Total non-GAAP expense adjustments	**89**	**167**	**50**
Expense, as adjusted:			
Employee compensation and benefits	**3,790**	3,517	3,259
Distribution and servicing costs	**364**	353	364
Amortization of deferred sales commissions	**56**	52	55
Direct fund expense	**748**	657	591
General and administration	**1,403**	1,416	1,337
Amortization of intangible assets	**157**	161	157
Total expense, as adjusted	**$ 6,518**	**$ 6,156**	**$ 5,763**

2014 Compared with 2013

GAAP. Expense increased $284 million, or 4%, from 2013, primarily reflecting higher revenue-related expenses, including compensation and direct fund expense and a $50 million reduction of an indemnification asset. Expense for 2013 included the $124 million expense related to the Charitable Contribution.

Employee compensation and benefits expense increased $269 million, or 8%, to $3,829 million in 2014 from $3,560 million in 2013, reflecting higher headcount and higher incentive compensation driven by higher operating income. Employees at December 31, 2014 totaled approximately 12,200 compared with approximately 11,400 at December 31, 2013.

Distribution and servicing costs totaled $364 million in 2014 compared with $353 million in 2013. These costs included payments to Bank of America/Merrill Lynch under a global distribution agreement and payments to PNC, as well as other third parties, primarily associated with the distribution and servicing of client investments in certain BlackRock products. Distribution and servicing costs for 2014 and 2013 included $183 million and $184 million, respectively, attributable to Bank of America/Merrill Lynch.

Direct fund expense increased $91 million, reflecting higher average AUM, primarily related to *iShares*, where BlackRock pays certain nonadvisory expense of the funds.

General and administration expense decreased $87 million, primarily due to the $124 million related to the Charitable

Contribution incurred in 2013 and foreign currency remeasurement, partially offset by the $50 million reduction of an indemnification asset.

As Adjusted. Expense, as adjusted, increased $362 million, or 6%, to $6,518 million in 2014 from $6,156 million in 2013. The increase in total expense, as adjusted, is primarily attributable to higher employee compensation and benefits and direct fund expense. Amounts related to the reduction of the indemnification asset and the Charitable Contribution have been excluded from as adjusted results.

2013 Compared with 2012

GAAP. Expense increased $510 million, or 9%, from 2012, primarily reflecting higher revenue-related expense and the $124 million expense related to the Charitable Contribution.

Employee compensation and benefits expense increased $273 million, or 8%, to $3,560 million in 2013 from $3,287 million in 2012, reflecting higher headcount and higher incentive compensation driven by higher operating income, including higher performance fees. Employees at December 31, 2013 totaled approximately 11,400 compared with approximately 10,500 at December 31, 2012.

Distribution and servicing costs totaled $353 million in 2013 compared with $364 million in 2012. These costs included payments to Bank of America/Merrill Lynch under a global distribution agreement and payments to PNC, as well as other third parties, primarily associated with the distribution and servicing of client investments in certain BlackRock products. Distribution and servicing costs for 2013 and 2012 included $184 million and $195 million, respectively, attributable to Bank of America/Merrill Lynch.

Direct fund expense increased $66 million, reflecting higher average AUM, primarily related to *iShares*, where BlackRock pays certain nonadvisory expense of the funds.

General and administration expense increased $181 million, largely driven by the $124 million expense related to the Charitable Contribution, higher marketing and promotional costs and various lease exit costs. The full year 2012 included a one-time $30 million contribution to STIFs.

As Adjusted. Expense, as adjusted, increased $393 million, or 7%, to $6,156 million in 2013 from $5,763 million in 2012. The increase in total expense, as adjusted, is primarily attributable to higher employee compensation and benefits, direct fund expense and general and administration expense.

NONOPERATING RESULTS

Nonoperating income (expense), less net income (loss) attributable to NCI for 2014, 2013 and 2012 was as follows:

(in millions)	**2014**	2013	2012
Nonoperating income (expense), GAAP basis	**$ (79)**	$ 116	$ (54)
Less: Net income (loss) attributable to NCI[1]	**(30)**	19	(18)
Nonoperating income (expense)[2]	**(49)**	97	(36)
Gain related to the Charitable Contribution	**—**	(80)	—
Compensation expense related to (appreciation) depreciation on deferred compensation plans	**(7)**	(10)	(6)
Nonoperating income (expense), as adjusted[2]	**$ (56)**	$ 7	$ (42)

(1) Amounts included losses of $41 million and $38 million attributable to consolidated variable interest entities ("VIEs") for 2014 and 2012, respectively. During 2013, the Company did not record any nonoperating income (loss) or net income (loss) attributable to VIEs on the consolidated statements of income.

(2) Net of net income (loss) attributable to NCI.

The components of nonoperating income (expense), less net income (loss) attributable to NCI for 2014, 2013 and 2012 were as follows:

(in millions)	2014	2013	2012
Net gain (loss) on investments[1]			
Private equity	**$ 69**	$ 52	$ 36
Real estate	**16**	24	14
Distressed credit/mortgage funds/opportunistic funds	**34**	40	69
Hedge funds/funds of hedge funds	**21**	25	20
Other investments[2]	**7**	16	(2)
Subtotal	**147**	157	137
Gain related to the PennyMac IPO	**—**	39	—
Gain related to the Charitable Contribution	**—**	80	—
Investments related to deferred compensation plans	**7**	10	6
Total net gain (loss) on investments	**154**	286	143
Interest and dividend income	**29**	22	36
Interest expense	**(232)**	(211)	(215)
Net interest expense	**(203)**	(189)	(179)
Total nonoperating income (expense)[1]	**(49)**	97	(36)
Gain related to the Charitable Contribution	**—**	(80)	—
Compensation expense related to (appreciation) depreciation on deferred compensation plans	**(7)**	(10)	(6)
Nonoperating income (expense), as adjusted[1]	**$ (56)**	$ 7	$ (42)

(1) Net of net income (loss) attributable to NCI.

(2) Amount included net gains (losses) related to equity and fixed income investments, and BlackRock's seed capital hedging program.

2014 Compared with 2013

Net gains on investments of $154 million in 2014 decreased $132 million from 2013. Net gains on investments in 2013 included the noncash, nonoperating pre-tax gain of $80 million related to the Charitable Contribution and the $39 million pre-tax gain related to the PennyMac IPO. Net gains on investments in 2014 included the positive impact of the monetization of a nonstrategic, opportunistic private equity investment.

Net interest expense increased $14 million from 2013 primarily due to higher interest expense resulting from a long-term debt issuance in March 2014.

2013 Compared with 2012

Net gains on investments of $286 million in 2013 increased $143 million from 2012 due to the $39 million pre-tax gain related to the PennyMac IPO and the $80 million pre-tax gain related to the Charitable Contribution and higher net positive marks.

Net interest expense increased $10 million from 2012 primarily due to lower dividend income.

For further information on the Company's long-term debt, see *Liquidity and Capital Resources* herein.

Income Tax Expense

	GAAP			As adjusted		
(in millions)	2014	2013	2012	2014	2013	2012
Income before income taxes[1]	**$ 4,425**	$ 3,954	$ 3,488	**$ 4,507**	$ 4,031	$ 3,532
Income tax expense	**$ 1,131**	$ 1,022	$ 1,030	**$ 1,197**	$ 1,149	$ 1,094
Effective tax rate	**25.6%**	25.8%	29.5%	**26.6%**	28.5%	31.0%

(1) Net of net income (loss) attributable to NCI.

The Company's tax rate is affected by tax rates in foreign jurisdictions and the relative amount of income earned in those jurisdictions, which the Company expects to be fairly consistent in the near term. The significant foreign jurisdictions, which have lower statutory tax rates than the U.S. federal statutory rate of 35%, include the United Kingdom, Luxembourg, Canada and the Netherlands. U.S. income taxes were not provided for certain undistributed foreign earnings intended to be indefinitely reinvested outside the United States.

2014. The GAAP effective tax rate of 25.6% for 2014 reflected the revaluation of deferred income tax liabilities related to intangible assets and goodwill. Income tax expense for 2014 included a $9 million net noncash benefit arising primarily from state and local income tax changes, which has been excluded from as adjusted results as it will not have a cash flow impact and to ensure comparability among periods presented.

In addition, 2014 included a $94 million tax benefit, primarily due to the resolution of certain outstanding tax matters related to the acquisition of BGI. In connection with the acquisition, BlackRock recorded a $50 million indemnification asset for unrecognized tax benefits. Due to the resolution of such tax matters in 2014, BlackRock recorded $50 million of general and administration expense to reflect the reduction of the indemnification asset and an offsetting $50 million tax benefit. The $50 million general and administrative expense and $50 million tax benefit have been excluded from as adjusted results as there is no impact on BlackRock's book value.

The current year also included a $73 million net tax benefit related to several favorable nonrecurring items.

The as adjusted effective tax rate of 26.6% for 2014 included the tax benefit of approximately $73 million related to certain favorable nonrecurring items and excluded the $9 million net noncash benefit and $50 million tax benefit mentioned above.

2013. The GAAP effective tax rate of 25.8% for 2013 reflected a $69 million net noncash benefit primarily related to the revaluation of certain deferred income tax liabilities related to intangible assets and goodwill, including the effect of legislation enacted in the United Kingdom and domestic state and local income tax changes. In addition, 2013 included a tax benefit of approximately $48 million recognized in connection with the Charitable Contribution and a tax benefit of approximately $29 million, primarily due to the realization of tax loss carryforwards, and benefits from certain nonrecurring items.

The as adjusted effective tax rate of 28.5% for 2013 reflected a tax benefit of approximately $29 million, primarily due to the realization of tax loss carryforwards, and benefits from certain nonrecurring items and excluded the $69 million net noncash benefit and the $48 million tax benefit related to the Charitable Contribution mentioned above.

2012. The GAAP effective tax rate of 29.5% for 2012 reflected a $21 million benefit related to the resolution of certain outstanding tax positions and a $50 million net noncash benefit related to the revaluation of certain deferred income tax liabilities, including the effect of tax legislation enacted in the United Kingdom and the state and local income tax effect resulting from changes in the Company's organizational structure.

The as adjusted effective tax rate of 31.0% for 2012 excluded the $50 million net noncash tax benefit mentioned above.

BALANCE SHEET OVERVIEW

As Adjusted Balance Sheet

The following table presents a reconciliation of the consolidated statement of financial condition presented on a GAAP basis to the consolidated statement of financial condition, excluding the impact of separate account assets and separate account collateral held under securities lending agreements (directly related to lending separate account securities) and separate account liabilities and separate account collateral liabilities under securities lending agreements, consolidated VIEs and consolidated sponsored investment funds.

The Company presents the as adjusted balance sheet as additional information to enable investors to exclude certain assets that have equal and offsetting liabilities or noncontrolling interests that ultimately do not have an impact on stockholders' equity (excluding appropriated retained earnings related to consolidated collateralized loan obligations ("CLOs")) or cash flows. Management views the as adjusted balance sheet, a non-GAAP financial measure, as an economic presentation of the Company's total assets and liabilities; however, it does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

Separate Account Assets and Liabilities and Separate Account Collateral Held under Securities Lending Agreements

Separate account assets are maintained by BlackRock Life Limited, a wholly owned subsidiary of the Company, which is a registered life insurance company in the United Kingdom, and represent segregated assets held for purposes of funding individual and group pension contracts. The Company records equal and offsetting separate account liabilities. The separate account assets are not available to creditors of the Company and the holders of the pension contracts have no recourse to the Company's assets. The net investment income attributable to separate account assets accrues directly to the contract owners and is not reported on the Company's consolidated statements of income. While BlackRock has no economic interest in these assets or liabilities, BlackRock earns an investment advisory fee for the service of managing these assets on behalf of the clients.

In addition, the Company records on its consolidated statements of financial condition the separate account collateral received under BlackRock Life Limited securities lending arrangements as its own asset in addition to an equal and offsetting separate account collateral liability for the obligation to return the collateral. The collateral is not available to creditors of the Company, and the borrowers under the securities lending arrangements have no recourse to the Company's assets.

Consolidated VIEs

At December 31, 2014, BlackRock's consolidated VIEs included multiple CLOs and one private investment fund. The assets of these VIEs are not available to creditors of the Company and the Company has no obligation to settle the liabilities of the VIEs. While BlackRock has no material economic interest in these assets or liabilities, BlackRock earns an investment advisory fee, as well as a potential performance fee, for the service of managing these assets on behalf of clients.

Consolidated Sponsored Investment Funds

The Company consolidates certain sponsored investment funds primarily because it is deemed to control such funds. The Company may not be readily able to access cash and cash equivalents held by consolidated sponsored investment funds to use in its operating activities. In addition, the Company may not be readily able to sell investments held by consolidated sponsored investment funds in order to obtain cash for use in the Company's operations.

(in millions)	December 31, 2014				
		Segregated client assets generating advisory fees in which BlackRock has no economic interest or liability			
	GAAP Basis	Separate Account Assets/ Collateral	Consolidated VIEs	Consolidated Sponsored Investment Funds	As Adjusted
Assets					
Cash and cash equivalents	$ 5,723	$ —	$ —	$ 120	$ 5,603
Accounts receivable	2,120	—	—	—	2,120
Investments	1,921	—	—	17	1,904
Assets of consolidated VIEs	3,630	—	3,630	—	—
Separate account assets and collateral held under securities lending agreements	194,941	194,941	—	—	—
Other assets[(1)]	1,168	—	—	20	1,148
Subtotal	209,503	194,941	3,630	157	10,775
Goodwill and intangible assets, net	30,305	—	—	—	30,305
Total assets	$ 239,808	$ 194,941	$ 3,630	$ 157	$ 41,080
Liabilities					
Accrued compensation and benefits	$ 1,865	$ —	$ —	$ —	$ 1,865
Accounts payable and accrued liabilities	1,035	—	—	—	1,035
Liabilities of consolidated VIEs	3,634	—	3,634	—	—
Borrowings	4,938	—	—	—	4,938
Separate account liabilities and collateral liabilities under securities lending agreements	194,941	194,941	—	—	—
Deferred income tax liabilities	4,989	—	—	—	4,989
Other liabilities	886	—	—	18	868
Total liabilities	212,288	194,941	3,634	18	13,695
Equity					
Total stockholders' equity[(2)]	27,366	—	(19)	—	27,385
Noncontrolling interests	154	—	15	139	—
Total equity	27,520	—	(4)	139	27,385
Total liabilities and equity	$ 239,808	$ 194,941	$ 3,630	$ 157	$ 41,080

(1) Amounts include property and equipment and other assets.

(2) GAAP amount includes $19 million of an appropriated retained deficit related solely to consolidated CLOs in which the Company has no equity exposure.

The following discussion summarizes the significant changes in assets and liabilities on a GAAP basis. Please see the consolidated statements of financial condition as of December 31, 2014 and 2013 contained in Part II, Item 8 of this filing. The discussion does not include changes related to assets and liabilities that are equal and offsetting and have no impact on BlackRock's stockholders' equity.

Assets. Cash and cash equivalents at December 31, 2014 and 2013 included $120 million and $114 million, respectively, of cash held by consolidated sponsored investment funds (see *Liquidity and Capital Resources* for details on the change in cash and cash equivalents during 2014).

Accounts receivable at December 31, 2014 decreased $127 million from December 31, 2013 due to a decrease in unit trust receivables (substantially offset by an decrease in unit trust payables recorded within accounts payable and accrued liabilities) and lower performance fee receivables. Investments decreased $230 million from December 31, 2013 (for more information see *Investments* herein). Goodwill and intangible assets decreased $176 million from December 31, 2013, primarily due to $157 million of amortization of intangible assets. Other assets (including property, plant and equipment) decreased $49 million from December 31, 2013, primarily related to a decrease in property and equipment due to depreciation and the reduction of an indemnification asset, partially offset by higher earnings from certain strategic investments and an increase in current taxes receivable.

Liabilities. Accrued compensation and benefits at December 31, 2014 increased $118 million from December 31, 2013, primarily due to 2014 incentive compensation accruals. Accounts payable and accrued liabilities at December 31, 2014 decreased $49 million from December 31, 2013 due to lower unit trust payables (substantially offset by an decrease in unit trust receivables recorded within accounts receivable) and a decrease in current income taxes payable, partially offset by increased accruals, including direct fund expense.

Net deferred income tax liabilities at December 31, 2014 decreased $96 million, primarily due to the effects of temporary differences associated with stock compensation, investment income, and goodwill and intangibles. Other liabilities decreased $118 million from December 31, 2013, primarily resulting from a decrease in uncertain tax positions and a decrease in other operating liabilities.

Investments

Investments totaled $1,921 million at December 31, 2014 and $2,151 million at December 31, 2013. Investments include consolidated investments held by sponsored investment funds deemed to be controlled by BlackRock. Management reviews BlackRock's investments on an "economic" basis, which eliminates the portion of investments that does not impact BlackRock's book value or net income attributable to BlackRock. BlackRock's management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

The Company presents total investments, as adjusted, to enable investors to understand the portion of its investments that is owned by the Company, net of NCI, as a gauge to measure the impact of changes in net nonoperating gain (loss) on investments to net income (loss) attributable to BlackRock.

The Company further presents net "economic" investment exposure, net of deferred compensation investments and hedged investments, to reflect another gauge for investors as the economic impact of investments held pursuant to deferred compensation arrangements is substantially offset by a change in compensation expense and the impact of hedged investments is substantially mitigated by swap hedges. Carried interest capital allocations are excluded as there is no impact to BlackRock's stockholders' equity until such amounts are realized as performance fees. Finally, the Company's regulatory investment in Federal Reserve Bank stock, which is not subject to market or interest rate risk, is excluded from the Company's net economic investment exposure.

(in millions)	**December 31, 2014**	**December 31, 2013**
Total investments, GAAP	**$ 1,921**	$2,151
Investments held by consolidated sponsored investment funds[1]	**(713)**	(826)
Net exposure to consolidated investment funds	**696**	732
Total investments, as adjusted	**1,904**	2,057
Federal Reserve Bank stock	**(92)**	(90)
Carried interest	**(85)**	(103)
Deferred compensation investments	**(85)**	(97)
Hedged investments	**(323)**	(184)
Total "economic" investment exposure	**$ 1,319**	$1,583

(1) At December 31, 2014 and 2013, approximately $713 million and $826 million, respectively, of BlackRock's total GAAP investments were held in sponsored investment funds that were deemed to be controlled by BlackRock in accordance with GAAP, and, therefore, are consolidated even though BlackRock may not economically own a majority of such funds.

The following table represents the carrying value of the Company's economic investment exposure, by asset type, at December 31, 2014 and 2013:

(in millions)	**December 31, 2014**	**December 31, 2013**
Private equity	**$ 314**	$ 328
Real estate	**117**	125
Distressed credit/mortgage funds/opportunistic funds	**61**	148
Hedge funds/funds of hedge funds	**228**	348
Other investments[1]	**599**	634
Total "economic" investment exposure	**$ 1,319**	$1,583

(1) Other investments primarily include seed investments in fixed income and equity funds/strategies as well as U.K. government securities held for regulatory purposes.

As adjusted investment activity for 2014 was as follows:

(in millions)	
Investments, as adjusted, December 31, 2013	$ 2,057
Purchases/capital contributions	787
Sales/maturities	(833)
Distributions[1]	(255)
Market valuations/earnings from equity method investments	166
Carried interest capital allocations	(18)
Investments, as adjusted, December 31, 2014	**$ 1,904**

(1) Amounts include distributions representing return of capital and return on investments.

The following table represents investments, as adjusted at December 31, 2014:

(in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Investments Not Held at Fair Value[(1)]	Investments at December 31, 2014
Total investments, as adjusted[(2)]	**$ 691**	**$ 470**	**$ 470**	**$ 273**	**$ 1,904**

(1) Amount includes investments held at cost or amortized cost, carried interest and certain equity method investments, which include sponsored investment funds, which are not accounted for under a fair value measure. Certain equity method investees do not account for both their financial assets and financial liabilities under fair value measures, therefore, the Company's investment in such equity method investees may not represent fair value.

(2) Amounts include cash and cash equivalents, other assets and liabilities that are consolidated from non-VIE sponsored investment funds. See Note 5, *Fair Value Disclosures*, to the consolidated financial statements contained in Part II, Item 8 of this filing, for total GAAP investments.

LIQUIDITY AND CAPITAL RESOURCES

BlackRock Cash Flows Excluding the Impact of Consolidated Sponsored Investment Funds and VIEs

BlackRock consolidates certain of its sponsored investment funds and CLOs, notwithstanding the fact BlackRock may only have a minority interest, if any, in these funds or CLOs. As a result, the consolidated statements of cash flows include the cash flows of consolidated sponsored investment funds and CLOs. The Company uses an adjusted cash flow statement, which excludes the impact of consolidated sponsored investment funds and CLOs, as a supplemental non-GAAP measure to assess liquidity and capital requirements. The Company believes that its cash flows, excluding the impact of the consolidated sponsored investment funds and CLOs, provide investors with useful information on the cash flows of BlackRock relating to its ability to fund additional operating, investing and financing activities. BlackRock's management does not advocate that investors consider such non-GAAP measures in isolation from, or as a substitute for, its cash flows presented in accordance with GAAP.

The following table presents a reconciliation of the consolidated statements of cash flows presented on a GAAP basis to the consolidated statements of cash flows, excluding the impact of the cash flows of consolidated sponsored investment funds and consolidated VIEs:

(in millions)	GAAP Basis	Impact on Cash Flows of Consolidated Sponsored Investment Funds	Impact on Cash Flows of Consolidated VIEs	Cash Flows Excluding Impact of Consolidated Sponsored Investment Funds and VIEs
Cash and cash equivalents, December 31, 2012	$ 4,606	$ 133	$ —	$ 4,473
Cash flows from operating activities	3,642	(137)	286	3,493
Cash flows from investing activities	(483)	39	—	(522)
Cash flows from financing activities	(3,392)	79	(286)	(3,185)
Effect of exchange rate changes on cash and cash equivalents	17	—	—	17
Net change in cash and cash equivalents	(216)	(19)	—	(197)
Cash and cash equivalents, December 31, 2013	$ 4,390	$ 114	$ —	$ 4,276
Cash flows from operating activities	**3,081**	**(103)**	**(431)**	**3,615**
Cash flows from investing activities	**239**	**(174)**	**—**	**413**
Cash flows from financing activities	**(1,855)**	**283**	**431**	**(2,569)**
Effect of exchange rate changes on cash and cash equivalents	**(132)**	**—**	**—**	**(132)**
Net change in cash and cash equivalents	**1,333**	**6**	**—**	**1,327**
Cash and cash equivalents, December 31, 2014	**$ 5,723**	**$ 120**	**$ —**	**$ 5,603**

Sources of BlackRock's operating cash primarily include investment advisory, administration fees and securities lending revenue, performance fees, revenue from *BlackRock Solutions* and advisory products and services, other revenue and distribution fees. BlackRock uses its cash to pay all operating expenses, interest and principal on borrowings, income taxes, dividends on BlackRock's capital stock, repurchases of the Company's stock, capital expenditures and purchases of co-investments and seed investments.

Cash flows from operating activities, excluding the impact of consolidated sponsored investment funds and VIEs, primarily include the receipt of investment advisory and administration fees, securities lending revenue and other revenue offset by the payment of operating expenses incurred in the normal course of business, including year-end incentive compensation accrued for in the prior year.

Cash inflows from investing activities, excluding the impact of consolidated sponsored investment funds and VIEs, for 2014 were $413 million and primarily reflected $739 million of net proceeds from sales and maturities of certain investments and $143 million of distributions of capital from equity method investees, partially offset by $403 million of investment purchases.

Cash outflows from financing activities, excluding the impact of consolidated sponsored investment funds and VIEs, for 2014 were $2.6 billion, primarily resulting from cash outflows related to $1,344 million of share repurchases, including $1.0 billion in open market transactions and $344 million of employee tax withholdings related to employee stock transactions, $1.3 billion of cash dividend payments and $1.0 billion of repayments of long-term borrowings. Cash outflows from financing activities were partially offset by $1.0 billion of proceeds from issuance of long-term borrowings and $106 million of excess tax benefits from vested stock-based compensation awards.

The Company manages its financial condition and funding to maintain appropriate liquidity for the business. Liquidity resources at December 31, 2014 and 2013 were as follows:

(in millions)	December 31, 2014	December 31, 2013
Cash and cash equivalents	$ 5,723	$ 4,390
Cash and cash equivalents held by consolidated sponsored investment funds(1)	(120)	(114)
Subtotal	5,603	4,276
Credit facility — undrawn	3,990	3,990
Total liquidity	$ 9,593	$ 8,266

(1) The Company may not be able to access such cash to use in its operating activities.

Total liquidity increased $1,327 million during 2014, primarily reflecting cash from operations, partially offset by cash payments of 2013 year-end incentive awards, share repurchases of $1.3 billion and cash dividend payments.

A significant portion of the Company's $1,904 million of total investments, as adjusted, is illiquid in nature and, as such, may not be readily convertible to cash.

Share Repurchases. The Company repurchased 3.2 million common shares in open market-transactions under its share repurchase program for $1.0 billion during 2014. At December 31, 2014, there were 3.4 million shares still authorized to be repurchased.

In January 2015, the Board of Directors approved an increase in the availability of shares that may be repurchased under the Company's existing share repurchase program to allow for the repurchase of up to a total of 9.4 million additional shares of BlackRock common stock.

Net Capital Requirements. The Company is required to maintain net capital in certain regulated subsidiaries within a number of jurisdictions, which is partially maintained by retaining cash and cash equivalent investments in those subsidiaries or jurisdictions. As a result, such subsidiaries of the Company may be restricted in their ability to transfer cash between different jurisdictions and to their parents. Additionally, transfers of cash between international jurisdictions, including repatriation to the United States, may have adverse tax consequences that could discourage such transfers.

BlackRock Institutional Trust Company, N.A. ("BTC") is chartered as a national bank that does not accept client deposits and whose powers are limited to trust activities. BTC provides investment management services, including investment advisory and securities lending agency services, to institutional investors and other clients. BTC is subject to regulatory capital and liquid asset requirements administered by the Office of the Comptroller of the Currency.

At both December 31, 2014 and 2013, the Company was required to maintain approximately $1.1 billion in net capital in certain regulated subsidiaries, including BTC, entities regulated by the Financial Conduct Authority and Prudential Regulation Authority in the United Kingdom and the Company's broker-dealers. At such date, the Company was in compliance with all applicable regulatory net capital requirements.

Undistributed Earnings of Foreign Subsidiaries. As of December 31, 2014, the Company has not provided for U.S. federal and state income taxes on approximately $3.9 billion of undistributed earnings of its foreign subsidiaries. Such earnings are considered indefinitely reinvested outside the United States. The Company's current plans do not demonstrate a need to repatriate these funds.

Short-Term Borrowings

2014 Revolving Credit Facility. In March 2011, the Company entered into a five-year $3.5 billion unsecured revolving credit facility which was amended in 2013 and 2012. In March 2014, the Company's credit facility was further amended to extend the maturity date to March 2019. The amount of the aggregate commitment is $3.990 billion (the "2014 credit facility"). The 2014 credit facility permits the Company to request up to an additional $1.0 billion of borrowing capacity, subject to lender credit approval, increasing the overall size of the 2014 credit facility to an aggregate principal amount not to exceed $4.990 billion. Interest on borrowings outstanding accrues at a rate based on the applicable London Interbank Offered Rate plus a spread. The 2014 credit facility requires the Company not to exceed a maximum leverage ratio (ratio of net debt to earnings before interest, taxes, depreciation and amortization, where net debt equals total debt less unrestricted cash) of 3 to 1, which was satisfied with a ratio of less than 1 to 1 at December 31, 2014. The 2014 credit facility provides back-up liquidity, funds ongoing working capital for general corporate purposes and funds various investment opportunities. At December 31, 2014, the Company had no amount outstanding under the 2014 credit facility.

Commercial Paper Program. On October 14, 2009, BlackRock established a commercial paper program (the "CP Program") under which the Company could issue unsecured commercial paper notes (the "CP Notes") on a private placement basis up to a maximum aggregate amount outstanding at any time of $3.0 billion. BlackRock increased the maximum aggregate amount that could be borrowed under the CP Program to $3.5 billion in 2011 and to $3.785 billion in 2012. In April 2013, BlackRock increased the maximum aggregate amount for which the Company could issue unsecured CP Notes on a private-placement basis up to a maximum aggregate amount outstanding at any time of $3.990 billion. The CP Program is currently supported by the 2014 credit facility. At December 31, 2014, BlackRock had no CP Notes outstanding.

Long-term Borrowings.

The carrying value of long-term borrowings at December 31, 2014 included the following:

(in millions)	Maturity Amount	Carrying Value	Maturity
1.375% Notes	$ 750	$ 750	June 2015
6.25% Notes	700	699	September 2017
5.00% Notes	1,000	998	December 2019
4.25% Notes	750	747	May 2021
3.375% Notes	750	747	June 2022
3.50% Notes	1,000	997	March 2024
Total Long-term Borrowings	$ 4,950	$ 4,938	

In March 2014, the Company issued $1.0 billion in aggregate principal amount of 3.50% senior unsecured and unsubordinated notes maturing in March 2024. During 2014, the Company repaid $1.0 billion of 3.50% notes at maturity.

For more information on Company's borrowings, see Note 12, *Borrowings*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K.

Contractual Obligations, Commitments and Contingencies

The following table sets forth contractual obligations, commitments and contingencies by year of payment at December 31, 2014:

(in millions)	2015	2016	2017	2018	2019	Thereafter	Total
Contractual obligations and commitments:							
Long-term borrowings[(1)]:							
Principal	$ 750	$ —	$ 700	$ —	$ 1,000	$ 2,500	$ 4,950
Interest	191	186	186	142	142	269	1,116
Operating leases	126	111	112	111	105	613	1,178
Purchase obligations	168	68	11	1	—	—	248
Investment commitments	161	—	—	—	—	—	161
Total contractual obligations and commitments	**1,396**	**365**	**1,009**	**254**	**1,247**	**3,382**	**7,653**
Contingent obligations:							
Contingent distribution obligations	189	189	—	—	—	—	378
Contingent payments related to business acquisitions[(2)]	5	10	7	19	9	11	61
Total contractual obligations, commitments and contingent obligations[(3)]	**$ 1,590**	**$ 564**	**$ 1,016**	**$ 273**	**$ 1,256**	**$ 3,393**	**$ 8,092**

(1) Long-term borrowings exclude the borrowings of consolidated CLOs. The Company has no obligation to settle the liabilities of these CLOs.

(2) The amount of contingent payments reflected for any year represents the expected payment amounts, using foreign currency exchange rates as of December 31, 2014, under the terms of the business acquisition's agreement. The remaining maximum potential payment amount related to Credit Suisse ETF Transaction is approximately $24 million for any year during the next six years. There is no maximum amount for payments related to the MGPA Transaction. The fair value of the contingent obligations is not significant to the consolidated statement of financial condition and is recorded within other liabilities.

(3) At December 31, 2014, the Company had $334 million of net unrecognized tax benefits. Due to the uncertainty of timing and amounts that will ultimately be paid, this amount has been excluded from the table above.

Operating Leases. The Company leases its primary office locations under agreements that expire on varying dates through 2035. In connection with certain lease agreements, the Company is responsible for escalation payments. The contractual obligations table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases and, as such, are not recorded as liabilities on the consolidated statements of financial condition.

Purchase Obligations. In the ordinary course of business, BlackRock enters into contracts or purchase obligations with third parties whereby the third parties provide services to or on behalf of BlackRock. Purchase obligations included in the contractual obligations table above represent executory contracts, which are either noncancelable or cancelable with a penalty. At December 31, 2014, the Company's obligations primarily reflected standard service contracts for portfolio, market data, office-related services and third-party marketing and promotional services, and obligations for equipment. Purchase obligations are recorded on the Company's financial statements when services are provided and, as such, obligations for services not received are not included in the consolidated statement of financial condition at December 31, 2014.

Investment Commitments. At December 31, 2014, the Company had $161 million of various capital commitments to fund sponsored investment funds, including funds of private equity funds, real estate funds, infrastructure funds, opportunistic funds and distressed credit funds. This amount excludes additional commitments made by consolidated funds of funds to underlying third-party funds as third-party noncontrolling interest holders have the legal obligation to fund the respective commitments of such funds of funds. In addition to the capital commitments of $161 million, the

Company had approximately $35 million of contingent commitments for certain funds which have investment periods that have expired. Generally, the timing of the funding of these commitments is unknown and the commitments are callable on demand at any time prior to the expiration of the commitment. These unfunded commitments are not recorded on the consolidated statements of financial condition. These commitments do not include potential future commitments approved by the Company that are not yet legally binding. The Company intends to make additional capital commitments from time to time to fund additional investment products for, and with, its clients.

Contingent Distribution Obligations. In November 2010, BlackRock entered into a second amended and restated global distribution agreement with Merrill Lynch, which requires the Company to make payments to Merrill Lynch contingent upon sales of products and level of AUM maintained in certain BlackRock products. The initial term of the agreement remained in effect until January 2014 and was renewed for one automatic three-year extension.

Contingent Payments Related to Business Acquisitions. In connection with the Credit Suisse ETF Transaction, BlackRock is required to make contingent payments annually to Credit Suisse, subject to achieving specified thresholds during a seven-year period, subsequent to the 2013 acquisition date. In addition, BlackRock is required to make contingent payments related to the MGPA Transaction during a five-year period, subject to achieving specified thresholds, subsequent to the 2013 acquisition date. The fair value of the remaining contingent payments at December 31, 2014 is not significant to the consolidated statement of financial condition and is included in other liabilities.

The following items have not been included in the contractual obligations, commitments and contingencies table:

Carried Interest Clawback. As a general partner in certain investment funds, including private equity partnerships and certain hedge funds, the Company may receive carried interest cash distributions from the partnerships in accordance with distribution provisions of the partnership agreements. The Company may, from time to time, be required to return all or a portion of such distributions to the limited partners in the event the limited partners do not achieve a return as specified in the various partnership agreements. Therefore, BlackRock records carried interest subject to such clawback provisions in investments, or cash to the extent that it is distributed, and as a deferred carried interest liability on its consolidated statements of financial condition. Carried interest is realized and recorded as performance fees on BlackRock's consolidated statements of income upon the earlier of the termination of the investment fund or when the likelihood of clawback is considered mathematically improbable.

Indemnifications. In the ordinary course of business or in connection with certain acquisition agreements, BlackRock enters into contracts pursuant to which it may agree to indemnify third parties in certain circumstances. The terms of these indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined or the likelihood of any liability is considered remote and, therefore, has not been included in the table above or recorded in the consolidated statement of financial condition at December 31, 2014. See further discussion in Note 13, *Commitments and Contingencies*, to the consolidated financial statements beginning on page F-1 of this Form 10-K.

On behalf of certain clients, the Company lends securities to highly rated banks and broker-dealers. In these securities lending transactions, the borrower is required to provide and maintain collateral at or above regulatory minimums. Securities on loan are marked to market daily to determine if the borrower is required to pledge additional collateral. BlackRock has issued certain indemnifications to certain securities lending clients against potential losses resulting from a borrower's failure to fulfill its obligations should the value of the collateral pledged by the borrower at the time of default be insufficient to cover the borrower's obligations under the securities lending agreement. At December 31, 2014, the Company indemnified certain of its clients for their securities lending loan balances of approximately $145.7 billion. The Company held, as agent, cash and securities totaling $155.8 billion as collateral for indemnified securities on loan at December 31, 2014. The fair value of these indemnifications was not material at December 31, 2014.

While the collateral pledged by a borrower is intended to be sufficient to offset the borrower's obligations to return securities borrowed and any other amounts owing to the lender under the relevant securities lending agreement, in the event of a borrower default, the Company can give no assurance that the collateral pledged by the borrower will be sufficient to fulfill such obligations. If the amount of such pledged collateral is not sufficient to fulfill such obligations to a client for whom the Company has provided indemnification, BlackRock would be responsible for the amount of the shortfall. These indemnifications cover only the collateral shortfall described above, and do not in any way guarantee, assume or otherwise insure the investment performance or return of any cash collateral vehicle into which securities lending cash collateral is invested.

Compensation and Benefit Obligations. The Company has various compensation and benefit obligations, including bonuses, commissions and incentive payments payable, defined contribution plan matching contribution obligations, and deferred compensation arrangements, that are excluded from the contractual obligations and commitments table above. Accrued compensation and benefits at December 31, 2014 totaled $1,865 million and included incentive compensation of $1,418 million, deferred compensation of $204 million and other compensation and benefits related obligations of $243 million. Substantially all of the incentive compensation liability was paid in the first quarter of 2015, while the deferred compensation obligations are generally payable over periods up to five years.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenue and expense during the reporting periods. Actual results could differ significantly from those estimates. Management considers the following critical accounting policies important to understanding the consolidated financial statements. For a summary of these and additional accounting policies see Note 2, *Significant Accounting Policies*, in the consolidated financial statements beginning on page F-1 of this Form 10-K.

Consolidation of Sponsored Investment Funds and Securitization Products. The accounting method used by the Company to record its investments depends upon the influence the Company has over the given investee, the sponsored investment funds and securitization products (collectively "investment products"). To the extent that BlackRock has a controlling financial interest in the investment product, which generally exists if there is a 50% or greater voting interest or if partners or members of the investment products do not have substantive rights, BlackRock consolidates the investment product.

For certain investment products in which a controlling financial interest is not directly linked to voting interests, an analysis is performed to determine if the investment product is a VIE or a voting rights entity.

Consolidation of Variable Interest Entities. Certain investment products for which a controlling financial interest is not directly linked to voting interests may be deemed VIEs. BlackRock reviews factors, including the rights of the equity holders and obligations of equity holders to absorb losses or receive expected residual returns, to determine if the investment product is a VIE. BlackRock continuously evaluates such factors as facts and circumstances change to determine if the initial VIE status determination must be reconsidered. BlackRock is required to consolidate a VIE when it is deemed to be the primary beneficiary ("PB"). Significant judgment is required in the determination of whether the Company is the PB of a VIE. If the Company is determined to be the PB of a VIE, BlackRock will consolidate the entity. In order to determine whether the Company is the PB of a VIE, management must make significant estimates and assumptions of projected future cash flows.

Assumptions made in such analyses may include, but are not limited to, market prices of securities, market interest rates, potential credit defaults on individual securities or default rates on a portfolio of securities, prepayments, realization of gains, liquidity or marketability of certain securities, discount rates and the probability of certain other outcomes.

In the normal course of business, the Company is the manager of various types of sponsored investment vehicles, including collateralized debt obligations ("CDOs") or CLOs and sponsored investment funds, which may be considered VIEs. At December 31, 2014, the Company's consolidated VIEs consisted primarily of CLOs.

CLOs. At December 31, 2014, BlackRock was the manager of over 20 CLOs/CDOs and other securitization entities. BlackRock was determined to be the PB for certain of these CLOs, which required BlackRock to consolidate these VIEs. BlackRock was deemed to be the PB because it has the power to direct the activities of the CLOs that most significantly impact the entities' economic performance and has the right to receive benefits that potentially could be significant to the VIE. At December 31, 2014, the Company had $3,615 million and $3,634 million in assets and liabilities, respectively, on its consolidated statement of financial condition related to these consolidated CLOs. The Company recorded appropriated retained earnings for the difference between the assets and liabilities of the CLOs recorded on the consolidated statement of financial condition as the CLO noteholders ultimately will receive the benefits or absorb the losses associated with the CLOs' assets and liabilities. Changes in the fair value of the assets and liabilities of these CLOs have no impact on net income attributable to BlackRock or its cash flows. Excluding outstanding management fee receivables, the Company has no risk of loss related to its involvement with these VIEs.

Consolidation of Voting Rights Entities. To the extent that BlackRock can exert control over the financial and operating policies of the investee, which generally exists if there is a 50% or greater voting interest or if partners or members of certain products do not have substantive rights, BlackRock consolidates the investee.

The Company, as general partner or managing member of certain sponsored investment funds, generally is presumed to control funds that are limited partnerships or limited liability companies. Pursuant to Accounting Standards Codification ("ASC") 810-20, *Control of Partnerships and Similar Entities* ("ASC 810-20"), the Company reviews such investment vehicles to determine if such a presumption can be overcome by determining whether other nonaffiliated partners or members of the limited partnership or limited liability company have the substantive ability to dissolve (liquidate) the investment vehicle, or otherwise to remove BlackRock as the general partner or managing member without cause based on a simple unaffiliated majority vote, or have other substantive participating rights. If the investment vehicle is not a VIE and the presumption of control is not overcome, BlackRock will consolidate the investment vehicle.

See Note 4, *Consolidated Sponsored Investment Funds*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K for amounts included on the Company's consolidated financial statements deemed to be voting rights entities.

Investments

Equity Method Investments. For equity investments where BlackRock does not control the investee, and where it is not the PB of a VIE, but can exert significant influence over the financial and operating policies of the investee, the Company follows the equity method of accounting. The evaluation of whether the Company exerts control or significant influence over the financial and operational policies of its investees requires significant judgment based on the facts and circumstances surrounding each individual investment. Factors considered in these evaluations may include the type of investment, the legal structure of the investee, the terms and structure of the investment agreement, including investor voting or other rights, the terms of BlackRock's advisory agreement or other agreements with the investee, any influence BlackRock may have on the governing board of the investee, the legal rights of other investors in the entity pursuant to the fund's operating documents and the relationship between BlackRock and other investors in the entity.

BlackRock's equity method investees that are investment companies record their underlying investments at fair value. Therefore, under the equity method of accounting, BlackRock's share of the investee's underlying net income predominantly represents fair value adjustments in the investments held by the equity method investees. BlackRock's share of the investee's underlying net income or loss is based upon the most currently available information and is recorded as nonoperating income (expense) for investments in investment companies, or as other revenue for certain strategic investments, which are recorded in other assets, since such investees are considered to be an extension of BlackRock's core business.

At December 31, 2014, the Company had $654 million and $208 million of equity method investments, including equity method investments held for deferred compensation, reflected within investments and other assets, respectively, and at December 31, 2013, the Company had $736 million and $163 million of equity method investees reflected in investments and other assets, respectively.

Impairment of Investments. Management periodically assesses equity method, available-for-sale, held-to-maturity and cost investments for impairment. If circumstances indicate that impairment may exist, investments are evaluated using market values, where available, or the expected future cash flows of the investment. If the undiscounted expected future cash flows are lower than the Company's carrying value of the investment, and the impairment is considered other-than-temporary, an impairment charge is recorded in the consolidated statement of income.

When the fair value of available-for-sale securities is lower than cost, the Company evaluates the security to determine whether the impairment is considered "other-than-temporary". In making this determination for equity securities, the Company considers, among other factors, the length of time the security has been in a loss position, the extent to which the security's market value is less than cost, the financial condition and near-term prospects of the security's issuer and the Company's ability and intent to hold the security for a length of time sufficient to allow for recovery of such unrealized losses. If the impairment is considered other-than-temporary, an impairment charge is recorded in nonoperating income (expense) on the consolidated statement of income. In making this determination for debt securities, the Company considers whether: (1) it has the intent to sell the security; (2) it is more likely than not that it will be required to sell the security before recovery; or (3) it expects to recover the entire amortized cost basis of the security. If the Company does not intend to sell a security and it is not more likely than not that it will be required to sell the security, but the security has suffered a credit loss, the credit loss will be bifurcated from the total impairment and recorded in earnings with the remaining portion recorded in accumulated other comprehensive income.

Evaluation of impairments involves significant assumptions and management judgments, which could differ from actual results, and these differences could have a material impact on the consolidated statements of income.

Fair Value Measurements.

The Company's assessment of the significance of a particular input to the fair value measurement according to the fair value hierarchy (i.e., Level 1, 2 and 3 inputs, as defined) in its entirety requires judgment and considers factors specific to the financial instrument. See Note 2, *Significant Accounting Policies*, in the consolidated financial statements beginning on page F-1 of this Form 10-K for more information on fair value measurements.

Level 3 inputs include the most currently available information, including capital account balances for its partnership interests in various alternative investments, which may be adjusted by using the returns of certain market indices. Certain investments that are valued using net asset values and are subject to current redemption restrictions that will not be lifted in the near term are included in Level 3. BlackRock's $528 million of Level 3 investments, or 27% of total GAAP investments at December 31, 2014, primarily included co-investments in private equity funds of funds and private equity funds, funds of hedge funds as well as alternative hedge funds that invest in distressed credit, opportunistic funds and mortgage securities and real estate equity products. Many of these investees are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund, which could include BlackRock employees. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information, including independent appraisals from third-party sources. However, in some instances current valuation information, for illiquid securities or securities in markets that are not active, may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuations to value these investments.

Changes in Valuation. Changes in value on $1,460 million of investments will impact the Company's nonoperating income (expense), $201 million will impact accumulated other comprehensive income, $175 million are held at cost or amortized cost and the remaining $85 million relates to carried interest, which will not impact nonoperating income (expense). At December 31, 2014, changes in fair value of approximately $713 million of such investments within consolidated sponsored investment funds will impact BlackRock's net income (loss) attributable to noncontrolling interests on the consolidated statements of income. BlackRock's net exposure to changes in fair value of such consolidated sponsored investment funds was $696 million.

Goodwill and Intangible Assets

The value of advisory contracts acquired in business acquisitions to manage AUM in proprietary open-end investment funds as well as collective trust funds without a specified termination date are classified as indefinite-lived intangible assets. The assignment of indefinite lives to such investment fund contracts is based upon the assumption there is no foreseeable limit on the contract period to manage these funds due to the likelihood of continued renewal at little or no cost. In addition, trade names/trademarks are considered indefinite-lived intangibles as they are expected to generate cash flows indefinitely. Goodwill represents the cost of a business acquisition in excess of the fair value of the net assets acquired. In accordance with the applicable provisions of ASC 350, *Intangibles – Goodwill and Other* ("ASC 350"), indefinite-lived intangible assets and goodwill are not amortized. Finite-lived management contracts, which relate to acquired separate accounts and funds with a specified termination date, are amortized over their remaining expected useful lives, which, at December 31, 2014, ranged from 1 to 10 years with a weighted-average remaining estimated useful life of 3.8 years.

Goodwill. The Company assesses its goodwill for impairment at least annually, considering such factors as the book value and the market capitalization of the Company. The impairment assessment performed as of July 31, 2014 indicated no impairment charge was required. The Company continues to monitor its book value per share compared with closing prices of its common stock for potential indicators of impairment. At December 31, 2014, the Company's common stock closed at $357.56 which exceeded its book value, after excluding appropriated retained earnings, of approximately $164.06 per share.

Indefinite-lived and finite-lived intangibles. The Company performs assessments to determine if any intangible assets are impaired and whether the indefinite-life and finite-life classifications are still appropriate. In evaluating whether it is more likely than not that the fair value of indefinite-lived intangibles is less than carrying value, BlackRock performed certain quantitative assessments and assessed various significant qualitative factors including AUM, revenue basis points, projected AUM growth rates, operating margins, tax rates and discount rates. In addition, the Company considered other factors including: (i) macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets; (ii) industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics, a change in the market for an entity's services, or regulatory, legal or political developments; and (iii) entity-specific events, such as a change in management or key personnel, overall financial performance and litigation that could affect significant inputs.

If potential impairment circumstances are considered to exist, the Company will perform an impairment test, using an undiscounted cash flow analysis. Actual results could differ from these cash flow estimates, which could materially impact the impairment conclusion. If the asset is determined to be impaired, the difference between the book value of the asset and its current fair value would be recognized as an expense in the period in which the impairment occurs.

In addition, management judgment is required to estimate the period over which finite-lived intangible assets will contribute to the Company's cash flows and the pattern in which these assets will be consumed. A change in the remaining useful life of any of these assets, or the reclassification of an indefinite-lived intangible asset to a finite-lived intangible asset, could have a significant impact on the Company's amortization expense, which was $157 million, $161 million and $157 million for 2014, 2013 and 2012, respectively.

In 2014, 2013 and 2012, the Company performed impairment tests, including evaluating various qualitative factors and performing certain quantitative assessments in 2014 and 2013. The Company determined that no impairment charges were required, the classification of indefinite-lived versus finite-lived intangibles was still appropriate and no changes to the expected lives of the finite-lived intangibles were required. The Company continuously monitors various factors, including AUM, for potential indicators of impairment.

Income Taxes. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Significant management judgment is required in estimating the ranges of possible outcomes and determining the probability of favorable or unfavorable tax outcomes and potential interest and penalties related to such unfavorable outcomes. Actual future tax consequences relating to uncertain tax positions may be materially different than the Company's current estimates. At December 31, 2014, BlackRock had $379 million of gross unrecognized tax benefits, of which $283 million, if recognized, would affect the effective tax rate.

Management is required to estimate the timing of the recognition of deferred tax assets and liabilities, make assumptions about the future deductibility of deferred income tax assets and assess deferred income tax liabilities based on enacted tax rates for the appropriate tax jurisdictions to determine the amount of such deferred income tax assets and liabilities. At December 31, 2014, the Company had deferred tax assets of $10 million and net deferred tax liabilities of approximately $4,989 million on the consolidated statement of financial condition. Changes in deferred tax assets and liabilities may occur in certain circumstances, including statutory income tax rate changes, statutory tax law changes, changes in the anticipated timing of recognition of deferred tax assets and liabilities or changes in the structure or tax status of the Company.

Company assesses whether a valuation allowance should be established against its deferred income tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. The assessment considers, among other matters, the nature, frequency and severity of recent losses, forecast of future profitability, the duration of statutory carry back and carry forward periods, the Company's experience with tax attributes expiring unused, and tax planning alternatives.

At December 31, 2014, the Company had recorded a deferred tax asset of $157 million for unrealized investment losses; however, no valuation allowance has been established because the Company expects to hold certain investments which invest in fixed income securities over a period sufficient for them to recover their unrealized losses, and generate future capital gains sufficient to offset the unrealized capital losses. Based on the weight of available evidence, it is more likely than not that the deferred tax asset will be realized. However, changes in circumstance could cause the Company to revalue its deferred tax balances with the resulting change impacting the consolidated statements of income in the period of the change. Such changes may be material to the Company's consolidated financial statements. See Note 20, *Income Taxes*, to the consolidated financial statements beginning on page F-1 of this Form 10-K for further details.

The Company records income taxes based upon its estimated income tax liability or benefit. The Company's actual tax liability or benefit may differ from the estimated income tax liability or benefit. The Company had current income taxes receivables of approximately $117 million and current income taxes payables of $125 million at December 31, 2014.

Revenue Recognition. Investment advisory and administration fees are recognized as the services are performed. Such fees are primarily based on pre-determined percentages of the market value of AUM or, in the case of certain real estate clients, net operating income generated by the underlying properties. Investment advisory and administration fees are affected by changes in AUM, including market appreciation or depreciation, foreign exchange translation and net inflows or outflows.

Investment advisory and administration fees for investment funds are shown net of fees waived pursuant to contractual expense limitations of the funds or voluntary waivers.

The Company contracts with third parties and related parties for various fund distribution and shareholder servicing to be performed on behalf of certain funds the Company manages. Such arrangements generally are priced as a portion of the management fee paid by the fund. In certain cases, the fund takes on the primary responsibility for payment for services such that the Company bears no credit risk to the third party. The Company accounts for such retrocession arrangements in accordance with ASC 605-45, *Revenue Recognition — Principal Agent Considerations* ("ASC 605-45"), and records its management fees net of retrocessions. Retrocessions for 2014, 2013 and 2012 were $891 million, $785 million and $793 million, respectively. The Company has additional contracts for similar services with third parties, which due to the terms of the contracts, are recorded as distribution and servicing costs and thus not netted on the consolidated statements of income.

The Company earns revenue by lending securities on behalf of clients to highly rated banks and broker-dealers. Revenue is accounted for on an accrual basis. The securities loaned are secured by collateral, generally ranging from 102% to 112% of the value of the loaned securities. Generally, the revenue earned is shared between the Company and the funds or accounts managed by the Company from which the securities are borrowed. For 2014, 2013 and 2012, securities lending revenue totaled $477 million, $447 million and $510 million, respectively, and is recorded in investment advisory, administration fees and securities lending revenue on the consolidated statements of income. Investment advisory, administration fees and securities lending revenue are reported together as the fees for these services often are agreed upon with clients as a bundled fee.

The Company receives investment advisory performance fees or incentive allocations, from certain actively managed investment funds and certain SMAs. These performance fees are dependent upon exceeding specified relative or absolute investment return thresholds. Such fees are recorded upon completion of the measurement period, which varies by product or account, and could be monthly, quarterly, annually or longer.

In addition, the Company receives carried interest from certain alternative investment products upon exceeding performance thresholds. BlackRock may be required to return all, or part, of such carried interest depending upon future performance of these funds. Therefore, BlackRock records carried interest subject to such clawback provisions in investments or cash to the extent that it is distributed, on its consolidated statements of financial condition. Carried interest is recorded as performance fee revenue upon the earlier of the termination of the investment fund or when the likelihood of clawback is considered mathematically improbable.

The Company records a deferred carried interest liability to the extent it receives cash or capital allocations related to carried interest prior to meeting the revenue recognition criteria. At December 31, 2014 and 2013, the Company had $105 million and $108 million, respectively, of deferred carried interest recorded in other liabilities on the consolidated statements of financial condition. The ultimate recognition of performance fee revenue, if any, for these products is unknown.

For the years ended 2014, 2013 and 2012, performance fee revenue totaled $550 million, $561 million and $463 million, respectively.

Fees earned for *BlackRock Solutions*, which include advisory services, are recorded as services are performed or when completed and are determined using some, or all, of the following methods: (i) percentages of various attributes of advisory AUM or value of positions on the *Aladdin* platform, (ii) fixed fees and (iii) performance fees if contractual thresholds are met. Revenue earned on advisory assignments was comprised of one-time advisory and portfolio structuring fees and ongoing fees based on AUM of the respective portfolio assignment. For 2014, 2013 and 2012, *BlackRock Solutions* and advisory revenue totaled $635 million, $577 million and $518 million, respectively.

Adjustments to revenue arising from initial estimates recorded historically have been immaterial since the majority of BlackRock's investment advisory and administration revenue is calculated based on AUM and since the Company does not record performance revenues until performance thresholds have been exceeded and the likelihood of clawback is mathematically improbable.

RECENT DEVELOPMENTS

Accounting Developments

For accounting pronouncements that the Company adopted during 2014 and for recent accounting pronouncements not yet adopted, see Note 2, *Significant Accounting Policies*, in the consolidated financial statements beginning on page F-1 of this Form 10-K.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

AUM Market Price Risk. BlackRock's investment advisory and administration fees are primarily comprised of fees based on a percentage of the value of AUM and, in some cases, performance fees expressed as a percentage of the returns realized on AUM. At December 31, 2014, the majority of the Company's investment advisory and administration fees were based on average or period end AUM of the applicable investment funds or separate accounts. Movements in equity market prices, interest rates/credit spreads, foreign exchange rates or all three could cause the value of AUM to decline, which would result in lower investment advisory and administration fees.

Corporate Investments Portfolio Risks. As a leading investment management firm, BlackRock devotes significant resources across all of its operations to identifying, measuring, monitoring, managing and analyzing market and operating risks, including the management and oversight of its own investment portfolio. The Board of Directors of the Company has adopted guidelines for the review of investments to be made by the Company, requiring, among other things, that investments be reviewed by certain senior officers of the Company, and that certain investments may be referred to the Audit Committee or the Board of Directors, depending on the circumstances, for approval.

In the normal course of its business, BlackRock is exposed to equity market price risk, interest rate/credit spread risk and foreign exchange rate risk associated with its corporate investments.

BlackRock has investments primarily in sponsored investment products that invest in a variety of asset classes, including real estate, private equity and hedge funds. Investments generally are made for co-investment purposes, to establish a performance track record, to hedge exposure to certain deferred compensation plans or for regulatory purposes. Currently, the Company has a seed capital hedging program in which it enters into swaps to hedge market and interest rate exposure to certain investments. At December 31, 2014, the Company had outstanding total return swaps and interest rate swaps with an aggregate notional value of approximately $238 million and $84 million, respectively.

At December 31, 2014, approximately $713 million of BlackRock's total investments were maintained in sponsored investment funds deemed to be controlled by BlackRock in accordance with GAAP and, therefore, are consolidated even though BlackRock may not own a majority of such funds. Excluding the impact of the Federal Reserve Bank stock, carried interest, investments made to hedge exposure to certain deferred compensation plans and certain investments that are hedged via the seed capital hedging program, the Company's economic exposure to its investment portfolio is $1,319 million. See *Balance Sheet Overview-Investments* in Management's Discussion and Analysis of Financial Condition and Results of Operations for further information on the Company's investments.

Equity Market Price Risk. At December 31, 2014, the Company's net exposure to equity market price risk in its investment portfolio was approximately $807 million of the Company's total economic investment exposure. Investments subject to market price risk include private equity and real estate investments, hedge funds and funds of funds as well as mutual funds. The Company estimates that a hypothetical 10% adverse change in market prices would result in a decrease of approximately $80.7 million in the carrying value of such investments.

Interest Rate/Credit Spread Risk. At December 31, 2014, the Company was exposed to interest-rate risk and credit spread risk as a result of approximately $512 million of investments in debt securities and sponsored investment products that invest primarily in debt securities. Management considered a hypothetical 100 basis point fluctuation in interest rates or credit spreads and estimates that the impact of such a fluctuation on these investments, in the aggregate, would result in a decrease, or increase, of approximately $4.8 million in the carrying value of such investments.

Foreign Exchange Rate Risk. As discussed above, the Company invests in sponsored investment products that invest in a variety of asset classes. The carrying value of the total economic investment exposure denominated in foreign currencies, primarily the pound sterling and euro, was $139 million at December 31, 2014. A 10% adverse change in the applicable foreign exchange rates would result in approximately a $13.9 million decline in the carrying value of such investments.

Other Market Risks. The Company executes forward foreign currency exchange contracts to mitigate the risk of certain foreign exchange risk movements. At December 31, 2014, the Company had outstanding forward foreign currency exchange contracts with an aggregate notional value of approximately $201 million.

Item 8. Financial Statements and Supplemental Data

The report of the independent registered public accounting firm and financial statements listed in the accompanying index are included in Item 15 of this report. See Index to the consolidated financial statements on page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements on accounting and financial disclosure matters. BlackRock has not changed accountants in the two most recent fiscal years.

Item 9a. Controls and Procedures

Disclosure Controls and Procedures. Under the direction of BlackRock's Chief Executive Officer and Chief Financial Officer, BlackRock evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, BlackRock's Chief Executive Officer and Chief Financial Officer have concluded that BlackRock's disclosure controls and procedures were effective.

Internal Control Over Financial Reporting. Except for the application of the updated Internal Control — Integrated Framework released by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013, there were no changes in our internal control over financial reporting that occurred during the fourth quarter of the fiscal year ending December 31, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.