

BlackRock Inc.  
Form 10-K  
February 27, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to            .**

**Commission File No. 001-33099**

**BlackRock, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**32-0174431**  
**(I.R.S. Employer**  
**Identification No.)**

**55 East 52nd Street, New York, NY 10055**  
**(Address of Principal Executive Offices)**

**(212) 810-5300**  
**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$.01 par value</b>	<b>New York Stock Exchange</b>

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known, seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

## Edgar Filing: BlackRock Inc. - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting common stock and nonvoting common stock equivalents held by nonaffiliates of the registrant as of June 30, 2014 was approximately \$52.6 billion.

As of January 31, 2015, there were 165,405,059 shares of the registrant's common stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents are incorporated by reference herein:

Portions of the definitive Proxy Statement of BlackRock, Inc. to be filed pursuant to Regulation 14A of the general rules and regulations under the Securities Exchange Act of 1934, as amended, for the 2015 annual meeting of stockholders to be held on May 28, 2015 ( Proxy Statement ) are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

**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 assets under management ( AUM ) at December 31, 2014. With employees in more than 30 countries who serve clients in over 100 countries across the globe, BlackRock provides a broad range of investment and risk management services to institutional and retail clients worldwide.

Our diverse platform of active (alpha) and index (beta) investment strategies across asset classes enables the Company to tailor investment outcomes and asset allocation solutions for clients. Our product offerings include single- and multi-asset class portfolios investing in equities, fixed income, alternatives and money market instruments. Products are offered directly and through intermediaries in a variety of vehicles, including open-end and closed-end mutual funds, *iShares*<sup>®</sup> exchange-traded funds ( ETFs ), separate accounts, collective investment funds and other pooled investment vehicles. We also offer our *BlackRock Solutions*<sup>®</sup> ( BRS ) investment and risk management technology platform, *Aladdin*<sup>®</sup>, risk analytics and advisory services and solutions to a broad base of institutional investors. The Company is highly regulated and serves its clients as a fiduciary. We do not engage in proprietary trading activities that could conflict with the interests of our clients.

BlackRock serves a diverse mix of institutional and retail clients across the globe. Clients include tax-exempt institutions, such as defined benefit and defined contribution pension plans, charities, foundations and endowments; official institutions, such as central banks, sovereign wealth funds, supranationals and other government entities; taxable institutions, including insurance companies, financial institutions, corporations and third-party fund sponsors, and retail investors.

BlackRock maintains a significant global sales and marketing presence that is focused on establishing and maintaining retail and institutional investment management relationships by marketing its services to investors directly and through financial professionals and pension consultants, and establishing third-party distribution relationships.

BlackRock is an independent, publicly traded company, with no single majority shareholder and over two-thirds of its Board of Directors consisting of independent directors. At December 31, 2014, The PNC Financial Services Group, Inc. ( PNC ) held 21.0% of BlackRock 's voting common stock and 22.0% of BlackRock 's capital stock, which includes outstanding common stock and nonvoting preferred stock.

Management seeks to achieve attractive returns for stockholders over time by, among other things, capitalizing on the following factors:

the Company's focus on strong performance providing alpha for active products and limited or no tracking error for index products;

the Company's global reach and commitment to best practices around the world, with approximately 48% of employees outside the United States supporting local investment capabilities and serving clients, and approximately 43% of total AUM managed for clients domiciled outside the United States;

the Company's diversified active and index product offerings, which enhance its ability to offer a variety of traditional and alternative investment products across the risk spectrum and to tailor single- and multi-asset investment solutions to address specific client needs;

the Company's differentiated client relationships and fiduciary focus, which enable effective positioning toward changing client needs and macro trends including the secular shift to passive investing and ETFs, a focus on income and retirement, and barbellings of risk using index and active products, including alternatives; and

the Company's longstanding commitment to risk management and the continued development of, and increased interest in, BRS products and services.

BlackRock operates in a global marketplace characterized by a high degree of market volatility and economic uncertainty, factors that can significantly affect earnings and stockholder returns in any given period.

The Company's ability to increase revenue, earnings and stockholder value over time is predicated on its ability to generate new business, including business in BRS products and services. New business efforts are dependent on BlackRock's ability to achieve clients' investment objectives in a manner consistent with their risk preferences and to deliver excellent client service. All of these efforts require the commitment and contributions of BlackRock employees. Accordingly, the ability to attract, develop and retain talented professionals is critical to the Company's long-term success.

Table of Contents**FINANCIAL HIGHLIGHTS**

<i>(in millions, except per share data)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>5-Year CAGR<sup>(4)</sup></b>
Total revenue	<b>\$ 11,081</b>	\$ 10,180	\$ 9,337	\$ 9,081	\$ 8,612	<b>19%</b>
Operating income	<b>\$ 4,474</b>	\$ 3,857	\$ 3,524	\$ 3,249	\$ 2,998	<b>28%</b>
Operating margin	<b>40.4%</b>	37.9%	37.7%	35.8%	34.8%	<b>8%</b>
Nonoperating income (expense) <sup>(1)</sup>	<b>\$ (49)</b>	\$ 97	\$ (36)	\$ (116)	\$ 36	<b>n/a</b>
Net income attributable to BlackRock, Inc.	<b>\$ 3,294</b>	\$ 2,932	\$ 2,458	\$ 2,337	\$ 2,063	<b>30%</b>
Diluted earnings per common share	<b>\$ 19.25</b>	\$ 16.87	\$ 13.79	\$ 12.37	\$ 10.55	<b>26%</b>

<i>(in millions, except per share data)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>5-Year CAGR<sup>(4)</sup></b>
As adjusted <sup>(2)</sup> :						
Operating income	<b>\$ 4,563</b>	\$ 4,024	\$ 3,574	\$ 3,392	\$ 3,167	<b>24%</b>
Operating margin <sup>(2)</sup>	<b>42.9%</b>	41.4%	40.4%	39.7%	39.3%	<b>2%</b>
Nonoperating income (expense) <sup>(1)</sup>	<b>\$ (56)</b>	\$ 7	\$ (42)	\$ (113)	\$ 25	<b>n/a</b>
Net income attributable to BlackRock, Inc. <sup>(3)</sup>	<b>\$ 3,310</b>	\$ 2,882	\$ 2,438	\$ 2,239	\$ 2,139	<b>27%</b>
Diluted earnings per common share <sup>(3)</sup>	<b>\$ 19.34</b>	\$ 16.58	\$ 13.68	\$ 11.85	\$ 10.94	<b>22%</b>

n/a not applicable

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

(2) BlackRock reports its financial results in accordance with accounting principles generally accepted in the United States ( GAAP ); however, management believes evaluating the Company s ongoing operating results may be enhanced if investors have additional non-GAAP financial measures.

See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures, for further information on non-GAAP financial measures and for as adjusted items for 2014, 2013 and 2012. In 2011, operating income, as adjusted, included U.K. lease exit costs which represent costs to exit two locations in London and restructuring charges. In 2010, operating income, as adjusted, excluded certain expenses incurred related to the integration of the acquisition of Barclays Global Investors ( BGI ). In 2011 and 2010, 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. 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).

(3) Net income attributable to BlackRock, Inc., as adjusted, and diluted earnings per common share, as adjusted exclude the after-tax impact of the items listed above and also include the effect on deferred income tax expense attributable to changes in corporate income tax rates as a result of income tax law changes and a state tax election.

(4) Percentage represents compounded annual growth rate ( CAGR ) over a five-year period (2009-2014).

#### ASSETS UNDER MANAGEMENT

The Company's AUM by product type for the years 2010 through 2014 is presented below.

<i>(in millions)</i>	December 31,					5-Year CAGR <sup>(1)</sup>
	2014	2013	2012	2011	2010	
Equity	\$ 2,451,111	\$ 2,317,695	\$ 1,845,501	\$ 1,560,106	\$ 1,694,467	10%
Fixed income	1,393,653	1,242,186	1,259,322	1,247,722	1,141,324	6%
Multi-asset	377,837	341,214	267,748	225,170	185,587	22%
Alternatives	111,240	111,114	109,795	104,948	109,738	2%
Long-term	4,333,841	4,012,209	3,482,366	3,137,946	3,131,116	9%
Cash management	296,353	275,554	263,743	254,665	279,175	(3)%
Advisory	21,701	36,325	45,479	120,070	150,677	(33)%
Total	\$ 4,651,895	\$ 4,324,088	\$ 3,791,588	\$ 3,512,681	\$ 3,560,968	7%

(1) Percentage represents CAGR over a five-year period (2009-2014).



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Component changes in AUM by product type for the five years ended December 31, 2014 are presented below.

<i>(in millions)</i>	<b>December 31, 2009</b>	<b>Net Inflows (Outflows)</b>	<b>Adjustment/ Acquisition<sup>(1)</sup></b>	<b>Market Change</b>	<b>FX Impact</b>	<b>December 31, 2014</b>	<b>5-Year CAGR</b>
Equity	\$ 1,536,055	\$ 270,872	\$ (125,860)	\$ 831,522	\$ (61,478)	\$ 2,451,111	<b>10%</b>
Fixed income	1,055,627	82,232	(14,270)	297,702	(27,638)	1,393,653	<b>6%</b>
Multi-asset	142,029	156,003	9,499	83,397	(13,091)	377,837	<b>22%</b>
Alternatives	102,101	(11,759)	18,956	4,298	(2,356)	111,240	<b>2%</b>
Long-term	<b>2,835,812</b>	<b>497,348</b>	<b>(111,675)</b>	<b>1,216,919</b>	<b>(104,563)</b>	<b>4,333,841</b>	<b>9%</b>
Cash management	349,277	(43,523)	(5,914)	3,182	(6,669)	296,353	<b>(3)%</b>
Advisory	161,167	(137,078)	(10)	1,136	(3,514)	21,701	<b>(33)%</b>
Total	<b>\$ 3,346,256</b>	<b>\$ 316,747</b>	<b>\$ (117,599)</b>	<b>\$ 1,221,237</b>	<b>\$ (114,746)</b>	<b>\$ 4,651,895</b>	<b>7%</b>

(1) Amounts include acquisition adjustments and reclassification of certain AUM acquired from BGI in December 2009. Amounts also include AUM acquired from Swiss Re Private Equity Partners ( SRPEP ) in September 2012, Claymore Investments, Inc. ( Claymore ) in March 2012, Credit Suisse s ETF franchise ( Credit Suisse ETF Transaction ) in July 2013 and MGPA in October 2013, and other reclassifications to conform to current period combined AUM policy and presentation. Amounts also include BGI merger-related outflows due to manager concentration considerations prior to the third quarter of 2011 and outflows from scientific active equity performance prior to the second quarter of 2011. As a result of client investment manager concentration limits and the scientific active equity performance, outflows were expected to occur for a period of time subsequent to the close of the transaction.

AUM represents the broad ranges of financial assets we manage for clients on a discretionary basis pursuant to investment management agreements that are expected to continue for at least 12 months. In general, reported AUM reflects the valuation methodology that corresponds to the basis used for billing (for example, net asset value). Reported AUM does not include assets for which we provide risk management or other forms of nondiscretionary advice, or assets that we are retained to manage on a short-term, temporary basis.

Investment management fees are typically expressed as a percentage of AUM. We also earn performance fees on certain portfolios relative to an agreed-upon benchmark or return hurdle. On some products, we also may earn securities lending fees. In addition, BlackRock offers its

proprietary *Aladdin* investment system as well as risk management, outsourcing and advisory services, to institutional investors under the BRS name. Revenue for these services may be based on several criteria including value of positions, number of users, accomplishment of specific deliverables or other objectives.

At December 31, 2014, total AUM was \$4.652 trillion, representing a CAGR of 7% over the last five years. AUM growth during the period was achieved through the combination of net market valuation gains, net new business and acquisitions, including Claymore and SRPEP, which added \$13.7 billion of AUM in 2012, and Credit Suisse and

MGPA, which collectively added \$26.9 billion of AUM in 2013. Our AUM mix encompasses a broadly diversified product range, as described below.

The Company considers the categorization of its AUM by client type, product type, investment style and client region useful to understanding its business. The following discussion of the Company's AUM will be organized as follows:

<b>Client Type</b>	<b>Product Type</b>	<b>Client Region</b>
• Retail	• Equity	• Americas
• <i>iShares</i>	• Fixed Income	• Europe, the Middle East and Africa ( EMEA )
• Institutional	• Multi-asset	• Asia-Pacific
	• Alternatives	
	• Cash Management	

#### **CLIENT TYPE**

Our organizational structure was designed to ensure that strong investment performance is our highest priority, and that we best align with our clients' needs to capitalize on broader industry trends. Furthermore, our structure

facilitates strong teamwork globally across both functions and regions in order to enhance our ability to leverage best practices to serve our clients and continue to develop our talent. Specifically, our investments functions are split into five distinct strategies: Alpha, Beta, Multi-Asset, Alternatives and Trading/Liquidity.

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We serve a diverse mix of institutional and retail clients across the globe. Clients include tax-exempt institutions, such as defined benefit and defined contribution pension plans, charities, foundations and endowments; official institutions, such as central banks, sovereign wealth funds, supranationals and other government entities; taxable

institutions, including insurance companies, financial institutions, corporations and third-party fund sponsors, and retail investors. *iShares* is presented as a separate client type below, with investments in *iShares* by institutions and retail clients excluded from figures and discussions in their respective sections below.

AUM by investment style and client type at December 31, 2014 is presented below.

<i>(in millions)</i>	<b>Retail</b>	<b><i>iShares</i></b>	<b>Institutional</b>	<b>Total</b>
Active	\$ 494,455	\$	\$ 959,160	\$ 1,453,615
Non-ETF Index	39,874		1,816,124	1,855,998
<i>iShares</i>		1,024,228		1,024,228
<b>Long-term</b>	<b>534,329</b>	<b>1,024,228</b>	<b>2,775,284</b>	<b>4,333,841</b>
Cash management	41,841		254,512	296,353
Advisory			21,701	21,701
<b>Total AUM</b>	<b>\$ 576,170</b>	<b>\$ 1,024,228</b>	<b>\$ 3,051,497</b>	<b>\$ 4,651,895</b>

*Retail*

BlackRock serves retail investors globally through a wide array of vehicles across the active and passive spectrum, including separate accounts, open-end and closed-end funds, unit trusts and private investment funds. Retail investors are served principally through intermediaries, including broker-dealers, banks, trust companies, insurance companies and independent financial advisors. Clients invest primarily in mutual funds, which totaled \$440.2

billion, or 82%, of retail long-term AUM at year-end, with the remainder invested in private investment funds and separately managed accounts ( SMAs ). The majority (93%) of long-term retail AUM is invested in active products, although this is impacted by *iShares* being shown separately. Retail represented 12% of long-term AUM at December 31, 2014 and 35% of long-term base fees for 2014.

Component changes in retail AUM for 2014 are presented below.

*(in millions)*

**Net Inflows**

	December 31, 2013		Market Change	FX Impact	December 31, 2014
Equity	\$ 203,035	\$ 1,582	\$ 1,831	\$ (6,003)	\$ 200,445
Fixed income	151,475	36,995	3,698	(2,348)	189,820
Multi-asset class	117,054	13,366	(4,080)	(999)	125,341
Alternatives	16,213	3,001	152	(643)	18,723
<b>Total Retail</b>	<b>\$ 487,777</b>	<b>\$ 54,944</b>	<b>\$ 1,601</b>	<b>\$ (9,993)</b>	<b>\$ 534,329</b>

The retail client base is diversified geographically, with 71% of long-term AUM managed for investors based in the Americas, 23% in EMEA and 6% in Asia-Pacific at year-end 2014.

U.S. retail long-term net inflows of \$31.6 billion, or 10% organic growth, were led by fixed income inflows of \$23.3 billion. Fixed income net inflows were diversified across exposures and products, with strong flows into our unconstrained, high yield and core bond offerings. Multi-asset class net inflows of \$6.7 billion were driven by demand for our Multi-Asset Income fund, which had \$5.0 billion of net inflows. Our suite of retail alternatives mutual funds continued to gain traction, raising \$2.7 billion of net inflows, and we remain committed to broadening the distribution of alternatives funds to bring institutional-quality alternatives products to retail investors. Net inflows across fixed income, multi-asset class and alternatives were partially offset by equity net outflows of \$1.0 billion, driven by historical performance-related redemptions from U.S. large cap equities, but we continue to make progress on the reinvigoration and globalization of our fundamental active equity business.

International retail long-term net inflows of \$23.4 billion, representing 15% organic growth, were positive across major regions and diversified across asset classes. Fixed income products generated net inflows of \$13.7 billion, led by short duration and unconstrained strategies as investors looked to manage duration and generate yield in their portfolios. Multi-asset class net inflows of \$6.7 billion were driven by flows into the cross-border versions of our Global Allocation and Multi-Asset Income funds. Equity net inflows of \$2.6 billion reflected strong flows into index mutual funds, partially offset by outflows from our European Equities suite, due to macro headwinds as European market sentiment declined.

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*iShares* is the leading ETF provider in the world, with \$1.0 trillion of AUM at December 31, 2014 and was the top asset gatherer globally in 2014<sup>1</sup> with \$100.6 billion of net inflows for an organic growth rate of 11%. Equity net inflows of \$59.6 billion were driven by flows into the Core Series and into funds with broad U.S. equity market exposures, partially offset by outflows from emerging markets products. Fixed income net inflows of \$40.0 billion were diversified across exposures and product lines, with European-listed *iShares* raising \$16.6 billion, or 41%, of fixed income net inflows. *iShares* multi-asset class and alternatives funds contributed a combined \$1.0 billion of net inflows, primarily into commodities. *iShares* represented 24% of long-term AUM at December 31, 2014 and 35% of long-term base fees for 2014.

Component changes in *iShares* AUM for 2014 are presented below.

<i>(in millions)</i>	<b>December 31, 2013</b>	<b>Net Inflows</b>	<b>Market Change</b>	<b>FX Impact</b>	<b>December 31, 2014</b>
Equity	\$ 718,135	\$ 59,626	\$ 26,517	\$ (14,211)	\$ 790,067
Fixed income	178,835	40,007	4,905	(6,076)	217,671
Multi-asset class	1,310	439	37	(13)	1,773
Alternatives <sup>(1)</sup>	16,092	529	(1,722)	(182)	14,717
<b>Total <i>iShares</i></b>	<b>\$ 914,372</b>	<b>\$ 100,601</b>	<b>\$ 29,737</b>	<b>\$ (20,482)</b>	<b>\$ 1,024,228</b>

(1) Amounts include commodity *iShares*.

Our broad *iShares* product range offers investors a precise, transparent and efficient way to tap market returns and gain access to a full range of asset classes and global markets that have been difficult for many investors to access, as well as the liquidity required to make adjustments to their exposures quickly and cost-efficiently.

U.S. *iShares* AUM ended at \$752.0 billion with \$80.6 billion of net inflows driven by strong demand for U.S. equities as well as a diverse range of fixed income products.<sup>2</sup> During the fourth quarter of 2012, we debuted the Core Series in the United States and in 2014 we doubled the range by adding 10 funds, as buy-and-hold investors increasingly turn to *iShares* to efficiently construct larger portions of their portfolios. The U.S. Core Series again demonstrated solid results in its second full year, raising \$25.7 billion in net inflows, primarily in U.S. equity and U.S. aggregate bond exposures.

International *iShares* AUM ended at \$272.2 billion with robust net new business of \$20.0 billion led by fixed income net inflows of \$17.0 billion, primarily into yield-focused categories including investment grade corporate and emerging markets debt.<sup>2</sup> In 2014, we expanded our international presence and offerings among buy-and-hold investors through the launches of Core Series product lines in Canada and Europe.

*Institutional*

BlackRock's institutional AUM is well diversified by both product and region, and we serve institutional investors on six continents in sub-categories including: pensions, endowments and foundations, official institutions, and financial institutions.

1 Source: BlackRock; Bloomberg

2 Regional *iShares* amounts based on jurisdiction of product, not underlying client

Component changes in Institutional AUM for 2014 are presented below.

<i>(in millions)</i>	December 31, 2013	Net Inflows (Outflows)	Market Change	FX Impact	December 31, 2014
<b>Active:</b>					
Equity	\$ 138,726	\$ (18,648)	\$ 9,935	\$ (4,870)	\$ 125,143
Fixed income	505,109	(6,943)	34,062	(13,638)	518,590
Multi-asset class	215,276	15,835	23,435	(11,633)	242,913
Alternatives	73,299	(664)	1,494	(1,615)	72,514
Active subtotal	932,410	(10,420)	68,926	(31,756)	959,160
<b>Index:</b>					
Equity	1,257,799	9,860	102,549	(34,752)	1,335,456
Fixed income	406,767	26,347	56,086	(21,628)	467,572
Multi-asset class	7,574	(735)	1,652	(681)	7,810
Alternatives	5,510	656	(693)	(187)	5,286
Index subtotal	1,677,650	36,128	159,594	(57,248)	1,816,124
<b>Total Institutional</b>	<b>\$ 2,610,060</b>	<b>\$ 25,708</b>	<b>\$ 228,520</b>	<b>\$ (89,004)</b>	<b>\$ 2,775,284</b>

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Institutional active AUM ended 2014 at \$959.2 billion, up \$26.8 billion, or 3%, since year-end 2013. Institutional active represented 22% of long-term AUM and 20% of long-term base fees. Growth in AUM reflected continued strength in multi-asset class products with net inflows of \$15.8 billion largely from defined contribution plans into target date offerings. Multi-asset class net inflows were offset by equity net outflows of \$18.6 billion, with 63% of outflows coming from fundamental strategies. Fixed income net outflows of \$6.9 billion were primarily due to several large client-specific asset allocation decisions and corporate actions such as client acquisitions. These events offset positive momentum in credit mandates. Alternatives net outflows of \$0.7 billion included \$3.1 billion of return of capital; excluding return of capital, alternatives net inflows of \$2.4 billion were led by inflows into hedge fund and private equity solutions.

Institutional index AUM totaled \$1.816 trillion at December 31, 2014, reflecting net inflows of \$36.1 billion. Flows were led by fixed income with net inflows of \$26.3 billion, primarily into local currency, U.S. targeted duration and global bond mandates, reflecting solutions-based LDI activity and portfolio rebalancing. Equities saw net inflows of \$9.9 billion, primarily into global mandates, as clients increasingly looked to use passive vehicles for broad macro exposure. Institutional index represented 42% of long-term AUM at December 31, 2014 and accounted for 10% of long-term base fees for 2014.

The Company's institutional clients consist of the following:

Pensions, Foundations and Endowments. BlackRock is among the largest managers of pension plan assets in the world with \$1.877 trillion, or 68%, of long-term institutional AUM managed for defined benefit, defined contribution and other pension plans for corporations, governments and unions at December 31, 2014. The market landscape is shifting from defined benefit to defined contribution, driving strong flows in our defined contribution channel, which had \$29.3 billion of long-term net inflows for the year, or 6% organic growth, driven by continued demand for our *LifePath*<sup>®</sup> target-date suite. We ended 2014 with \$599.2 billion in defined contribution AUM, and remain well positioned to capitalize on the on-going evolution of the defined contribution market and demand for outcome-oriented investments. An additional \$55.6 billion, or 2% of long-term institutional AUM, was managed for other tax-exempt investors, including charities, foundations and endowments.

Official Institutions. We also managed \$228.8 billion, or 8%, of long-term institutional AUM for official institutions, including central banks, sovereign wealth funds, supranationals, multilateral entities and government ministries and agencies at year-end 2014. These clients often require specialized investment advice, the use of customized benchmarks and training support.

Financial and Other Institutions. BlackRock is a top independent manager of assets for insurance companies, which accounted for \$233.7 billion, or 8%, of institutional long-term AUM at year-end 2014. Assets managed for other taxable institutions, including corporations, banks and third-party fund sponsors for which we provide sub-advisory services, totaled \$379.9 billion, or 14%, of long-term institutional AUM at year-end.

**PRODUCT TYPE**

Component changes in AUM by product type and investment style for 2014 are presented below.

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



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Long-term product offerings include active and index strategies. Our active strategies seek to earn attractive returns in excess of a market benchmark or performance hurdle while maintaining an appropriate risk profile. We offer two types of active strategies: those that rely primarily on fundamental research and those that utilize primarily quantitative models to drive portfolio construction. In contrast, index strategies seek to closely track the returns of a corresponding index, generally by investing in substantially the same underlying securities within the index or in a subset of those securities selected to approximate a similar risk and return profile of the index. Index strategies include both our non-ETF index products and *iShares* ETFs.

Although many clients use both active and index strategies, the application of these strategies may differ. For example, clients may use index products to gain exposure to a market or asset class. In addition, institutional non-ETF index assignments tend to be very large (multi-billion dollars) and typically reflect low fee rates. This has the potential to exaggerate the significance of net flows in institutional index products on BlackRock's revenues and earnings.

*Equity*

Year-end 2014 equity AUM of \$2.451 trillion increased by \$133.4 billion, or 6%, from the end of 2013 due to net new business of \$52.4 billion and net market appreciation and foreign exchange movements of \$81.0 billion. Net inflows were driven by \$59.6 billion and \$17.7 billion into *iShares* and non-ETF index accounts, respectively. Index inflows were offset by active net outflows of \$24.9 billion, with outflows of \$18.0 billion and \$6.9 billion from fundamental and scientific active equity products, respectively.

BlackRock's effective fee rates fluctuate due to changes in AUM mix. Approximately half of BlackRock's equity AUM is

tied to international markets, including emerging markets, which tend to have higher fee rates than similar U.S. equity strategies. Accordingly, fluctuations in international equity markets, which do not consistently move in tandem with U.S. markets, may have a greater impact on BlackRock's effective equity fee rates and revenues.

*Fixed Income*

Fixed income AUM ended 2014 at \$1.394 trillion, increasing \$151.5 billion, or 12%, from December 31, 2013. The increase in AUM reflected \$96.4 billion in net new business and \$55.1 billion in net market appreciation and foreign exchange movements. In 2014, net new business was diversified across fixed income offerings, with strong flows into our unconstrained, total return and high yield products. Flagship funds in these product areas include our unconstrained Strategic Income Opportunities and Fixed Income Global Opportunities funds, with net inflows of \$13.3 billion and \$4.2 billion, respectively; our Total Return fund with net inflows of \$2.1 billion; and our High Yield Bond fund with net inflows of \$2.1 billion. Fixed income net inflows were positive across investment styles, with *iShares*, non-ETF index, and active net inflows of \$40.0 billion, \$28.7 billion and \$27.7 billion, respectively.

*Multi-Asset Class*

BlackRock's multi-asset class team manages a variety of balanced funds and bespoke mandates for a diversified client base that leverages our broad investment expertise in global equities, currencies, bonds and commodities, and our extensive risk management capabilities. Investment solutions might include a combination of long-only portfolios and alternative investments as well as tactical asset allocation overlays.

Component changes in multi-asset class AUM for 2014 are presented below.

<i>(in millions)</i>	December 31, 2013	Net Inflows (Outflows)	Market Change	FX Impact	December 31, 2014
Asset allocation and balanced	\$ 169,604	\$ 18,387	\$ (827)	\$ (4,132)	\$ 183,032
Target date/risk	111,408	10,992	7,083	(872)	128,611
Fiduciary	60,202	(474)	14,788	(8,322)	66,194
<b>Multi-asset</b>	<b>\$ 341,214</b>	<b>\$ 28,905</b>	<b>\$ 21,044</b>	<b>\$ (13,326)</b>	<b>\$ 377,837</b>

Flows reflected ongoing institutional demand for our solutions-based advice with \$15.1 billion, or 52%, of net inflows coming from institutional clients. Defined contribution plans of institutional clients remained a significant driver of flows, and contributed \$12.8 billion to institutional multi-asset class net new business in 2014, primarily into target date and target risk product offerings. Retail net inflows of \$13.4 billion were driven by particular demand for our Multi-Asset Income fund, which raised \$6.3 billion in 2014.

The Company's multi-asset strategies include the following:

Asset allocation and balanced products represented 48% of multi-asset class AUM at year-end, with growth in AUM driven by net new business of \$18.4 billion. These strategies combine equity, fixed income and alternative components for investors seeking a tailored solution relative to a specific benchmark and within a risk budget. In certain cases, these strategies seek to minimize downside risk through diversification, derivatives strategies and tactical asset allocation decisions. Flagship products in this category include our Global Allocation and Multi-Asset Income suites.

Target date and target risk products grew 10% organically in 2014. Institutional investors represented 90% of target date and target risk AUM, with defined contribution plans accounting for over 80% of AUM. The remaining 10% of target date and target risk AUM consisted of retail client investments. Flows were driven by defined contribution investments in our *LifePath* and *LifePath Retirement Income*<sup>®</sup> offerings. *LifePath* products utilize a proprietary asset allocation model that seeks to balance risk and return over an investment horizon based on the investor's expected retirement timing.

Fiduciary management services are complex mandates in which pension plan sponsors or endowments and foundations retain BlackRock to assume responsibility for some or all aspects of plan management. These customized services require strong partnership with the clients' investment staff and trustees in order to tailor investment strategies to meet client-specific risk budgets and return objectives.

**Table of Contents***Alternatives*

BlackRock Alternative Investors ( BAI ) focuses on sourcing and managing high-alpha investments with lower correlation to public markets and developing a holistic approach to address client needs in alternatives investing. Our alternatives products fall into two main categories core

and currency and commodities. Core includes hedge funds, hedge fund and private equity solutions (funds of funds), opportunistic private equity and credit, real estate and infrastructure offerings. The products offered under the BAI umbrella are described below.

Component changes in alternatives AUM for 2014 are presented below.

<i>(in millions)</i>	December 31, Net Inflows				December 31, 2014	Memo Return of Capital <sup>(1)</sup>
	2013	(Outflows)	Market change	FX impact		
Core:						
Alternative Solutions	\$ 131	\$ 378	\$ 25	\$ (6)	\$ 528	\$
Hedge Funds:						
Direct Hedge Fund						
Strategies	31,525	1,539	(28)	(1,040)	31,996	
Hedge Fund Solutions	16,941	1,981	756	(95)	19,583	(229)
Hedge Funds Subtotal	48,466	3,520	728	(1,135)	51,579	(229)
Illiquid and Opportunistic:						
Private Equity Solutions	11,895	732	(92)	(195)	12,340	(565)
Opportunistic Private Equity and Credit Strategies	522	249	31		802	(247)
Illiquid and Opportunistic Subtotal	12,417	981	(61)	(195)	13,142	(812)
Real Assets:						
Real Estate	23,407	(2,031)	1,177	(552)	22,001	(2,370)
Infrastructure	605	213	(61)	(1)	756	
Real Assets Subtotal	24,012	(1,818)	1,116	(553)	22,757	(2,370)
Core Subtotal	85,026	3,061	1,808	(1,889)	88,006	(3,411)
Currency and commodities	26,088	461	(2,577)	(738)	23,234	
<b>Alternatives</b>	<b>\$ 111,114</b>	<b>\$ 3,522</b>	<b>\$ (769)</b>	<b>\$ (2,627)</b>	<b>\$ 111,240</b>	<b>\$ (3,411)</b>

(1) Return of capital is included in outflows.

We continued to see momentum across our alternatives business, particularly within our retail platform, which now stands at \$18.7 billion in AUM, and in illiquid alternatives where we raised \$5.8 billion of new commitments in 2014 across a variety of strategies, including private equity and hedge fund solutions, opportunistic credit, renewable power, and infrastructure debt. At year-end, we had \$8.9 billion of unfunded commitments, which are expected to be deployed in future years; these commitments are not included in AUM until they are invested.

We believe that as alternatives become more conventional and investors adapt their asset allocation strategies to best meet their investment objectives, they will further increase their use of alternative investments to complement core holdings, and as a top 10 alternative provider<sup>3</sup> our highly diversified \$111.2 billion alternatives franchise is well positioned to meet growing demand from both institutional and retail investors.

*Core.*

Alternative Solutions represent holistic, multi-dimensional alternatives mandates that bring together a range of alternative assets and strategies in a single operationally efficient and cost-effective portfolio solution. In 2014, alternative solutions portfolios raised \$0.4 billion of net inflows and \$0.9 billion of commitments.

Hedge Funds net inflows of \$3.5 billion were led by net inflows of \$2.0 billion into hedge fund solutions, our funds of hedge funds offering. Direct hedge fund net inflows of \$1.5 billion were driven by net inflows of \$2.7 billion into liquid alternative mutual funds, paced by our zero-duration liquid Global Long/Short Credit and market-neutral Global Long/Short Equity funds. Direct hedge fund AUM includes a variety of single- and multi-strategy offerings.

Illiquid and Opportunistic AUM included \$12.3 billion in private equity solutions and \$0.8 billion in opportunistic private equity and credit offerings. Net inflows of \$1.0 billion were predominantly into private equity solutions.

Real Assets AUM totaled \$22.8 billion, down \$1.3 billion, or 5%, reflecting \$1.8 billion in client net redemptions and distributions and \$0.6 billion in portfolio valuation gains. The decline in AUM was primarily due to \$2.4 billion of capital returned to investors.

*Currency and Commodities.*

AUM in currency and commodities declined 11% from year-end 2013, reflecting portfolio valuation declines of \$3.3 billion. Currency and commodities products include a range of active and passive products. Our *iShares* commodities products represented \$14.7 billion of AUM, and are not eligible for performance fees.

3 Source: Towers Watson, July 2014

**Table of Contents***Cash Management*

Cash management AUM totaled \$296.4 billion at December 31, 2014, of which \$109.7 billion was in prime strategies, up \$20.8 billion, or 8%, from year-end 2013. Cash management products include taxable and tax-exempt money market funds and customized separate accounts. Portfolios are denominated in U.S. dollar, Canadian dollar, Australian dollar, euro or British pound. We generated net inflows of \$25.7 billion during 2014, a period marked by a near zero interest rate environment. We provided new solutions and choices for our clients to meet their existing cash investment needs and are actively repositioning and streamlining our product lineup to meet the future requirements of clients given announced regulatory changes

to U.S. money market funds. In Europe, we continue to be a market leader highlighted by our implementation of the reverse distribution mechanism in our euro funds when faced with negative rates.

**CLIENT REGION**

Our footprints in the Americas, EMEA and Asia-Pacific regions reflect strong relationships with intermediaries and an established ability to deliver our global investment expertise in funds and other products tailored to local regulations and requirements.

AUM by product type and client region at December 31, 2014 is presented below.

<i>(in millions)</i>	Americas	EMEA	Asia-Pacific	Total
Equity	\$ 1,583,532	\$ 655,985	\$ 211,594	\$ 2,451,111
Fixed income	774,296	502,324	117,033	1,393,653
Multi-asset class	237,436	119,353	21,048	377,837
Alternatives	56,668	36,817	17,755	111,240
<b>Long-term</b>	<b>2,651,932</b>	<b>1,314,479</b>	<b>367,430</b>	<b>4,333,841</b>
Cash management	199,887	92,795	3,671	296,353
Advisory	15,534	6,167		21,701
<b>Total</b>	<b>\$ 2,867,353</b>	<b>\$ 1,413,441</b>	<b>\$ 371,101</b>	<b>\$ 4,651,895</b>

Component changes in AUM by client region for 2014 are presented below.

<i>(in millions)</i>	December 31, 2013	Net Inflows	Market Change	FX Impact	December 31, 2014
Americas	\$ 2,655,529	\$ 109,142	\$ 114,734	\$ (12,052)	\$ 2,867,353
EMEA	1,335,777	53,935	114,446	(90,717)	1,413,441
Asia-Pacific	332,782	30,699	32,502	(24,882)	371,101
<b>Total</b>	<b>\$ 4,324,088</b>	<b>\$ 193,776</b>	<b>\$ 261,682</b>	<b>\$ (127,651)</b>	<b>\$ 4,651,895</b>

*Americas.*

Long-term net new business of \$107.3 billion was positive across all asset classes, with net inflows of \$46.2 billion, \$38.9 billion, \$20.5 billion and \$1.7 billion in fixed income, equity, multi-asset class and alternatives products, respectively. During the year, we served clients through offices in 32 states in the United States as well as Canada, Mexico, Brazil, Chile, Colombia and Spain.

*EMEA.*

During the year, clients awarded us long-term net new business of \$42.0 billion, including inflows from investors in 23 countries across the region. EMEA net new business was led by fixed income net inflows of \$43.1 billion, reflecting

strong solutions-based LDI activity. Our offerings include fund families in the United Kingdom, the Netherlands, Luxembourg and Dublin and *iShares* listed on stock exchanges throughout Europe as well as separate accounts and pooled investment products.

*Asia-Pacific.*

Clients in the Asia-Pacific region are served through offices in Japan, Australia, Hong Kong, Malaysia, Singapore, Taiwan, Korea and China, and a joint venture in India. Long-term net new business of \$31.9 billion was driven by fixed income, equity and multi-asset class net inflows of \$14.4 billion, \$12.5 billion and \$5.4 billion, respectively, partially offset by alternatives net outflows of \$0.4 billion.

**Table of Contents****INVESTMENT PERFORMANCE**

Investment performance across active and passive products as of December 31, 2014 was as follows:

	<b>One-year period</b>	<b>Three-year period</b>	<b>Five-year period</b>
<b>Fixed Income:</b>			
<i>Actively managed products above benchmark or peer median</i>			
Taxable	72%	91%	87%
Tax-exempt	57%	70%	74%
<i>Index products within or above tolerance</i>	98%	98%	98%
<b>Equity:</b>			
<i>Actively managed products above benchmark or peer median</i>			
Fundamental	37%	48%	41%
Scientific	85%	86%	97%
<i>Index products within or above tolerance</i>	94%	98%	97%

*Product Performance Notes.* Past performance is not indicative of future results. Except as specified, the performance information shown is as of December 31, 2014 and is based on preliminary data available at that time. The performance data shown reflects information for all actively and passively managed equity and fixed income accounts, including U.S. registered investment companies, European-domiciled retail funds and separate accounts for which performance data is available, including performance data for high net worth accounts available as of November 30, 2014. The performance data does not include accounts terminated prior to December 31, 2014 and accounts for which data has not yet been verified. If such accounts had been included, the performance data provided may have substantially differed from that shown.

Performance comparisons shown are gross-of-fees for U.S. retail, institutional and high net worth separate accounts as well as EMEA institutional separate accounts, and net-of-fee for European domiciled retail funds. The performance tracking shown for institutional index accounts is based on gross-of-fee performance and includes all institutional accounts and all *iShares* funds globally using an index strategy. AUM information is based on AUM available as of December 31, 2014 for each account or fund in the asset class shown without adjustment for overlapping management of the same account or fund. Fund performance reflects the reinvestment of dividends and distributions.

Source of performance information and peer medians is BlackRock, Inc. and is based in part on data from Lipper Inc. for U.S. funds and Morningstar, Inc. for non-U.S. funds.

**BLACKROCK SOLUTIONS**

BRS offers investment management technology systems, risk management services and advisory services on a fee basis. *Aladdin* is our proprietary technology platform, which serves as the risk management system for both BlackRock and a growing number of sophisticated institutional investors around the world. BRS also offers comprehensive risk reporting capabilities via the Green Package<sup>®</sup> and risk

management advisory services; interactive fixed income analytics through our web-based calculator, AnSer®; middle and back office outsourcing services; and investment accounting. BRS Financial Markets Advisory ( FMA ) group provides services such as valuation and risk assessment of illiquid assets, portfolio restructuring, workouts and dispositions of distressed assets and financial and balance sheet strategies, for a wide range of global clients.

BRS record revenues of \$635 million were up 10% year-over-year. Our *Aladdin* business, which represented 75% of BRS revenue for the year, continues to benefit from trends favoring global investment platform consolidation and multi-asset risk solutions. *Aladdin* business assignments are typically long-term contracts that provide significant recurring revenue.

Our FMA group continued to post strong revenues, even as the business transitions from a crisis management emphasis to a more institutionalized advisory business model, with a strong focus on helping clients navigate and implement requirements for the evolving regulatory environment. Advisory AUM decreased 40% to \$21.7 billion, driven by \$13.2 billion of planned client distributions reflecting our continued success in disposing of assets for clients at, or above, targeted levels.

At year-end, BRS served clients, including banks, insurance companies, official institutions, pension funds, asset managers and other institutional investors across North America, Europe, Asia and Australia.

## **SECURITIES LENDING**

Securities lending is managed by a dedicated team, supported by quantitative analysis, proprietary technology and disciplined risk management. The cash management team invests the cash we receive as collateral for securities on loan in other portfolios. Fees for securities lending can be structured as a share of earnings and/or as a management fee based on a percentage of the value of the cash collateral. The value of the securities on loan and the revenue earned is captured in the corresponding asset class being managed. The value of the collateral is not included in AUM.

Outstanding loan balances ended the year at approximately \$187 billion, up from \$156 billion at year-end 2013. Liability spreads declined from 2013 levels, as the proportion of special collateral, securities commanding premium lending fees, declined due to low idiosyncratic risk, low single stock volatility and lack of M&A activity.

BlackRock employs a conservative investment style for cash and securities lending collateral that emphasizes quality, liquidity and interest rate risk management. Disciplined risk management, including a rigorous credit surveillance process, is an integral part of the investment process. BlackRock's Cash Management Credit Committee has established risk limits, such as aggregate issuer exposure limits and maturity limits, across many of the products BlackRock manages, including over all of its cash management products. In the ordinary course of our business, there may be instances when a portfolio may exceed an internal risk limit or when an internal risk limit may be changed. No such instances, individually or in the aggregate, have been material to the Company. To the extent that daily evaluation/reporting of the profile of the portfolios



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identifies that a limit has been exceeded, the relevant portfolio will be adjusted. To the extent a portfolio manager would like to obtain a temporary waiver of a risk limit, the portfolio manager must obtain approval from the credit research team, which is independent from the cash management portfolio managers. While a risk limit may be waived, such temporary waivers are infrequent.

## **RISK & QUANTITATIVE ANALYSIS**

Across all asset classes, in addition to the efforts of the portfolio management teams, the Risk & Quantitative Analysis ( RQA ) group at BlackRock draws on extensive analytical systems and proprietary and third-party data to identify, measure and manage a wide range of risks. RQA provides risk management advice and independent risk oversight of the investment management processes, identifies and helps manage counterparty and operational risks, coordinates standards for firm wide investment performance measurement and determines risk management-related analytical and information requirements. Where appropriate, RQA will work with portfolio managers and developers to facilitate the development or improvement of risk models and analytics.

## **COMPETITION**

BlackRock competes with investment management firms, mutual fund complexes, insurance companies, banks, brokerage firms and other financial institutions that offer products that are similar to, or alternatives to, those offered by BlackRock. In order to grow its business, BlackRock must be able to compete effectively for AUM. Key competitive factors include investment performance track records, the efficient delivery of beta for index products, investment style and discipline, client service and brand name recognition. Historically, the Company has competed principally on the basis of its long-term investment performance track record, its investment process, its risk management and analytic capabilities and the quality of its client service.

## **GEOGRAPHIC INFORMATION**

At December 31, 2014, BlackRock served clients in more than 100 countries across the globe, including the United States, the United Kingdom and Japan. See Note 22, *Segment Information*, contained in Part II, Item 8 of this filing for more information.

## **EMPLOYEES**

At December 31, 2014, BlackRock had a total of approximately 12,200 employees, including approximately 5,800 located in offices outside the United States. Consistent with our commitment to continually expand and enhance our talent base to support our clients, we added approximately 800 employees during the year, including in strategic focus areas.

## **REGULATION**

Virtually all aspects of BlackRock's business are subject to various laws and regulations around the world, some of which are summarized below. These laws and regulations are primarily intended to protect investment advisory clients, investors in registered and unregistered investment companies, trust customers of BlackRock Institutional Trust Company, N.A. ( BTC ), PNC and its bank subsidiaries and their customers and the financial system. Under these laws and regulations, agencies that regulate investment advisers, investment funds and bank holding companies and

other individuals and entities have broad administrative powers, including the power to limit, restrict or prohibit the regulated entity or person from carrying on business if it fails to comply with such laws and regulations. Possible sanctions for significant compliance failures include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines both for individuals and the Company.

The rules governing the regulation of financial institutions and their holding companies and subsidiaries are very detailed and technical. Accordingly, the discussion below is general in nature, does not purport to be complete and is current only as of the date of this report.

## **GLOBAL REGULATORY REFORM**

BlackRock is subject to numerous regulatory reform initiatives around the world. Any such initiative, or any new laws or regulations or changes in enforcement of existing laws or regulations, could materially and adversely impact the scope or profitability of BlackRock's business activities, lead to business disruptions, require BlackRock to change certain business practices and expose BlackRock to additional costs (including compliance and legal costs), as well as reputational harm. BlackRock's profitability also could be materially and adversely affected by modification of the rules and regulations that impact the business and financial communities in general, including changes to the laws governing taxation, antitrust regulation and electronic commerce.

### *Dodd-Frank Wall Street Reform and Consumer Protection Act*

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the DFA) was signed into law in the United States. The DFA is expansive in scope and requires the adoption of extensive regulations and numerous regulatory decisions, many of which have been adopted. As the impact of these rules will become evident over time, it is not yet possible to predict the ultimate effects that the DFA, or subsequent implementing regulations and decisions, will have upon BlackRock's business, financial condition, and results of operations.

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### *Systemically Important Financial Institution Review*

Under the DFA, BlackRock could be designated a systemically important financial institution ( SIFI ) and become subject to direct supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve ). On July 31, 2014, the Financial Stability Oversight Council ( FSOC ) principals directed the staff to undertake a more focused analysis of industry-wide products and activities to assess potential risks associated with the asset management industry, and on December 18, 2014 the FSOC issued a Request for Information related to this analysis.

In addition, on January 8, 2014, the Financial Stability Board ( FSB ) and the International Organisation of Securities Commissions ( IOSCO ) issued a consultative document on proposed methodologies to identify nonbank/noninsurance global systemically important financial institutions ( G-SIFI ). A second FSB-IOSCO consultation is expected to be released in the near future.

If BlackRock were designated a SIFI or G-SIFI, it could become subject to enhanced prudential, capital, supervisory and other requirements, such as risk-based capital requirements, leverage limits, liquidity requirements, resolution plan and credit exposure report requirements, concentration limits, a contingent capital requirement, enhanced public disclosures, short-term debt limits and overall risk management requirements. Requirements such as these, which were designed to regulate banking institutions, would likely need to be modified to be applicable to an asset manager such as BlackRock. No proposals have been made indicating how such measures would be adapted for asset managers.

### *Securities and Exchange Commission Review of Asset Managers*

BlackRock's business may also be impacted by Securities and Exchange Commission ( SEC ) regulatory initiatives. For example, on December 11, 2014 the Chair of the SEC announced that she is recommending that the SEC enhance its oversight of asset managers by (i) expanding and updating data requirements with which asset managers must comply, (ii) improving fund level controls, including those related to liquidity levels and the nature of specific instruments and (iii) ensuring that asset management firms have appropriate transition plans in place to deal with market stress events or situations where an investment adviser is no longer able to serve its clients. Although these recommendations have not yet resulted in any proposed rules, any additional SEC oversight or the introduction of any new reporting, disclosure or control requirements could expose BlackRock to additional compliance costs and may require the Company to change how it operates its business.

### *Money Market Fund Reform*

In July 2014, the SEC adopted rule amendments designed to reform the regulatory structure governing money market funds and to address the perceived systemic risks that such funds present. The new rules require institutional prime and institutional municipal money market funds to employ a floating net asset value method of pricing, which allows the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets. The rules also provide for new tools for the funds' boards designed to address liquidity shocks, including liquidity fees and redemption gates. The rules do not apply to government

(non-municipal) and retail money market funds, except that retail money market funds must comply with liquidity fees and redemption gate requirements. The potential impact of the rules that affect the structure of the funds, which have a two-year compliance period, on BlackRock's business remains untested; they may, however, reduce the

attractiveness of certain money market funds to investors.

### *Regulation of Derivatives*

The SEC, the Internal Revenue Service ( IRS ) and the Commodity Futures Trading Commission ( CFTC ) each continue to review the use of futures, swaps and other derivatives by mutual funds. Such reviews could result in regulations that further limit the use of such products by mutual funds. If adopted, these limitations could require BlackRock to change certain mutual fund business practices or to register additional entities with the CFTC, which could result in additional costs and/or restrictions. BlackRock also reports certain information about a number of its private funds to the SEC and certain information about a number of its commodity pools to the CFTC, under systemic risk reporting requirements adopted by both agencies. These reporting obligations have required, and will continue to require, investments in people and systems to assure timely and accurate reporting.

Further, the full implementation of regulations under the DFA relating to regulation of swaps and derivatives will impact the manner in which BlackRock-advised funds and accounts use and trade swaps and other derivatives, increasing the costs of derivatives trading for BlackRock's clients. For example, CFTC, and eventually SEC rules and regulations applicable to offshore funds, accounts and counterparties will require BlackRock to build and implement new compliance monitoring procedures to address the enhanced level of oversight to which it will be subject. These rule changes also introduce new requirements for centrally clearing certain swap, and eventually security-based swap, transactions and for executing certain swap, and eventually security-based swap, transactions on or through CFTC or SEC-registered trading venues. Jurisdictions outside the United States in which BlackRock operates also have adopted and implemented, or are in the process of considering, adopting or implementing more pervasive regulation of many elements of the financial services industry, which could further impact BlackRock and the broader markets. This includes the implementation of mandated central clearing of swaps in the European Union ( EU ) and the implementation of trade reporting, documentation, central clearing and other requirements in various jurisdictions globally.

### *Regulation of ETFs*

Globally, regulators are examining the potential risks in ETFs and may impose additional regulations on ETFs. Depending on the outcome of this analysis, these products may be restricted in some ways and may require BlackRock to incur additional compliance expenses, which may adversely affect the Company's business.

### *Benchmark Reform*

The IOSCO published principles for regulatory oversight of financial benchmarks in 2013, with standards applying to methodologies for benchmark calculation, and transparency and governance issues in the benchmarking process; some national and regional regulators are currently reviewing how

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to apply these principles, with a draft European Regulation published in September 2013. Similarly, in July 2014, the FSB published a report aimed at reforming major interest rate benchmarks. These regulations may result in business disruptions, which could adversely impact the value of assets in which asset managers, including BlackRock, have invested directly or on behalf of their clients. To the extent the regulations strictly control the activities of financial services firms, could make it more difficult for BlackRock to conduct certain businesses.

*Taxation*

BlackRock's global business may be impacted by the Foreign Account Tax Compliance Act ( FATCA ), which was enacted in 2010 and introduced expansive new investor onboarding, withholding and reporting rules aimed at ensuring U.S. persons with financial assets outside of the United States pay appropriate taxes. In many instances, however, the precise nature of what needs to be implemented will be governed by bilateral Intergovernmental Agreements ( IGAs ) between the United States and the countries in which BlackRock does business. While many of these IGAs have been put into place, others have yet to be concluded. The FATCA rules will impact both U.S. and non-U.S. funds and subject BlackRock to extensive additional administrative burdens. The Organization for Economic Co-operation and Development has also recently launched a base erosion and profit shifting ( BEPS ) proposal that aims to rationalize tax treatment across jurisdictions. If the BEPS proposal becomes the subject of legislative action in the format proposed, it could have unintended taxation consequences for collective investment vehicles and the Company's tax position, which could adversely affect BlackRock's financial condition.

In addition, certain individual EU Member States, such as France and Italy, have enacted national financial transaction taxes ( FTTs ). There has also been renewed momentum by several other Member States to introduce FTTs, which would impose taxation on a broad range of financial instrument and derivatives transactions. In general, any tax on securities and derivatives transactions would impact investors and would likely have a negative impact on the liquidity of the securities and derivatives markets, could diminish the attractiveness of certain types of products that we manage in those countries and could cause clients to shift assets away from such products. An FTT could significantly increase the operational costs of our entering into, on behalf of our clients, securities and derivatives transactions that would be subjected to an FTT, which could adversely impact our financial results and clients' performance results.

BlackRock's business could also be impacted to the extent there are other changes to tax laws. For example, the administration recently announced its proposed U.S. federal budget, which called for new industry fees for financial firms. To the extent such fees are adopted and found to apply to BlackRock, they could adversely affect the Company's financial results.

*Regulation of Securities Lending*

In its 2014 Annual Report, the FSOC identified securities lending indemnification by asset managers as a potential systemic risk that required further review and monitoring. In addition, in January 2015, the European Parliament published its draft report on the European Commission's proposal for a European regulation on the reporting and transparency of securities financing transactions ( SFT ).

The SFT regulation aims to improve the transparency surrounding SFTs and limit the perceived risks of SFTs by, among other things, requiring central reporting of SFTs, requiring disclosure of SFTs to investors and imposing minimum requirements relating to the difference in prices at which a market maker can buy and sell a security in SFTs. If the recent scrutiny of securities lending practices results in new regulatory requirements or reporting

obligations, BlackRock may be required to modify its securities lending activities or introduce additional compliance measures, which will subject the Company to additional expenses.

#### *Volcker Rule*

Provisions of the DFA referred to as the Volcker Rule place limitations on the ability of banks and their subsidiaries to engage in proprietary trading and to invest in and transact with certain private investment funds, including hedge funds, private equity funds and funds of funds (collectively covered funds). Because the Federal Reserve currently treats BlackRock as a nonbank subsidiary of PNC, BlackRock may be required to conform its activities to the requirements of the Volcker Rule. The Volcker Rule's restrictions would, among other things, limit BlackRock's ability to invest in covered funds and require BlackRock to remove its name from the names of its covered funds, which could subject the Company to additional expense. The Volcker Rule may also require BlackRock to sell certain seed and co-investments that it holds in covered funds, potentially at a discount to existing carrying value, depending on market conditions. The Volcker Rule may also reduce the level of market making and liquidity activities of several of BlackRock's trading counterparties, which may adversely impact the liquidity and, in some cases, the pricing of various financial instruments in which BlackRock client accounts invest. For a further discussion of the Volcker Rule, see Item 1A Risk Factors Legal and Regulatory Risks.

#### *Markets in Financial Instrument Directives*

BlackRock is also subject to numerous regulatory reform initiatives in Europe. For example, after the United Kingdom and other European jurisdictions in which BlackRock has a presence implemented the Markets in Financial Instruments Directive ( MiFID ) rules (described more particularly under European Regulation below) into national legislation, these jurisdictions recently began the additional process of implementing MiFID 2 and a new Markets in Financial Instruments Regulation. MiFID 2 builds upon many of the initiatives introduced through MiFID, which focused primarily on equities, to encourage trading across all asset classes to migrate on to open and transparent markets. MiFID 2, which will come into full effect in January 2017, will be implemented through a number of more detailed directives, regulations and technical standards to be made by the European Commission and by the European Securities and Markets Authority ( ESMA ). It is expected that MiFID 2 will have significant and wide-ranging impacts on EU securities and derivatives markets. In particular, there will be (i) enhanced governance and investor protection standards, (ii) prescriptive rules on portfolio management firms' ability to receive and pay for investment research relating to all asset classes, (iii) enhanced regulation of algorithmic trading, (iv) the movement of trading in certain shares and derivatives on to regulated execution venues, (v) the extension of pre- and post-trade transparency requirements to wider categories of financial instruments, (vi) restrictions on the use of so-called dark pool trading, (vii) the creation of a new type of trading venue called the

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Organized Trading Facility for non-equity financial instruments, (viii) commodity derivative position limits and reporting requirements, (ix) a move away from vertical silos in execution, clearing and settlement, (x) an enhanced role for ESMA in supervising EU securities and derivatives markets and (xi) new requirements regarding non-EU investment firms' access to EU financial markets. Implementation of these measures will have direct and indirect impacts on the Company and its subsidiaries and may require significant changes to client servicing models.

*Alternative Investment Fund Managers Directive*

BlackRock's European business is impacted by the EU Alternative Investment Fund Managers Directive ( AIFMD ), which became effective on July 21, 2011. The AIFMD regulates managers of, and service providers to, a broad range of alternative investment funds ( AIFs ) domiciled within and (depending on the precise circumstances) outside the EU. The AIFMD also regulates the marketing of all AIFs inside the European Economic Area ( EEA ). The AIFMD is being implemented in stages, which run through 2018. Compliance with the AIFMD's requirements restrict alternative investment fund marketing and impose additional compliance and disclosure obligations regarding remuneration, capital requirements, leverage, valuation, stakes in EU companies, depositaries, the domicile of custodians and liquidity management on BlackRock. These new compliance and disclosure obligations and the associated risk management and reporting requirements will subject BlackRock to additional expenses.

*Undertakings for Collective Investment in Transferable Securities*

The EU has also adopted directives on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities ( UCITS ) as regards depositary functions, remuneration policies and sanctions. The latest initiative in this area, UCITS V, which became effective in September 2014, seeks to align the depositary regime, remuneration rules and sanctioning powers of regulators under the UCITS Directive with the requirements of the AIFMD. UCITS V is required to be adopted in the national law of each EU member state during the second quarter of 2016. Similarly, in August 2014 ESMA revised the guidelines it initially published in 2012 on ETFs and other UCITS funds. The guidelines introduced new collateral management requirements for UCITS funds concerning collateral received in the context of derivatives using Efficient Portfolio Management ( EPM ) techniques (including securities

lending) and over-the-counter derivative transactions. These rules, which are now in effect, required BlackRock to make a series of changes to its collateral management arrangements applicable to the EPM of its UCITS fund ranges. Compliance with the UCITS directives will cause BlackRock to incur additional expenses associated with new risk management and reporting requirements.

*Extension of Retail Distribution Review*

BlackRock must also comply with newly implemented retail distribution rules aimed at enhancing consumer protections, overhauling mutual fund fee structures and increasing professionalism in the retail investment sector. The rules were originally introduced in the United Kingdom and have since been introduced in other jurisdictions where BlackRock operates. Similarly, MiFID 2 will contain a ban on certain advisers recovering commissions and other

nonmonetary benefits from fund managers. These rules, if implemented, may lead to changes to the fees and commissions BlackRock is able to charge to its clients, as well as to its client servicing and distribution models.

## **EXISTING U.S. REGULATION - OVERVIEW**

BlackRock and certain of its U.S. subsidiaries are currently subject to extensive regulation, primarily at the federal level, by the SEC, the Department of Labor (the DOL ), the Federal Reserve, the Office of the Comptroller of the Currency ( OCC ), the Financial Industry Regulatory Authority ( FINRA ), the National Futures Association ( NFA ), the CFTC and other government agencies and regulatory bodies. Certain of BlackRock's U.S. subsidiaries are also subject to various anti-terrorist financing, privacy, anti-money laundering regulations and economic sanctions laws and regulations established by various agencies.

The Investment Advisers Act of 1940 (the Advisers Act ) imposes numerous obligations on registered investment advisers such as BlackRock, including record-keeping, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The Investment Company Act of 1940 (the Investment Company Act ) imposes stringent governance, compliance, operational, disclosure and related obligations on registered investment companies and their investment advisers and distributors, such as BlackRock. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and the Investment Company Act, ranging from fines and censure to termination of an investment adviser's registration. Investment advisers also are subject to certain state securities laws and regulations. Non-compliance with the Advisers Act, the Investment Company Act or other federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines and reputational damage.

BlackRock's trading and investment activities for client accounts are regulated under the Securities Exchange Act of 1934 (the Exchange Act ), as well as the rules of various U.S. and non-U.S. securities exchanges and self-regulatory organizations, including laws governing trading on inside information, market manipulation and a broad number of technical requirements (e.g., short sale limits, volume limitations and reporting obligations) and market regulation policies in the United States and globally. Violation of any of these laws and regulations could result in restrictions on the Company's activities and damage its reputation. Furthermore, the SEC has recently promulgated new rules that give effect to a section of the DFA that requires municipal advisors (as that term is defined in the statute) to register with the SEC. The new rules require entities that provide certain types of advice to, or on behalf of, or solicit municipal entities or certain other persons, to register with the SEC and the Municipal Securities Rulemaking Board ( MSRB ) as municipal advisors, thereby subjecting those entities to new or additional regulation by the SEC and MSRB. BlackRock has registered one of its subsidiaries, BTC, as a municipal advisor under these new rules.

BlackRock manages a variety of private pools of capital, including hedge funds, funds of hedge funds, private equity funds, collateralized debt obligations ( CDOs ), collateralized loan obligations ( CLOs ), real estate funds, collective investment trusts, managed futures funds and hybrid funds. Congress, regulators, tax authorities and others continue to explore, on their own and in response to demands from the



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investment community and the public, increased regulation related to private pools of capital, including changes with respect to investor eligibility, certain limitations on trading activities, record-keeping and reporting, the scope of anti-fraud protections, safekeeping of client assets and a variety of other matters. BlackRock may be materially and adversely affected by new legislation, rule-making or changes in the interpretation or enforcement of existing rules and regulations imposed by various regulators.

Certain BlackRock subsidiaries are subject to the Employee Retirement Income Security Act of 1974 ( ERISA ), and to regulations promulgated thereunder by the DOL, insofar as they act as a fiduciary under ERISA with respect to benefit plan clients. ERISA and applicable provisions of the Internal Revenue Code impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and impose excise taxes for violations of these prohibitions, mandate certain required periodic reporting and disclosures and require BlackRock to carry bonds ensuring against losses caused by fraud or dishonesty. ERISA also imposes additional compliance, reporting and operational requirements on BlackRock that otherwise are not applicable to non-benefit plan clients.

BlackRock has seven subsidiaries that are registered as commodity pool operators ( CPOs ) and/or commodity trading advisors with the CFTC and are members of the NFA. Additional BlackRock entities may need to register as a CPO or commodity trading advisor as a result of recently enacted regulatory changes by the CFTC. The CFTC and NFA each administer a comparable regulatory system covering futures contracts and various other financial instruments, including swaps as a result of the DFA, in which certain BlackRock clients may invest. Two of BlackRock's other subsidiaries, BlackRock Investments, LLC ( BRIL ) and BlackRock Execution Services, are registered with the SEC as broker-dealers and are member-firms of FINRA. Each broker-dealer has a membership agreement with FINRA that limits the scope of such broker-dealer's permitted activities. BRIL is also an approved person with the New York Stock Exchange ( NYSE ) and a member of the MSRB, subject to MSRB rules.

### *U.S. Banking Regulation*

PNC is a bank holding company and regulated as a financial holding company by the Federal Reserve under the Bank Holding Company Act of 1956 (the BHC Act ). As described in Item 1-Business , PNC owns approximately 22% of BlackRock's capital stock. Based on the Federal Reserve's interpretation of the BHC Act, the Federal Reserve currently takes the position that this ownership interest causes BlackRock to be treated as a nonbank subsidiary of PNC for purposes of the BHC Act, thereby subjecting BlackRock to banking regulation, including the supervision and regulation of the Federal Reserve and to most banking laws, regulations and orders that apply to PNC, including the Volcker Rule. The supervision and regulation of PNC and its subsidiaries under applicable banking laws is intended primarily for the protection of its banking subsidiaries, its depositors, the Deposit Insurance Fund of the Federal Deposit Insurance Corporation, and the financial system as a whole, rather than for the protection of stockholders, creditors or clients of PNC or BlackRock. BlackRock may also be subject to foreign laws and supervision that could affect its business.

BlackRock generally may conduct only activities that are authorized for a financial holding company under the BHC Act. Investment management is an authorized activity, but must be conducted within applicable regulatory

requirements, which in some cases are more restrictive than those BlackRock faces under applicable securities laws. BlackRock may also invest in investment companies and private investment funds to which it provides advisory, administrative or other services, only to the extent consistent with applicable law and regulatory interpretations. Based on the Federal Reserve's position that BlackRock is a nonbank subsidiary of PNC, the Federal Reserve has broad

powers to approve, deny or refuse to act upon applications or notices for BlackRock to conduct new activities, acquire or divest businesses or assets, or reconfigure existing operations, and there are limits on the ability of bank subsidiaries of PNC to extend credit to or conduct other transactions with BlackRock or its funds. PNC and its subsidiaries are also subject to examination by various banking regulators, which results in examination reports and ratings that may adversely impact the conduct and growth of BlackRock's businesses. Furthermore, the Federal Reserve has broad enforcement authority over nonbank subsidiaries, including the power to prohibit them from conducting any activity that, in the Federal Reserve's opinion, is unauthorized or constitutes an unsafe or unsound practice. The Federal Reserve may also impose substantial fines and other penalties for violations of applicable banking laws, regulations and orders. The DFA strengthened the Federal Reserve's supervisory and enforcement authority over a bank holding company's nonbank subsidiaries.

Any failure of PNC to maintain its status as a financial holding company could result in substantial limitations on certain BlackRock activities and its growth. Such a change of status could be caused by any failure of PNC or one of PNC's bank subsidiaries to remain well capitalized and well managed, by any examination downgrade of one of PNC's bank subsidiaries, or by any failure of one of PNC's bank subsidiaries to maintain a satisfactory rating under the Community Reinvestment Act.

One of BlackRock's subsidiaries, BTC, is organized as a limited purpose national trust company that does not accept deposits or make commercial loans and which is a member of the Federal Reserve System. Accordingly, BTC is examined and supervised by the OCC and is subject to various banking laws and regulations enforced by the OCC, such as capital adequacy, regulations governing fiduciaries, conflicts of interest, self-dealing, and anti-money laundering laws and regulations. BTC is also subject to various Federal Reserve regulations applicable to member institutions, such as regulations restricting transactions with affiliates. Many of these laws and regulations are meant for the protection of BTC's customers and not BTC, BlackRock and its affiliates, or BlackRock's stockholders.

## **EXISTING INTERNATIONAL REGULATION OVERVIEW**

BlackRock's international operations are subject to the laws and regulations of a number of international jurisdictions, as well as oversight by numerous regulatory agencies and bodies in those jurisdictions. In some instances, they are also affected by U.S. laws and regulations that have extra-territorial application.

Below is a summary of certain international regulatory standards to which BlackRock is subject. It is not meant to be comprehensive as there are parallel legal and regulatory arrangements in force in many jurisdictions where BlackRock's subsidiaries conduct business.

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Of note among the various other international regulations to which BlackRock is subject, are the extensive and increasingly stringent regulatory reporting requirements that necessitate the monitoring and reporting of issuer exposure levels (thresholds) across the holdings of managed funds and accounts and those of the Company.

*European Regulation*

The Financial Conduct Authority ( FCA ) currently regulates certain BlackRock subsidiaries in the United Kingdom. It also regulates those U.K. subsidiaries' branches established in other European countries and the U.K. branches of certain of BlackRock's U.S. subsidiaries. In addition, the Prudential Regulation Authority (the PRA ) regulates one BlackRock U.K. subsidiary. Authorization by the FCA and the PRA is required to conduct certain financial services related business in the United Kingdom under the Financial Services and Markets Act 2000. The FCA's rules adopted under that Act govern the majority of a firm's capital resources requirements, senior management arrangements, conduct of business, interaction with clients, and systems and controls, whereas the rules of the PRA focus solely on the prudential requirements that apply to the Company's U.K.-regulated insurance subsidiary. The FCA supervises the Company's U.K.-regulated subsidiaries through a combination of proactive engagement, event-driven and reactive supervision and thematic based reviews in order to monitor the Company's compliance with regulatory requirements. Breaches of the FCA's rules may result in a wide range of disciplinary actions against the Company's U.K.-regulated subsidiaries and/or its employees.

In addition, the Company's U.K.-regulated subsidiaries and other European subsidiaries and branches, must comply with the pan-European regulatory regime established by MiFID, which became effective on November 1, 2007 and regulates the provision of investment services and activities throughout the wider EEA. MiFID, the scope of which is being enhanced through MiFID 2 which is described more particularly under Global Regulatory Reform above, sets out detailed requirements governing the organization and conduct of business of investment firms and regulated markets. It also includes pre- and post-trade transparency requirements for equity markets and extensive transaction reporting requirements. Certain BlackRock entities must also comply with the U.K.'s Consolidated Life Directive and Insurance Mediation Directive. In addition, relevant entities must comply with revised obligations on capital resources for banks and certain investment firms (the Capital Requirements Directive), which became effective in January 2014. These include requirements not only on capital, but address matters of governance and remuneration as well. The obligations introduced through these directives will have a direct effect on some of BlackRock's European operations.

BlackRock's EU-regulated subsidiaries are additionally subject to an EU regulation on OTC derivatives, central counterparties and trade repositories, which was adopted in August 2012 and which requires (i) the central clearing of standardized OTC derivatives, (ii) the application of risk-mitigation techniques to non-centrally cleared OTC derivatives and (iii) the reporting of all derivative contracts from February 2014.

*Regulation in the Asia-Pacific Region*

In Japan, a BlackRock subsidiary is subject to the Financial Instruments and Exchange Law (the FIEL ) and the Law

Concerning Investment Trusts and Investment Corporations. These laws are administered and enforced by the Japanese Financial Services Agency (the JFSA ), which establishes standards for compliance, including capital adequacy and financial soundness requirements, customer protection requirements and conduct of business rules. The JFSA is empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease and desist orders or the suspension or revocation of registrations and licenses granted under the FIEL. This Japanese

subsidiary also holds a license for real estate brokerage activity which subjects it to the regulations set forth in the Real Estate Brokerage Business Act.

In Australia, BlackRock's subsidiaries are subject to various Australian federal and state laws and certain subsidiaries are regulated by the Australian Securities and Investments Commission (ASIC). ASIC regulates companies and financial services in Australia and is responsible for promoting investor, creditor and consumer protection. Failure to comply with applicable law and regulations could result in the cancellation, suspension or variation of the regulated subsidiaries licenses in Australia.

The activities of certain BlackRock subsidiaries in Hong Kong are subject to the Securities and Futures Ordinance (the SFO) which governs the securities and futures markets and regulates, among others, offers of investments to the public and provides for the licensing of intermediaries. The SFO is administered by the Securities and Futures Commission (the SFC). The SFC is also empowered under the SFO to establish standards for compliance as well as codes and guidelines. The relevant BlackRock subsidiaries and the employees conducting any of the regulated activities specified in the SFO are required to be licensed with the SFC, and are subject to the rules, codes and guidelines issued by the SFC. Failure to comply with the applicable laws, regulations, codes and guidelines issued by the SFC could result in the suspension or revocations of the licenses granted by the SFC.

BlackRock's operations in Taiwan are regulated by the Taiwan Financial Supervisory Commission, which is responsible for regulating securities markets (including the Taiwan Stock Exchange and the Taiwan Futures Exchange), the banking industry and the insurance sector. Other financial regulators oversee BlackRock subsidiaries, branches, and representative offices across the Asia Pacific region, including in Singapore and South Korea. Regulators in these jurisdictions have authority with respect to financial services including, among other things, the authority to grant or cancel required licenses or registrations. In addition, these regulators may subject certain BlackRock subsidiaries to net capital requirements.

## **AVAILABLE INFORMATION**

BlackRock files annual, quarterly and current reports, proxy statements and all amendments to these reports and other information with the SEC. BlackRock makes available free-of-charge, on or through its website at <http://www.blackrock.com>, the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and all amendments to those filings, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The Company also makes available on its website the charters for the Audit Committee, Management Development and Compensation Committee, Nominating and Governance

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Committee and Risk Committee of the Board of Directors, its Code of Business Conduct and Ethics, its Code of Ethics for Chief Executive and Senior Financial Officers and its Corporate Governance Guidelines. Further, BlackRock will provide, without charge, upon written request, a copy of the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and all amendments to those filings as well as the committee charters, its Code of Business Conduct and Ethics, its Code of Ethics for Chief Executive and Senior Financial Officers and its Corporate Governance Guidelines. Requests for copies should be addressed to Investor Relations, BlackRock, Inc., 55 East 52nd Street, New York, New York 10055. Investors may read and copy any document BlackRock files at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Please call 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Reports, proxy statements and other information regarding issuers that file electronically with the SEC, including BlackRock's filings, are also available to the public from the SEC's website at <http://www.sec.gov>.

### Item 1A. Risk Factors

As a leading investment management firm, risk is an inherent part of BlackRock's business. Global markets, by their nature, are prone to uncertainty and subject participants to a variety of risks. While BlackRock devotes significant resources across all of its operations to identify, measure, monitor, manage and analyze market, operating and compliance risks, BlackRock's business, financial condition, operating results and nonoperating results could be materially adversely affected and the Company's stock price could decline as a result of any of these risks and uncertainties, including the ones discussed below.

### **MARKET AND COMPETITION RISKS**

*Changes in the value levels of equity, debt, real estate, commodities, currency or other asset markets could cause assets under management ( AUM ), revenue and earnings to decline.*

BlackRock's investment management revenue is primarily comprised of fees based on a percentage of the value of AUM and, in some cases, performance fees which are normally expressed as a percentage of returns to the client. Numerous factors, including price movements in the equity, debt or currency markets, or in the price of real estate, commodities or alternative investments in which BlackRock invests, could cause:

the value of AUM, or the returns BlackRock realizes on AUM, to decrease;

the withdrawal of funds from BlackRock's products in favor of products offered by competitors;

the rebalancing of assets into BlackRock products that yield lower fees;

an impairment to the value of intangible assets and goodwill; or

a decrease in the value of seed or co-investment capital.

The occurrence of any of these events may cause the Company's AUM, revenue and earnings to decline.

***BlackRock's investment advisory contracts may be terminated or may not be renewed by clients and the liquidation of certain funds may be accelerated at the option of investors.***

BlackRock derives a substantial portion of its revenue from its investment advisory business. The advisory or management contracts BlackRock has entered into with its clients, including the agreements that govern many of BlackRock's investment funds, provide investors or, in some cases, the independent directors of private investment funds, with significant latitude to terminate such contracts, withdraw funds or liquidate funds by simple majority vote with limited notice or penalty, or to remove BlackRock as the funds' investment advisor (or equivalent). BlackRock also manages its U.S. mutual funds, closed-end and exchange-traded funds under management contracts that must be renewed and approved annually by the funds' respective boards of directors, a majority of whom are independent from the Company. If a number of BlackRock's clients terminate their contracts, remove BlackRock from advisory roles, liquidate funds or fail to renew management contracts on favorable terms, the fees or carried interest BlackRock earns could be reduced, which may cause its AUM, revenue and earnings to decline.

***Increased competition may cause BlackRock's AUM, revenue and earnings to decline.***

The investment management industry is highly competitive and has relatively low barriers to entry. BlackRock competes based on a number of factors including: investment performance, the level of fees charged, the quality and diversity of services and products provided, name recognition and reputation, and the ability to develop new investment strategies and products to meet the changing needs of investors. Increased competition on the basis of any of these factors, including competition leading to fee reductions on existing or future new business, could cause the Company's AUM, revenue and earnings to decline.

***The impairment or failure of other financial institutions may cause BlackRock's AUM, revenue and earnings to decline.***

BlackRock's investment management activities expose the products and accounts it manages to many different industries and counterparties, including brokers and dealers, commercial and investment banks, clearing organizations, mutual and hedge funds, and other institutional clients. Transactions with counterparties expose the products and accounts BlackRock manages to credit risk in the event the applicable counterparty defaults. Although BlackRock regularly assesses risks posed by its counterparties, such counterparties may be subject to sudden swings in the financial and credit markets that may impair their ability to perform or they may otherwise fail to meet their obligations to BlackRock. Any such impairment or failure could negatively impact the performance of products or accounts managed by BlackRock, which could lead to the loss of clients and may cause BlackRock's AUM, revenue and earnings to decline.

***The failure or negative performance of products offered by competitors may cause AUM in similar BlackRock products to decline irrespective of BlackRock's performance.***

Many competitors offer similar products to those offered by BlackRock and the failure or negative performance of competitors' products could lead to a loss of confidence in similar BlackRock products, irrespective of the performance

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of such products. Any loss of confidence in a product type could lead to withdrawals, redemptions and liquidity issues in such products, which may cause the Company's AUM, revenue and earnings to decline.

***Changes in the value of seed and co-investments that BlackRock owns could affect our nonoperating income and could increase the volatility of our earnings.***

At December 31, 2014, BlackRock's net economic investment exposure of approximately \$1.3 billion in its investments (see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations-Investments) primarily resulted from co-investments and seed investments in its sponsored investment funds. Movements in the equity, debt or currency markets, or in the price of real estate, commodities or alternative investments, could lower the value of these investments, increase the volatility of BlackRock's earnings and may cause earnings to decline.

**RISKS RELATED TO INVESTMENT PERFORMANCE**

***Poor investment performance could lead to the loss of clients and may cause AUM, revenue and earnings to decline.***

The Company's management believes that investment performance, including the efficient delivery of beta for passively managed products, is one of the most important factors for the growth and retention of AUM. Poor investment performance relative to applicable portfolio benchmarks or to competitors could cause AUM, revenue and earnings to decline as a result of:

client withdrawals in favor of better performing products;

the diminishing ability to attract additional funds from existing and new clients;

the Company earning minimal or no performance fees;

an impairment to the value of intangible assets and goodwill; or

a decrease in investment returns on seed and co-investment capital.

***Performance fees may increase volatility of both revenue and earnings.***

A portion of BlackRock's revenue is derived from performance fees on investment and risk management advisory assignments. Performance fees represented \$550 million, or 5%, of total revenue for the year ended December 31, 2014. Generally, the Company is entitled to a performance fee only if the agreement pursuant to which it is managing the assets provides for one and if returns on the related portfolio exceed agreed-upon periodic or cumulative return targets. If these targets are not exceeded, a performance fee for that period will not be earned and, if targets are based

on cumulative returns, the Company may not earn performance fees in future periods, which could cause AUM, revenue and earnings to decline.

***Failure to identify errors in the quantitative models BlackRock utilizes to manage its business could adversely impact product performance and client relationships.***

BlackRock employs various quantitative models to support its investment decisions and allocations, including those related to risk assessment, portfolio management, trading

and hedging activities and product valuations. Any errors in the underlying models or model assumptions could have unanticipated and adverse consequences on BlackRock's business and reputation.

## **TECHNOLOGY AND OPERATIONAL RISKS**

***A failure in BlackRock's operational systems or infrastructure, including business continuity plans, could disrupt operations, damage the Company's reputation and may cause BlackRock's AUM, revenue and earnings to decline.***

BlackRock's infrastructure, including its technological capacity, data centers, and office space, is vital to the competitiveness of its business. Moreover a significant portion of BlackRock's critical business operations are concentrated in a limited number of geographic areas, including San Francisco, New York, London and Gurgaon. The failure to maintain an infrastructure commensurate with the size and scope of BlackRock's business, or the occurrence of a business outage or event outside BlackRock's control, including a major earthquake, hurricane, fire, terrorist act, pandemic or other catastrophic event in any location at which BlackRock maintains a major presence, could materially impact operations, result in disruption to the business or impede its growth. Notwithstanding BlackRock's efforts to ensure business continuity, if it fails to keep business continuity plans up-to-date or if such plans, including secure back-up facilities and systems and the availability of back-up employees, are improperly implemented or deployed during a disruption, the Company's ability to operate could be adversely impacted which could cause AUM, revenue and earnings to decline or could impact the Company's ability to comply with regulatory obligations leading to reputational harm, regulatory fines and sanctions.

***Failure to implement effective information and cyber security policies, procedures and capabilities could disrupt operations and cause financial losses that may cause BlackRock's AUM, revenue and earnings to decline.***

BlackRock is dependent on the effectiveness of the information and cyber security policies, procedures and capabilities it maintains to protect its computer and telecommunications systems and the data that reside on or are transmitted through them. An externally caused information security incident, such as a hacker attack, virus or worm, or an internally caused issue, such as failure to control access to sensitive systems, could materially interrupt business operations or cause disclosure or modification of sensitive or confidential client or competitive information and could result in material financial loss, loss of competitive position, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could cause BlackRock's AUM, revenue and earnings to decline.

***Failure to maintain Aladdin's competitive position in a dynamic market for risk analytics could lead to a loss of clients and could impede BlackRock's productivity and growth.***

The sophisticated risk analytics that BlackRock provides via the *Aladdin* technology platform to support investment advisory and BRS clients are a key element to BlackRock's competitive success. BlackRock relies on its ability, as well as the ability of a number of third parties who provide it with various types of data and software, to maintain a robust and





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secure technological framework to maximize the benefit of the *Aladdin* platform. The failure of these third parties to provide such data or software could result in operational difficulties and adversely impact BlackRock's ability to provide services to its investment advisory and BRS clients. In addition, there can be no assurance that the Company will be able to continue to deliver a competitive product in a dynamic market for risk analytics or be able to effectively protect and enforce its intellectual property rights in these systems and processes.

***Operating risks associated with BlackRock's securities lending program may result in client losses, and in certain circumstances, potential financial liabilities for the Company.***

BlackRock lends securities to banks and broker-dealers on behalf of certain of its clients. 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 must manage this process and is charged with mitigating the associated operational risks. The failure of the Company's controls to mitigate such operational risks could result in financial losses for the Company's clients that participate in its securities lending programs (separate from the risks of collateral investments). Additionally, in certain circumstances, the Company could potentially be held liable for the failure to manage any such risks.

***BlackRock indemnifies certain securities lending clients for specified losses as a result of a borrower default.***

BlackRock indemnifies certain of its securities lending clients for specified losses that might occur upon the default of a borrower. These indemnities are designed to cover a client's potential shortfall where the value of the collateral pledged by a defaulting borrower in connection with a securities lending agreement is less than the amount needed to repurchase the securities loaned to such a defaulting borrower. Where the collateral is in the form of cash, the indemnities BlackRock provides do not guarantee, assume or otherwise insure the investment performance or return of any cash collateral vehicle into which that cash collateral is invested. The amount of securities on loan as of December 31, 2014 and subject to indemnification was \$145.7 billion. BlackRock held, as agent, cash and securities totaling \$155.8 billion as collateral for indemnified securities on loan at December 31, 2014. Significant borrower defaults coupled with collateral shortfalls could result in material liabilities under these indemnities, which may cause the Company's AUM, revenue and earnings to decline.

***BlackRock's decision to provide support to particular products from time to time, or the inability to provide support, may cause AUM, revenue and earnings to decline.***

BlackRock may, at its option, from time to time support investment products through capital or other credit support. Such support may utilize capital and liquidity that would otherwise be available for other corporate purposes. Losses on such support, as well as regulatory restrictions on our ability to provide such support or the failure to have available or devote sufficient capital or liquidity to support products, may cause AUM, revenue and earnings to decline.

***Failure to maintain adequate corporate and contingent liquidity may cause BlackRock's AUM, liquidity and earnings to decline, as well as harm its prospects for growth.***

BlackRock's ability to meet anticipated cash needs depends upon a number of factors, including its ability to maintain and grow AUM, its creditworthiness and operating cash flows. Failure to maintain adequate liquidity could lead to unanticipated costs and force BlackRock to revise existing strategic and business initiatives. BlackRock's access to equity and debt markets and its ability to issue public or private debt, or secure lines of credit or commercial paper

back-up lines, on reasonable terms may be limited by adverse market conditions, a reduction in its long- or short-term credit ratings as well as changes in government regulations, including tax and interest rates. Failure to obtain funds and/or financing, or any adverse change to the cost of obtaining such funds and/or financing, could cause BlackRock's AUM, revenue and earnings to decline, curtail its operations and limit or impede its prospects for growth.

***Fraud, or the circumvention of controls and risk management policies, could have an adverse effect on BlackRock's reputation, which may cause the Company's AUM, revenue and earnings to decline.***

Although BlackRock has adopted a comprehensive risk management process and continues to enhance various controls, procedures, policies and systems to monitor and manage risks, it cannot assure that such controls, procedures, policies and systems will successfully identify and manage internal and external risks to its businesses. BlackRock is subject to the risk that its employees, contractors or other third parties may deliberately seek to circumvent established controls to commit fraud or act in ways that are inconsistent with the Company's controls, policies and procedures. Persistent or repeated attempts involving fraud, conflicts of interests or circumvention of policies and controls could have an adverse effect on BlackRock's reputation, which could cause costly regulatory inquiries and may cause the Company's AUM, revenue and earnings to decline.

***BlackRock may be unable to develop new products and services and the development of new products and services may expose BlackRock to additional costs or operational risk.***

BlackRock's financial performance depends, in part, on its ability to develop, market and manage new investment products and services. The development and introduction of new products and services requires continued innovative efforts on the part of BlackRock and may require significant time and resources as well as ongoing support and investment. Substantial risk and uncertainties are associated with the introduction of new products and services, including the implementation of new and appropriate operational controls and procedures, shifting client and market preferences, the introduction of competing products or services and compliance with regulatory requirements. A failure to continue to innovate to introduce new products and services or to successfully manage the risks associated with such products and services may cause BlackRock's costs to fluctuate, which may cause its AUM, revenue and earnings to decline.

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***The failure to recruit and retain employees and develop and implement effective executive succession could lead to the loss of clients and may cause AUM, revenue and earnings to decline.***

BlackRock's success is largely dependent on the talents and efforts of its highly skilled workforce and the Company's ability to plan for the future long-term growth of the business by identifying and developing those employees who can ultimately transition into key roles within BlackRock. The market for qualified fund managers, investment analysts, financial advisers and other professionals is competitive, and factors that affect BlackRock's ability to attract and retain such employees include the Company's reputation, the compensation and benefits it provides, and its commitment to effectively managing executive succession, including the development and training of qualified individuals. In addition, a percentage of the deferred compensation that BlackRock pays to its employees is tied to the Company's share price. As such, if BlackRock's share price were to decrease materially, the retention value of such deferred compensation would decrease. There can be no assurance that the Company will continue to be successful in its efforts to recruit and retain employees and effectively manage executive succession. If BlackRock is unable to attract and retain talented individuals, or if it fails to effectively manage executive succession, the Company's ability to compete effectively and retain its existing clients may be materially impacted.

***Future inorganic transactions may harm the Company's competitive or financial position if they are not successful.***

BlackRock employs a variety of organic and inorganic strategies intended to enhance earnings, increase product offerings, access new clients and expand into new geographies. Inorganic strategies have included hiring smaller-sized investment teams, and acquiring investment management businesses and other small and medium-sized companies. Inorganic transactions involve a number of financial, accounting, tax, regulatory and operational challenges and uncertainties, including in some cases the assumption of pre-existing liabilities. Any failure to identify and mitigate these risks through due diligence and indemnification provisions could adversely impact BlackRock's reputation, may cause its AUM, revenue and earnings to decline, and may harm the Company's competitive position in the investment management industry. Moreover, there can be no assurances that BlackRock will be able to successfully integrate or realize the intended benefits from future inorganic transactions.

***Operating in international markets increases BlackRock's operational, regulatory and other risks.***

As a result of BlackRock's extensive international operations, the Company faces associated operational, regulatory, reputational, political and foreign exchange rate risks, many of which are outside of the Company's control. The failure of the Company's systems of internal control to mitigate such risks, or of its operating infrastructure to support its global activities, could result in operational failures and regulatory fines or sanctions, which could cause the Company's AUM, revenue and earnings to decline.

**RISKS RELATED TO BLACKROCK'S KEY VENDOR AND DISTRIBUTION RELATIONSHIPS**

***The failure of a key vendor to BlackRock to fulfill its obligations could have a material adverse effect on BlackRock's reputation or business, which may cause the Company's AUM, revenue and earnings to decline.***

BlackRock depends on a number of key vendors for various fund administration, accounting, custody, risk analytics, market data, market indices and transfer agent roles and other distribution and operational needs. The failure or inability of BlackRock to diversify its sources for key services or the failure of any key vendor to fulfill its obligations

could lead to operational and regulatory issues for the Company, including with respect to certain of its products, which could result in reputational harm and may cause BlackRock's AUM, revenue and earnings to decline.

***Any disruption to the Company's distribution channels may cause BlackRock's AUM, revenue and earnings to decline.***

BlackRock relies on a number of third parties to provide distribution, portfolio administration and servicing for certain BlackRock investment management products and services through their various distribution channels. In particular, BlackRock entered into a global distribution agreement with Bank of America/Merrill Lynch in 2006, which is subject to renegotiation at the end of 2016. BlackRock's ability to maintain strong relationships with its distributors is material to the Company's future performance. If BlackRock is unable to distribute its products and services successfully, if it experiences an increase in distribution-related costs, or if it is unable to replace or renew existing distribution arrangements, BlackRock's AUM, revenue and earnings may decline.

## **LEGAL AND REGULATORY RISKS**

***BlackRock is subject to extensive and pervasive regulation around the world.***

BlackRock's business is subject to extensive regulation around the world. These regulations subject BlackRock's business activities to a pervasive array of increasingly detailed operational requirements, compliance with which is costly, time-consuming and complex. BlackRock may be adversely affected by its failure to comply with current laws and regulations or by changes in the interpretation or enforcement of existing laws and regulations. Challenges associated with interpreting regulations issued in numerous countries in a globally consistent manner may add to such risks, if regulators in different jurisdictions have inconsistent views or provide only limited regulatory guidance. In particular, violation of applicable laws or regulations could result in fines, temporary or permanent prohibition of certain activities, reputational harm and related client terminations, suspensions of employees or revocation of their licenses, suspension or termination of investment adviser, broker-dealer or other registrations, or suspension or termination of bank charter or other sanctions, which could have a material adverse effect on BlackRock's reputation or business and may cause the Company's AUM, revenue and earnings to decline. For a more extensive discussion of the laws, regulations and regulators to which BlackRock is subject, see Item 1 Business Regulation.

***Regulatory reforms in the United States and internationally expose BlackRock and its clients to increasing regulatory scrutiny.***

In recent years a number of proposals for regulatory reform have been introduced and it is expected that the level of

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regulatory scrutiny to which BlackRock is subject will continue to increase. See Item 1 Business Regulation. A number of regulatory reforms that have been proposed may require BlackRock to alter its business or operating activities, which could be time-consuming and costly and which may impede the Company's growth and may cause AUM, revenue and earnings to decline. Regulatory reform may also impact BlackRock's banking, insurance company and pension fund clients, which could cause them to change their investment strategies or allocations in manners that may be adverse to BlackRock. Key regulatory reforms that may impact the Company include:

*Designation as a systemically important financial institution:* Under the DFA, the Federal Reserve is charged with establishing enhanced regulatory requirements for nonbank financial institutions which have been designated as systemically important by the FSOC. In addition, the FSB and IOSCO have issued a consultative document on proposed methodologies to identify nonbank/noninsurance G-SIFIs. Although BlackRock has not been designated as a SIFI or G-SIFI, if it is designated as such in the future, it is likely to become subject to enhanced prudential, capital, supervisory and other requirements. Requirements such as these, which were designed to regulate banking institutions, would need to be modified to be applicable to an asset manager such as BlackRock. No proposals have been made indicating how such measures would be adapted for asset managers.

*The Volcker Rule:* Provisions of the DFA referred to as the Volcker Rule created a new section of the BHC Act that places limitations on the ability of banks and their subsidiaries to engage in proprietary trading and to invest in and transact with certain private investment funds, including hedge funds, private equity funds and funds of funds (collectively covered funds). Complying with the Volcker Rule may reduce the level of market making and liquidity activities of several of BlackRock's trading counterparties, which may adversely impact the liquidity and, in some cases, the pricing of various financial instruments in which BlackRock client accounts invest. Because the Federal Reserve currently treats BlackRock as a nonbank subsidiary of PNC, BlackRock may be required to conform its activities to the requirements of the Volcker Rule. On December 18, 2014, the Federal Reserve announced a second extension to the Volcker Rule conformance period, giving banking entities until July 21, 2016, to conform investments in and relationships with covered funds and foreign funds that were in place prior to December 31, 2013 (legacy covered funds). The Federal Reserve also announced its intention to act in the future to grant banking entities an additional one-year extension of the conformance period until July 21, 2017, to conform ownership interests in and relationships with these legacy covered funds. The Volcker Rule's restrictions would, among other things, limit BlackRock's ability to invest in covered funds and require BlackRock to remove its name from the names of its covered funds. The Volcker Rule may also require BlackRock to sell certain seed and co-investments that it holds in covered funds, potentially at a discount to existing carrying value, depending on market conditions.

*Money market mutual fund reform:* Approximately 3% of BlackRock's AUM as of December 31, 2014, consisted of assets in U.S. money market funds, of which institutional prime or institutional municipal money market funds (including offshore funds that feed into such money market funds) comprised approximately 2%. In July 2014, the SEC adopted rule amendments designed to reform the regulatory structure governing money market funds and to address the perceived systemic risks that such funds present. The new rules require institutional prime and institutional municipal money market funds to employ a floating net asset value method of pricing, which allows the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets. The rules also provide for new tools for the funds' boards designed to address liquidity shocks, including liquidity fees and redemption gates. The rules do not apply to government (non-municipal) and retail money market funds,

except that retail money market funds must comply with liquidity fees and redemption gate requirements. The potential impact of the rules that affect the structure of the funds, which have a two-year compliance period, on BlackRock's business remains untested; they may, however, reduce the attractiveness of certain money market funds to investors.

*Regulation of swaps and derivatives:* The implementation of DFA regulations, similar regulations in the EU and other global jurisdictions relating to swaps and derivatives could impact the manner in which BlackRock-advised funds and accounts use and trade swaps and other derivatives, increasing the costs of derivatives trading for BlackRock's clients. Various global rules and regulations applicable to the use of financial products by funds, accounts and counterparties that have been adopted or proposed will require BlackRock to build and implement new compliance monitoring procedures to address the enhanced level of oversight to which it and its clients will be subject. These rules will also introduce new central clearing requirements for certain swap transactions and will require that certain swaps be executed only on or through electronic trading venues (as opposed to over the phone or other execution methods), with which BlackRock will have to comply. The new rules and regulations may produce regulatory inconsistencies in global derivatives trading rules and will increase the operational and legal risks with which BlackRock will have to contend.

*Increased international regulatory scrutiny:* In addition to the extensive scrutiny BlackRock faces from U.S.-based regulators, the Company and its subsidiaries are also subject to the authority of numerous governmental and regulatory bodies globally, in particular in Europe and the Asia-Pacific region. These regulators have imposed numerous regulations, guidelines and standards on the activities of BlackRock and its subsidiaries covering a variety of areas, including capital resources requirements, marketing activities, client and investor protections, senior management arrangements and enhanced system and control requirements. In the event that BlackRock or any of its subsidiaries fails to comply with these often complex guidelines, regulations and standards, the regulators have broad powers to suspend or revoke any licenses they may have granted and/or to impose sanctions or fines.

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*European Union Directives:* In the aftermath of the financial crisis, the European Commission ( EC ) initiated a plan for EU financial reform, including a number of consultations and initiatives intended to improve retail investor protections, which the EC reflected in new or updated Directives and regulations. The resulting review of MiFID, introduction of AIFMD, the introduction of MiFID 2 and the revision of the UCITS Directive have increased the compliance, disclosure and other obligations BlackRock faces in the European Economic Area. Once fully implemented, these Directives will have significant and wide-ranging impacts on EU securities and derivatives markets, which will directly and indirectly impact BlackRock's EU-regulated subsidiaries and other group companies.

*Extension of Retail Distribution Review rules to new markets:* BlackRock must also comply with newly implemented retail distribution rules aimed at enhancing consumer protections, overhauling mutual fund fee structures and increasing professionalism in the retail investment sector. The rules were originally introduced in the United Kingdom and have since been introduced in other jurisdictions where BlackRock operates. Similarly, MiFID 2 will contain a ban on certain advisers recovering commissions and other nonmonetary benefits from fund managers. These rules, if implemented, may lead to changes to the fees and commissions BlackRock is able to charge to its clients, as well as to its client servicing and distribution models.

***Legal proceedings could cause the Company's AUM, revenue and earnings to decline.***

BlackRock is subject to a number of sources of potential legal liability and the Company, certain of the investment funds it manages and certain of its subsidiaries and employees have been named as defendants in various legal actions, including arbitrations, class actions and other litigation arising in connection with BlackRock's activities. Certain of BlackRock's subsidiaries and employees are also subject to periodic examination, special inquiries and potential proceedings by regulatory authorities, including the SEC, OCC, DOL, CFTC and FCA. Similarly, from time to time, BlackRock receives subpoenas or other requests for information from various U.S. and non-U.S. governmental and regulatory authorities in connection with certain industry-wide, company-specific or other investigations or proceedings. These examinations, inquiries and proceedings, have in the past and could in the future, if compliance failures or other violations are found, cause the relevant regulator to institute proceedings and impose sanctions for violations. Any such action may also result in litigation by investors in BlackRock's funds, other BlackRock clients or by BlackRock's shareholders, which could harm the Company's reputation and may cause its AUM, revenue and earnings to decline, potentially harm the investment returns of the applicable fund, or result in the Company being liable to the funds for damages.

In addition, when clients retain BlackRock to manage their assets or provide them with products or services, they typically specify contractual requirements or guidelines that BlackRock must observe in the provision of its services. A failure to comply with these guidelines or requirements could expose BlackRock to lawsuits, harm its reputation or cause clients to withdraw assets or terminate contracts, any of which could cause the Company's AUM, revenue and earnings to decline.

As BlackRock's business continues to grow, the Company must routinely address conflicts of interest, as well as the perception of conflicts of interest, between itself and its clients or employees. In addition, the SEC and other regulators have increased their scrutiny of potential conflicts. BlackRock has procedures and controls in place that are designed to detect and address these issues. However, appropriately dealing with conflicts of interest is complex and if the Company fails, or appears to fail, to appropriately deal with any conflict of interest, it may face reputational damage, litigation, regulatory proceedings, or penalties or other sanctions, any of which may cause BlackRock's AUM,



revenue and earnings to decline.

***BlackRock is subject to banking regulations that may limit its business activities.***

As described in Item 1-Business-Regulation, PNC owns approximately 22% of BlackRock's capital stock. Based on the Federal Reserve's interpretation of the BHC Act, the Federal Reserve currently takes the position that this ownership interest causes BlackRock to be treated as a nonbank subsidiary of PNC for purposes of the BHC Act, thereby subjecting BlackRock to banking regulation, including the supervision and regulation of the Federal Reserve. Such banking regulation limits the activities and the types of businesses that a nonbank subsidiary may conduct. The Federal Reserve has broad enforcement authority over nonbank subsidiaries, including the power to prohibit them from conducting any activity that, in the Federal Reserve's opinion, is unauthorized or constitutes an unsafe or unsound practice, and to impose substantial fines and other penalties for violations. PNC is regulated as a financial holding company under the BHC Act, which allows PNC and BlackRock to engage in a much broader set of activities than would otherwise be permitted under the BHC Act; any failure of PNC to maintain its status as a financial holding company could result in substantial limitations on certain BlackRock activities and its growth. In addition to being subject to capital requirements established by the OCC, BlackRock's trust bank subsidiary, which is organized as a national bank, is separately subject to banking regulation by the OCC. The OCC has broad enforcement authority over BlackRock's trust bank subsidiary. Being subject to banking regulation may put BlackRock at a competitive disadvantage because most of its competitors are not subject to these limitations.

***Failure to comply with ownership reporting requirements could result in harm to BlackRock's reputation and may cause its AUM, revenue and earnings to decline.***

Of note among the various international regulations to which BlackRock is subject, are the extensive and increasingly stringent regulatory reporting requirements that necessitate the monitoring and reporting of issuer exposure levels (thresholds) across the holdings of managed funds and accounts and those of the Company. The specific triggers and the reporting methods that these threshold filings entail vary significantly by regulator and across jurisdictions. BlackRock continues to invest in technology, training and its employees to enhance its monitoring and reporting functions and improve the timeliness and accuracy of its disclosures. Despite these investments, the complexity of the various threshold reporting requirements combined with the breadth of the assets managed by the Company and high volume of securities trading have caused errors and omissions to occur in the past, and pose a risk that errors or omissions will occasionally occur in the future. Any such errors may expose BlackRock to monetary penalties, which

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could, have an adverse effect on BlackRock's reputation and may cause its AUM, revenue and earnings to decline.

***New tax legislation or changes in U.S. and foreign tax laws and regulations or challenges to BlackRock's historical taxation practices may adversely affect BlackRock's effective tax rate, business and overall financial condition.***

BlackRock's businesses may be affected by new tax legislation or regulations, or the modification of existing tax laws and regulations, by U.S. or non-U.S. authorities. In particular, FATCA has introduced expansive new investor onboarding, withholding and reporting rules aimed at ensuring U.S. persons with financial assets outside of the United States pay appropriate taxes. The FATCA rules will impact both U.S. and non-U.S. funds and subject BlackRock to extensive additional administrative burdens. Similarly, there has been renewed momentum by several EU Member States to introduce an FTT, which would impose taxation on a broad range of financial instrument and derivatives transactions. If introduced as proposed, FTTs could have an adverse effect on BlackRock's financial results and on clients' performance results. In addition, the Organization for Economic Co-operation and Development recently launched a base erosion and profit shifting proposal that aims to rationalize tax treatment across jurisdictions. If the BEPS proposal becomes the subject of legislative action in the format proposed it could have unintended taxation consequences for collective investment vehicles and the Company's tax position, which could adversely affect BlackRock's financial condition.

The Company also manages significant assets in products and accounts that have specific tax and after-tax related objectives, which could be adversely impacted by changes in tax policy, particularly with respect to U.S. municipal income, U.S. individual income tax rate on qualified dividends and, globally, alternative products. Additionally, any new legislation, modification or interpretation of tax laws could impact BlackRock's corporate tax position. The application of complex tax regulations involves numerous uncertainties and in the normal course of business, U.S. and non-U.S. tax authorities may review and challenge BlackRock's historical tax positions. These challenges may result in adjustments to BlackRock's tax position, or impact the timing or amount of, taxable income, deductions or other tax allocations, which may adversely affect BlackRock's effective tax rate and overall financial condition.

**RISKS RELATED TO BLACKROCK'S SIGNIFICANT SHAREHOLDER**

***PNC owns a large portion of BlackRock's capital stock. Future sales of our common stock in the public market by the Company or PNC could adversely affect the trading price of our common stock.***

As of December 31, 2014, PNC owned 22% of the Company's capital stock. Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could cause the market price of our common stock to decline.

***PNC has agreed to vote as a stockholder in accordance with the recommendation of BlackRock's Board of Directors, and certain actions will require special board approval or the prior approval of PNC.***

As discussed in our proxy statement, PNC has agreed to vote all of its voting shares in accordance with the recommendation of BlackRock's Board of Directors in accordance with the provisions of its stockholder agreement with BlackRock. As a consequence, if the shares held by PNC constitute a substantial portion of the outstanding voting shares, matters submitted to a stockholder vote that require a majority or a plurality of votes for approval,

including elections of directors, will have a substantial number of shares voted in accordance with the determination of the BlackRock Board of Directors. This arrangement has the effect of concentrating a significant block of voting control over BlackRock in its Board of Directors, whether or not stockholders agree with any particular determination of the Board.

As discussed in our proxy statement, pursuant to our stockholder agreement with PNC, the following may not be done without prior approval of all of the independent directors, or at least two-thirds of the directors, then in office:

appointment of a new Chief Executive Officer of BlackRock;

any merger, issuance of shares or similar transaction in which beneficial ownership of a majority of the total voting power of BlackRock capital stock would be held by persons different than those currently holding such majority of the total voting power, or any sale of all or substantially all assets of BlackRock;

any acquisition of any person or business which has a consolidated net income after taxes for its preceding fiscal year that equals or exceeds 20% of BlackRock's consolidated net income after taxes for its preceding fiscal year if such acquisition involves the current or potential issuance of BlackRock capital stock constituting more than 10% of the total voting power of BlackRock capital stock issued and outstanding immediately after completion of such acquisition;

any acquisition of any person or business constituting a line of business that is materially different from the lines of business BlackRock and its controlled affiliates are engaged in at that time if such acquisition involves consideration in excess of 10% of the total assets of BlackRock on a consolidated basis;

except for repurchases otherwise permitted under the stockholder agreement, any repurchase by BlackRock or any subsidiary of shares of BlackRock capital stock such that after giving effect to such repurchase BlackRock and its subsidiaries shall have repurchased more than 10% of the total voting power of BlackRock capital stock within the 12-month period ending on the date of such repurchase;

any amendment to BlackRock's certificate of incorporation or bylaws; or

any matter requiring stockholder approval pursuant to the rules of the NYSE.

Additionally, BlackRock may not enter into any of the following transactions without the prior approval of PNC:

any sale of any subsidiary of BlackRock, the annualized revenue of which, together with the annualized revenue of any other subsidiaries disposed of within the same year, are more than 20% of the annualized revenue of BlackRock for the preceding fiscal year on a consolidated basis;

for so long as BlackRock is a subsidiary of PNC for purposes of the BHC Act, entering into any business or activity that is prohibited for any such subsidiary under the BHC Act;



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any amendment of any provision of a stockholder agreement between BlackRock and any stockholder beneficially owning greater than 20% of BlackRock capital stock that would be viewed by a reasonable person as being adverse to PNC or materially more favorable to the rights of any stockholder beneficially owning greater than 20% of BlackRock capital stock than to PNC;

any amendment, modification, repeal or waiver of BlackRock's certificate of incorporation or bylaws that would be viewed by a reasonable person as being adverse to the rights of PNC or more favorable to the rights of any stockholder beneficially owning greater than 20% of BlackRock capital stock, or any settlement or consent in a regulatory enforcement matter that would be reasonably likely to cause PNC or any of its affiliates to suffer regulatory disqualification, suspension of registration or license or other material adverse regulatory consequences; or

a voluntary bankruptcy or similar filing by BlackRock.

### Item 1B. Unresolved Staff

#### Comments

The Company has no unresolved comments from the SEC staff relating to BlackRock's periodic or current reports filed with the SEC pursuant to the Exchange Act.

### Item 2. Properties

BlackRock's principal office, which is leased, is located at 55 East 52nd Street, New York, New York. BlackRock leases additional office space in New York City at 40 East 52nd Street and throughout the world, including Boston, Chicago, Edinburgh, Gurgaon (India), Hong Kong, London, Melbourne, Munich, Princeton (New Jersey), San Francisco, Seattle, Singapore, Sydney, Taipei and Tokyo. The Company also owns an 84,500 square foot office building in Wilmington (Delaware).

### Item 3. Legal Proceedings

From time to time, BlackRock receives subpoenas or other requests for information from various U.S. federal, state governmental and domestic and international regulatory authorities in connection with certain industry-wide or other investigations or proceedings. It is BlackRock's policy to cooperate fully with such inquiries. The Company and certain of its subsidiaries have been named as defendants in various legal actions, including arbitrations and other litigation arising in connection with BlackRock's activities. Additionally, certain BlackRock-sponsored investment funds that the Company manages are subject to lawsuits, any of which potentially could harm the investment returns of the applicable fund or result in the Company being liable to the funds for any resulting damages.

#### **Italian Securities Regulator Proceeding**

The Italian securities regulator, Commissione Nazionale per le Società e la Borsa (Consob), initiated a civil proceeding on January 3, 2014 against Nigel Bolton, a portfolio manager and head of BlackRock Investment Management (UK) Limited's European Equity Team (EET), in connection with the sale of shares in the Italian oil and

gas services company Saipem, SpA in January 2013.

Consob alleges that Mr. Bolton, on behalf of certain BlackRock clients, sold, or influenced the sale of, approximately 10.7 million shares of Saipem using material, non-public information thereby avoiding client losses of over \$114.5 million. The EET's sale of Saipem shares occurred between January 25 and January 29, 2013, and Saipem announced negative news following the market close on January 29, 2013. While BlackRock is not charged in the proceeding, it may be liable for the actions of its employee.

BlackRock conducted a thorough investigation and found no evidence to support the allegations. As a result of the investigation, BlackRock believes that the sale of Saipem shares was made as a fiduciary based on publicly available information that was widely disseminated in the marketplace, including negative publicity and a third-party analyst research report reducing earnings estimates, which was issued to the market before trading on January 25, 2013.

Consob also alleges that BlackRock declined to provide Consob with information and was an obstacle to Consob's investigation. BlackRock believes it has fully cooperated with Consob, and it will continue to do so.

While under Italian law the potential penalty could be greater than the loss actually avoided, BlackRock believes that Mr. Bolton ultimately will not be found liable and, as a result, neither Mr. Bolton nor BlackRock will incur any penalty.

### **SEC Enforcement Matter**

In June 2012, BlackRock Advisors, LLC (BlackRock Advisors), a subsidiary of BlackRock, announced that its then-employee Daniel J. Rice III would, among other things, no longer serve as a portfolio manager for the BlackRock Energy & Resources Portfolio in order to address any perception of a potential conflict of interest as a result of his personal investments and involvement in a family business, Rice Energy LP and related entities. BlackRock Advisors further announced that Mr. Rice would retire from BlackRock Advisors, which he did in December 2012.

The staff of the U.S. Securities and Exchange Commission (SEC) commenced an investigation into this matter in 2012. On June 17, 2014, BlackRock Advisors received a written Wells Notice from the SEC staff indicating the staff's preliminary determination to recommend to the Commission that the SEC file an action against BlackRock Advisors.

BlackRock Advisors has reached an agreement with the SEC staff, subject to approval by the Commission, to resolve the investigation. No assurance can be given that the settlement will be accepted by the Commission. The Company does not expect the agreement with the SEC staff to have a material adverse effect on the Company's financial results or operations.

### **All Legal Proceedings**

Management, after consultation with legal counsel, currently does not anticipate that the aggregate liability, if any, arising out of regulatory matters or lawsuits will have a material effect on BlackRock's results of operations, financial position, or cash flows. However, there is no assurance as to whether any such pending or threatened matters will have a material effect on BlackRock's results of operations, financial position or cash flows in any future reporting period. Due to uncertainties surrounding the outcome of these matters, management cannot reasonably estimate the possible loss or range of loss that may arise from these matters.

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## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

## Item 5. Market for Registrant's

## Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

BlackRock's common stock is listed on the NYSE and is traded under the symbol **BLK**. At the close of business on January 31, 2015, there were 293 common stockholders of record. Common stockholders include institutional or omnibus accounts that hold common stock for multiple underlying investors.

The following table sets forth for the periods indicated the high and low reported sale prices, period-end closing prices for the common stock and dividends declared per share for the common stock as reported on the NYSE:

	Common Stock Price Ranges		Closing Price	Cash Dividend Declared
	High	Low		
<b>2014</b>				
First Quarter	\$ 323.89	\$ 286.39	\$ 314.48	\$ 1.93
Second Quarter	\$ 319.85	\$ 293.71	\$ 319.60	\$ 1.93
Third Quarter	\$ 336.47	\$ 301.10	\$ 328.32	\$ 1.93
Fourth Quarter	\$ 364.40	\$ 303.91	\$ 357.56	\$ 1.93
<b>2013</b>				
First Quarter	\$ 258.70	\$ 212.77	\$ 256.88	\$ 1.68
Second Quarter	\$ 291.69	\$ 245.30	\$ 256.85	\$ 1.68
Third Quarter	\$ 286.62	\$ 255.26	\$ 270.62	\$ 1.68
Fourth Quarter	\$ 316.47	\$ 262.75	\$ 316.47	\$ 1.68

BlackRock's closing common stock price as of February 26, 2015 was \$375.02.

**DIVIDENDS**

On January 14, 2015, the Board of Directors approved BlackRock's quarterly dividend of \$2.18 to be paid on March 24, 2015 to stockholders of record at the close of business on March 6, 2015.

PNC receives dividends on shares of nonvoting participating preferred stock, which are equivalent to the dividends received by common stockholders.

**ISSUER PURCHASES OF EQUITY SECURITIES**

During the three months ended December 31, 2014, the Company made the following purchases of its common stock, which is registered pursuant to Section 12(b) of the Exchange Act.

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(1)</sup></b>
October 1, 2014 through October 31, 2014	<b>275,496<sup>(2)</sup></b>	<b>\$ 322.87</b>	<b>273,317</b>	<b>3,822,099</b>
November 1, 2014 through November 30, 2014	<b>412,392<sup>(2)</sup></b>	<b>\$ 349.79</b>	<b>411,970</b>	<b>3,410,129</b>
December 1, 2014 through December 31, 2014	<b>65,410<sup>(2)</sup></b>	<b>\$ 356.69</b>	<b>49,662</b>	<b>3,360,467</b>
Total	<b>753,298</b>	<b>\$ 340.54</b>	<b>734,949</b>	

(1) 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 with no stated expiration date.

(2) Includes purchases made by the Company primarily to satisfy income tax withholding obligations of employees and members of the Company's Board of Directors related to the vesting of certain restricted stock or restricted stock unit awards and purchases made by the Company as part of the publicly announced share repurchase program.



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## Item 6. Selected Financial Data

The selected financial data presented below has been derived in part from, and should be read in conjunction with, the consolidated financial statements of BlackRock and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Form 10-K.

<i>(in millions, except per share data)</i>	<b>Year ended December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b><u>Income statement data:</u></b>					
<b>Revenue</b>					
Related parties <sup>(1)</sup>	\$ 6,994	\$ 6,260	\$ 5,501	\$ 5,431	\$ 5,025
Other third parties	4,087	3,920	3,836	3,650	3,587
Total revenue	11,081	10,180	9,337	9,081	8,612
<b>Expense</b>					
Restructuring charges				32	
Other operating expenses	6,607	6,323	5,813	5,800	5,614
Total expenses	6,607	6,323	5,813	5,832	5,614
Operating income	4,474	3,857	3,524	3,249	2,998
<b>Total nonoperating income (expense)</b>	<b>(79)</b>	<b>116</b>	<b>(54)</b>	<b>(114)</b>	<b>23</b>
Income before income taxes	4,395	3,973	3,470	3,135	3,021
Income tax expense	1,131	1,022	1,030	796	971
Net income	3,264	2,951	2,440	2,339	2,050
Less: Net income (loss) attributable to noncontrolling interests	(30)	19	(18)	2	(13)
Net income attributable to BlackRock, Inc.	\$ 3,294	\$ 2,932	\$ 2,458	\$ 2,337	\$ 2,063
<b><u>Per share data:</u><sup>(2)</sup></b>					
Basic earnings	\$ 19.58	\$ 17.23	\$ 14.03	\$ 12.56	\$ 10.67
Diluted earnings	\$ 19.25	\$ 16.87	\$ 13.79	\$ 12.37	\$ 10.55
Book value <sup>(3)</sup>	\$ 164.06	\$ 156.69	\$ 148.20	\$ 140.07	\$ 136.09
Cash dividends declared and paid per share	\$ 7.72	\$ 6.72	\$ 6.00	\$ 5.50	\$ 4.00

(1) BlackRock's related party revenue includes fees for services provided to registered investment companies that it manages, which include mutual funds and exchange-traded funds, as a result of the Company's advisory relationship. In addition, equity method investments are considered related parties due to the Company's influence over the financial and operating policies of the investee. See Note 16 to the consolidated financial statements for more information on related parties.

(2) Participating preferred stock is considered to be a common stock equivalent for purposes of earnings per share calculations.

(3) Total BlackRock stockholders' equity, excluding appropriated retained earnings, divided by total common and preferred shares outstanding at December 31 of the respective year-end.

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<i>(in millions)</i>	<b>December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Balance sheet data:</b>					
Cash and cash equivalents	\$ 5,723	\$ 4,390	\$ 4,606	\$ 3,506	\$ 3,367
Goodwill and intangible assets, net	30,305	30,481	30,312	30,148	30,317
Total assets <sup>(1)</sup>	239,808	219,873	200,451	179,896	178,459
<i>Less:</i>					
Separate account assets <sup>(2)</sup>	161,287	155,113	134,768	118,871	121,137
Collateral held under securities lending agreements <sup>(2)</sup>	33,654	21,788	23,021	20,918	17,638
Consolidated investment vehicles <sup>(3)</sup>	3,787	2,714	2,813	2,006	1,610
Adjusted total assets	\$ 41,080	\$ 40,258	\$ 39,849	\$ 38,101	\$ 38,074
Short-term borrowings	\$	\$	\$ 100	\$ 100	\$ 100
Convertible debentures					67
Long-term borrowings	4,938	4,939	5,687	4,690	3,192
Total borrowings	\$ 4,938	\$ 4,939	\$ 5,787	\$ 4,790	\$ 3,359
Total BlackRock, Inc. stockholders equity	\$ 27,366	\$ 26,460	\$ 25,403	\$ 25,048	\$ 26,094
<b>Assets under management:</b>					
<i>Equity:</i>					
Active	\$ 292,802	\$ 317,262	\$ 287,215	\$ 275,156	\$ 334,532
<i>iShares</i>	790,067	718,135	534,648	419,651	448,160
Non-ETF index	1,368,242	1,282,298	1,023,638	865,299	911,775
<b>Equity subtotal</b>	<b>2,451,111</b>	<b>2,317,695</b>	<b>1,845,501</b>	<b>1,560,106</b>	<b>1,694,467</b>
<i>Fixed income:</i>					
Active	701,324	652,209	656,331	614,804	592,303
<i>iShares</i>	217,671	178,835	192,852	153,802	123,091
Non-ETF index	474,658	411,142	410,139	479,116	425,930
<b>Fixed income subtotal</b>	<b>1,393,653</b>	<b>1,242,186</b>	<b>1,259,322</b>	<b>1,247,722</b>	<b>1,141,324</b>
Multi-asset	377,837	341,214	267,748	225,170	185,587
<i>Alternatives:</i>					
Core	88,006	85,026	68,367	63,647	63,603
Currency and commodities <sup>(4)</sup>	23,234	26,088	41,428	41,301	46,135
<b>Alternatives subtotal</b>	<b>111,240</b>	<b>111,114</b>	<b>109,795</b>	<b>104,948</b>	<b>109,738</b>
<b>Long-term</b>	<b>4,333,841</b>	<b>4,012,209</b>	<b>3,482,366</b>	<b>3,137,946</b>	<b>3,131,116</b>
Cash management	296,353	275,554	263,743	254,665	279,175
Advisory <sup>(5)</sup>	21,701	36,325	45,479	120,070	150,677
<b>Total</b>	<b>\$ 4,651,895</b>	<b>\$ 4,324,088</b>	<b>\$ 3,791,588</b>	<b>\$ 3,512,681</b>	<b>\$ 3,560,968</b>

(1) Includes separate account assets that are segregated funds held for purposes of funding individual and group pension contracts and collateral held under securities lending agreements related to these assets that have equal and offsetting amounts recorded in liabilities and ultimately do not impact BlackRock's stockholders' equity or cash flows.

- (2) Equal and offsetting amounts, related to separate account assets and collateral held under securities lending agreements, are recorded in liabilities.
- (3) Includes assets held by consolidated variable interest entities and consolidated sponsored investments funds.
- (4) Amounts include commodity *iShares*.
- (5) Advisory AUM represents long-term portfolio liquidation assignments.

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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, assume, outlook, continue, remain, maintain, sustain, seek, achieve, and similar expressions, or future or prospective 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.

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<i>(in millions, except per share data)</i>	2014	2013	2012
<b>GAAP basis:</b>			
Total revenue	\$ 11,081	\$ 10,180	\$ 9,337
Total expense	6,607	6,323	5,813
Operating income	\$ 4,474	\$ 3,857	\$ 3,524
<i>Operating margin</i>	40.4%	37.9%	37.7%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests <sup>(1)</sup>	(49)	97	(36)
Income tax expense	(1,131)	(1,022)	(1,030)
Net income attributable to BlackRock	\$ 3,294	\$ 2,932	\$ 2,458
<i>% attributable to common shares</i>	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%
<b>As adjusted<sup>(2)</sup>:</b>			
Total revenue	\$ 11,081	\$ 10,180	\$ 9,337
Total expense	6,518	6,156	5,763
Operating income	\$ 4,563	\$ 4,024	\$ 3,574
<i>Operating margin</i>	42.9%	41.4%	40.4%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests <sup>(1)</sup>	(56)	7	(42)
Income tax expense	(1,197)	(1,149)	(1,094)
Net income attributable to BlackRock	\$ 3,310	\$ 2,882	\$ 2,438
<i>% attributable to common shares</i>	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%
<b>Other:</b>			
Assets under management (end of period)	\$ 4,651,895	\$ 4,324,088	\$ 3,791,588
Diluted weighted-average common shares outstanding <sup>(3)</sup>	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 <sup>(4)</sup>	\$ 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.



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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.

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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.

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating income, GAAP basis</b>	<b>\$ 4,474</b>	<b>\$ 3,857</b>	<b>\$ 3,524</b>
Non-GAAP expense adjustments:			
PNC LTIP funding obligation	<b>32</b>	33	22
Reduction of indemnification asset	<b>50</b>		
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
<b>Operating income, as adjusted</b>	<b>4,563</b>	<b>4,024</b>	<b>3,574</b>
Closed-end fund launch costs	<b>10</b>	16	22
Closed-end fund launch commissions	<b>1</b>	2	3
Operating income used for operating margin measurement	<b>\$ 4,574</b>	<b>\$ 4,042</b>	<b>\$ 3,599</b>
Revenue, GAAP basis	<b>\$ 11,081</b>	<b>\$ 10,180</b>	<b>\$ 9,337</b>
Non-GAAP adjustments:			
Distribution and servicing costs	<b>(364)</b>	(353)	(364)

Amortization of deferred sales commissions	(56)	(52)	(55)
Revenue used for operating margin measurement	\$ 10,661	\$ 9,775	\$ 8,918
<b>Operating margin, GAAP basis</b>	<b>40.4%</b>	37.9%	37.7%
<b>Operating margin, as adjusted</b>	<b>42.9%</b>	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

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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.

<i>(in millions)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Nonoperating income (expense), GAAP basis</b>	<b>\$ (79)</b>	<b>\$ 116</b>	<b>\$ (54)</b>
Less: Net income (loss) attributable to NCI	<b>(30)</b>	19	(18)
<b>Nonoperating income (expense), net of NCI</b>	<b>(49)</b>	97	(36)
Gain related to Charitable Contribution		(80)	
	<b>(7)</b>	(10)	(6)

Compensation expense related to (appreciation) depreciation on deferred compensation plans			
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.

<i>(in millions, except per share data)</i>	2014	2013	2012
<b>Net income attributable to BlackRock, GAAP basis</b>	<b>\$ 3,294</b>	<b>\$ 2,932</b>	<b>\$ 2,458</b>
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
<b>Net income attributable to BlackRock, as adjusted</b>	<b>\$ 3,310</b>	<b>\$ 2,882</b>	<b>\$ 2,438</b>
Allocation of net income, as adjusted, to common shares <sup>(4)</sup>	<b>\$ 3,310</b>	<b>\$ 2,882</b>	<b>\$ 2,435</b>
Diluted weighted-average common shares outstanding <sup>(5)</sup>	<b>171.1</b>	173.8	178.0
Diluted earnings per common share, GAAP basis <sup>(5)</sup>	<b>\$ 19.25</b>	\$ 16.87	\$ 13.79
Diluted earnings per common share, as adjusted <sup>(5)</sup>	<b>\$ 19.34</b>	\$ 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.

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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***

<i>(in millions)</i>	AUM			Net Inflows (Outflows)		
	2014	2013	2012	2014	2013	2012 <sup>(1)</sup>
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)

<b>Long-term</b>	<b>4,333,841</b>	<b>4,012,209</b>	<b>3,482,366</b>	<b>181,253</b>	<b>117,113</b>	<b>(2,465)</b>
Cash management	296,353	275,554	263,743	25,696	10,056	5,048
Advisory <sup>(2)</sup>	21,701	36,325	45,479	(13,173)	(7,442)	(74,540)
<b>Total</b>	<b>\$ 4,651,895</b>	<b>\$ 4,324,088</b>	<b>\$ 3,791,588</b>	<b>\$ 193,776</b>	<b>\$ 119,727</b>	<b>\$ (71,957)</b>

**AUM and Net Inflows (Outflows) by Product Type**

<i>(in millions)</i>	AUM			Net Inflows (Outflows)		
	2014	2013	2012	2014	2013	2012 <sup>(1)</sup>
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 <sup>(3)</sup>	23,234	26,088	41,428	461	(8,653)	(1,547)
Subtotal	111,240	111,114	109,795	3,522	(5,950)	(5,469)
<b>Long-term</b>	<b>4,333,841</b>	<b>4,012,209</b>	<b>3,482,366</b>	<b>181,253</b>	<b>117,113</b>	<b>(2,465)</b>
Cash management	296,353	275,554	263,743	25,696	10,056	5,048
Advisory <sup>(2)</sup>	21,701	36,325	45,479	(13,173)	(7,442)	(74,540)
<b>Total</b>	<b>\$ 4,651,895</b>	<b>\$ 4,324,088</b>	<b>\$ 3,791,588</b>	<b>\$ 193,776</b>	<b>\$ 119,727</b>	<b>\$ (71,957)</b>

(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*.



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

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

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<i>(in millions)</i>	December 31, 2013	Net inflows (outflows)	Market change	FX impact <sup>(1)</sup>	December 31, 2014	Full Year Average AUM <sup>(2)</sup>
<b>Retail:</b>						
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
<b>iShares:</b>						
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
<b>Institutional:</b>						
<b>Active:</b>						
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
<b>Index:</b>						
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
<b>Long-term</b>	<b>4,012,209</b>	<b>181,253</b>	<b>259,858</b>	<b>(119,479)</b>	<b>4,333,841</b>	<b>\$ 4,202,137</b>
Cash management	275,554	25,696	715	(5,612)	296,353	
Advisory <sup>(3)</sup>	36,325	(13,173)	1,109	(2,560)	21,701	
<b>Total</b>	<b>\$ 4,324,088</b>	<b>\$ 193,776</b>	<b>\$ 261,682</b>	<b>\$ (127,651)</b>	<b>\$ 4,651,895</b>	

(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.

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

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

(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.

**Table of Contents****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 <sup>(1)</sup>	Acquisitions <sup>(2)</sup>	Market change	FX impact <sup>(3)</sup>	December 31, 2013	Full Year Average AUM <sup>(4)</sup>
<b>Retail:</b>								
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	<b>403,484</b>	<b>38,804</b>	<b>19,626</b>	<b>136</b>	<b>24,580</b>	<b>1,147</b>	<b>487,777</b>	<b>432,676</b>
<b>iShares:</b>								
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	<b>752,706</b>	<b>63,971</b>		<b>15,960</b>	<b>80,091</b>	<b>1,644</b>	<b>914,372</b>	<b>827,576</b>
<b>Institutional:</b>								
<b>Active:</b>								
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	<b>884,695</b>	<b>(928)</b>	<b>3,335</b>	<b>10,836</b>	<b>38,469</b>	<b>(3,997)</b>	<b>932,410</b>	<b>889,345</b>
<b>Index:</b>								
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
<b>Long-term</b>	<b>3,482,366</b>	<b>117,113</b>		<b>26,932</b>	<b>398,850</b>	<b>(13,052)</b>	<b>4,012,209</b>	<b>\$ 3,714,951</b>
<b>Cash</b>								
management	263,743	10,056			395	1,360	275,554	
Advisory <sup>(5)</sup>	45,479	(7,442)			(538)	(1,174)	36,325	
<b>Total</b>	<b>\$ 3,791,588</b>	<b>\$ 119,727</b>	<b>\$</b>	<b>\$ 26,932</b>	<b>\$ 398,707</b>	<b>\$ (12,866)</b>	<b>\$ 4,324,088</b>	

(1) Amounts include \$19.6 billion of AUM related to fund ranges reclassified from institutional to retail and \$6.0 billion of AUM reclassified 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.

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

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

(1) Amounts include \$6.0 billion of AUM reclassified 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



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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.

**Table of Contents****Revenue**

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

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

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 <sup>(1)</sup>		
	2014	2013	2012	2014	2013	2012
Equity:						
Active	18%	20%	22%	7%	7%	8%

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<i>iShares</i>	<b>28%</b>	26%	23%	<b>17%</b>	16%	13%
Non-ETF index	<b>7%</b>	7%	7%	<b>30%</b>	29%	26%
<b>Equity subtotal</b>	<b>53%</b>	53%	52%	<b>54%</b>	52%	47%
Fixed income:						
Active	<b>15%</b>	15%	15%	<b>15%</b>	16%	18%
<i>iShares</i>	<b>5%</b>	5%	5%	<b>4%</b>	5%	5%
Non-ETF index	<b>3%</b>	3%	3%	<b>10%</b>	10%	13%
<b>Fixed income subtotal</b>	<b>23%</b>	23%	23%	<b>29%</b>	31%	36%
Multi-asset	<b>13%</b>	12%	12%	<b>8%</b>	7%	7%
Alternatives:						
Core	<b>7%</b>	7%	7%	<b>2%</b>	2%	2%
Currency and commodities	<b>1%</b>	1%	2%	<b>1%</b>	1%	1%
<b>Alternatives subtotal</b>	<b>8%</b>	8%	9%	<b>3%</b>	3%	3%
<b>Long-term</b>	<b>97%</b>	<b>96%</b>	<b>96%</b>	<b>94%</b>	<b>93%</b>	<b>93%</b>
Cash management	<b>3%</b>	4%	4%	<b>6%</b>	7%	7%
<b>Total excluding Advisory AUM</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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

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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.

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## 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

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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:

<i>(in millions)</i>	2014	2013	2012
Nonoperating income (expense), GAAP basis	\$ (79)	\$ 116	\$ (54)
Less: Net income (loss) attributable to NCI <sup>(1)</sup>	(30)	19	(18)
Nonoperating income (expense) <sup>(2)</sup>	(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 <sup>(2)</sup>	\$ (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.

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

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

<i>(in millions)</i>	GAAP			As adjusted		
	2014	2013	2012	2014	2013	2012
Income before income taxes <sup>(1)</sup>	\$ 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.

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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.

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	<b>December 31, 2014</b>				
	<b>Segregated client assets</b>				
	<b>generating advisory fees in</b>				
	<b>which BlackRock has no</b>				
	<b>economic interest or liability</b>				
	<b>Separate</b>		<b>Consolidated</b>		
	<b>Account</b>		<b>Sponsored</b>		
	<b>Assets/</b>	<b>Consolidated</b>		<b>Investment</b>	
<i>(in millions)</i>	<b>GAAP</b>	<b>Collateral</b>	<b>VIEs</b>	<b>Funds</b>	<b>As</b>
	<b>Basis</b>				<b>Adjusted</b>
<b>Assets</b>					
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 <sup>(1)</sup>	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
<b>Liabilities</b>					
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
<b>Equity</b>					
Total stockholders' equity <sup>(2)</sup>	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 increase 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 increase 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.

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## 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 <sup>(1)</sup>	(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:



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(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 <sup>(1)</sup>	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 <sup>(1)</sup>	(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.

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

<i>(in millions)</i>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Other Investments Not Held at Fair Value<sup>(1)</sup></b>	<b>Investments at December 31, 2014</b>
Total investments, as adjusted <sup>(2)</sup>	\$ 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:

<i>(in millions)</i>	<b>GAAP Basis</b>	<b>Impact on Cash Flows of Consolidated Sponsored Investment Funds</b>	<b>Impact on Cash Flows of Consolidated VIEs</b>	<b>Cash Flows Excluding Impact of Consolidated Sponsored Investment Funds and VIEs</b>
<b>Cash and cash equivalents, December 31, 2012</b>	\$ 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)
<b>Cash and cash equivalents, December 31, 2013</b>	\$ 4,390	\$ 114	\$	\$ 4,276
Cash flows from operating activities	<b>3,081</b>	<b>(103)</b>	<b>(431)</b>	<b>3,615</b>
Cash flows from investing activities	<b>239</b>	<b>(174)</b>		<b>413</b>
Cash flows from financing activities	<b>(1,855)</b>	<b>283</b>	<b>431</b>	<b>(2,569)</b>
Effect of exchange rate changes on cash and cash equivalents	<b>(132)</b>			<b>(132)</b>
Net change in cash and cash equivalents	<b>1,333</b>	<b>6</b>		<b>1,327</b>
<b>Cash and cash equivalents, December 31, 2014</b>	\$ 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

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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:

<i>(in millions)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Cash and cash equivalents	\$ 5,723	\$ 4,390
Cash and cash equivalents held by consolidated sponsored investment funds <sup>(1)</sup>	(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.

**Table of Contents****Long-term Borrowings.**

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

<i>(in millions)</i>	<b>Maturity Amount</b>	<b>Carrying Value</b>	<b>Maturity</b>
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
<b>Total Long-term Borrowings</b>	<b>\$ 4,950</b>	<b>\$ 4,938</b>	

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:

<i>(in millions)</i>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Thereafter</b>	<b>Total</b>
<b>Contractual obligations and commitments:</b>							
Long-term borrowings <sup>(1)</sup> :							
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
<b>Total contractual obligations and commitments</b>	<b>1,396</b>	<b>365</b>	<b>1,009</b>	<b>254</b>	<b>1,247</b>	<b>3,382</b>	<b>7,653</b>
<b>Contingent obligations:</b>							
Contingent distribution obligations	189	189					378

Contingent payments related to business acquisitions <sup>(2)</sup>	5	10	7	19	9	11	61
<b>Total contractual obligations, commitments and contingent obligations<sup>(3)</sup></b>	<b>\$ 1,590</b>	<b>\$ 564</b>	<b>\$ 1,016</b>	<b>\$ 273</b>	<b>\$ 1,256</b>	<b>\$ 3,393</b>	<b>\$ 8,092</b>

(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

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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.

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**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.

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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

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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.

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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.

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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.

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Management's Report on Internal Control Over Financial Reporting

Management of BlackRock, Inc. (the Company) is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and affected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with the authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm has issued an attestation report on the effectiveness of the Company's internal control over financial reporting.

February 27, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of BlackRock, Inc.:

We have audited the internal control over financial reporting of BlackRock, Inc. and subsidiaries (the Company) as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2014 and the related consolidated

statements of income, comprehensive income, changes in equity and cash flows for the year then ended of the Company and our report dated February 27, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

New York, New York

February 27, 2015

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Item 9b. Other Information

The Company is furnishing no other information in this Form 10-K.

**PART III**

Item 10. Directors, Executive Officers and Corporate Governance

The information regarding directors and executive officers set forth under the captions Item 1: Election of Directors Information Concerning the Nominees and Directors and Item 1: Election of Directors Other Executive Officers of the Proxy Statement is incorporated herein by reference.

The information regarding compliance with Section 16(a) of the Exchange Act set forth under the caption Item 1: Section 16(a) Beneficial Ownership Reporting Compliance of the Proxy Statement is incorporated herein by reference.

The information regarding BlackRock's Code of Ethics for Chief Executive and Senior Financial Officers under the caption Item 1: Corporate Governance Guidelines and Code of Business Conduct and Ethics of the Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned Item 1: Compensation of Executive Officers and Item 1: 2014 Director Compensation of the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained in the sections captioned Item 1: Ownership of BlackRock Common and Preferred Stock and Equity Compensation Plan Information of the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained in the sections captioned Item 1: Certain Relationships and Related Transactions and Item 1: Director Independence of the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information regarding BlackRock's independent auditor fees and services in the section captioned Item 4: Ratification of Appointment of Independent Registered Public Accounting Firm of the Proxy Statement is incorporated herein by reference.

**PART IV**

Item 15. Exhibits and Financial

Statement Schedules

**1. Financial Statements**

The Company's consolidated financial statements are included beginning on pages F-1.

**2. Financial Statement Schedules**

Ratio of Earnings to Fixed Charges has been included as Exhibit 12.1. All other schedules have been omitted because they are not applicable, not required or the information required is included in the Company's consolidated financial statements or notes thereto.

**3. Exhibit Index**

As used in this exhibit list, "BlackRock" refers to BlackRock, Inc. (formerly named New BlackRock, Inc. and previously, New Boise, Inc.) (Commission File No. 001-33099) and "Old BlackRock" refers to BlackRock Holdco 2, Inc. (formerly named BlackRock, Inc.) (Commission File No. 001-15305), which is the predecessor of BlackRock. The following exhibits are filed as part of this Annual Report on Form 10-K:

Please note that the agreements included as exhibits to this Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about BlackRock or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.



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**Description**

nders, Wells Fargo Securities, LLC, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Cap

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**Description**

10, among BlackRock and Merrill Lynch & Co., Inc.  
, 2009, between The PNC Financial Services Group, Inc. and BlackRock.  
and Stockholder Agreement between The PNC Financial Services Group, Inc. and BlackRock.  
t (UK) Limited and Mourant & Co Trustees Limited and Mourant Property Trustees Limited as Trustees of the Drapers Gardens Unit T  
ays Capital Inc., dated as of December 23, 2014.  
roup Global Markets Inc., dated as of December 23, 2014.  
l Lynch, Pierce, Fenner & Smith Incorporated, dated as of January 6, 2015.  
Suisse Securities (USA) LLC dated as of January 6, 2015.

- (1) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on October 5, 2006.
- (2) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on May 25, 2012.
- (3) Incorporated by reference to BlackRock's Annual Report on Form 10-K for the year ended December 31, 2012.
- (4) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on February 27, 2009.
- (5) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on December 3, 2009.
- (6) Incorporated by reference to BlackRock's Registration Statement on Form S-8 (Registration No. 333-137708) filed on September 29, 2006.
- (7) Incorporated by reference to BlackRock's Annual Report on Form 10-K for the year ended December 31, 2007.

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- (8) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on September 17, 2007.
- (9) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on December 10, 2009.
- (10) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on May 25, 2011.
- (11) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on May 31, 2012.
- (12) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on March 18, 2014.
- (13) Incorporated by reference to BlackRock's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.
- (14) Incorporated by reference to BlackRock's Registration Statement on Form S-8 (Registration No. 333-197764) filed on July 31, 2014.
- (15) Incorporated by reference to Old BlackRock's Annual Report on Form 10-K for the year ended December 31, 2002.
- (16) Incorporated by reference to Old BlackRock's Current Report on Form 8-K filed on May 24, 2006.
- (17) Incorporated by reference to BlackRock's Annual Report on Form 10-K for the year ended December 31, 2008.
- (18) Incorporated by reference to Old BlackRock's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
- (19) Incorporated by reference to Old BlackRock's Current Report on Form 8-K filed on February 22, 2006.
- (20) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on June 15, 2007.
- (21) Incorporated by reference to BlackRock's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
- (22) Incorporated by reference to BlackRock's Current Report on Form 8-K/A filed on August 24, 2012.

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- (23) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on April 4, 2012.
- (24) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on April 3, 2013.
- (25) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on March 28, 2014.
- (26) Incorporated by reference to BlackRock's Current Report on Form 8-K/A filed on August 24, 2012.
- (27) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on June 17, 2009.
- (28) Incorporated by reference to BlackRock's Annual Report on Form 10-K for the year ended December 31, 2009.
- (29) Incorporated by reference to BlackRock's Current Report on Form 8-K filed on February 19, 2013.

+ Denotes compensatory plans or arrangements.

Confidential treatment has been granted for certain portions of this exhibit, which portions have been omitted and filed separately with the Securities and Exchange Commission.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLACKROCK, INC.

By: /s/ LAURENCE D. FINK  
**Laurence D. Fink**  
**Chairman, Chief Executive Officer and**  
**Director**

February 27, 2015

Each of the officers and directors of BlackRock, Inc. whose signature appears below, in so signing, also makes, constitutes and appoints Laurence D. Fink, Gary S. Shedlin, Matthew J. Mallow, Daniel R. Waltcher and J. Russell McGranahan, his or her true and lawful attorneys-in-fact, with full power and substitution, for him or her in any and all capacities, to execute and cause to be filed with the Securities and Exchange Commission any and all amendments to the Annual Report on Form 10-K, with exhibits thereto and other documents connected therewith and to perform any acts necessary to be done in order to file such documents, and hereby ratifies and confirms all that said attorney-in-fact or his or her substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ LAURENCE D. FINK		
<b>Laurence D. Fink</b> /S/ GARY SHEDLIN	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2015
<b>Gary S. Shedlin</b> /S/ JOSEPH FELICIANI, JR.	Senior Managing Director and Chief Financial Officer (Principal Financial Officer)	February 27, 2015
<b>Joseph Feliciani, Jr.</b> /S/ ABDLATIF Y. AL-HAMAD	Managing Director and Chief Accounting Officer (Principal Accounting Officer) Director	February 27, 2015 February 27, 2015

**Abdlatif Y. Al-Hamad**  
/S/ MATHIS CABIALLAVETTA

Director

February 27, 2015

**Mathis Cabiallavetta**  
/S/ PAMELA DALEY

Director

February 27, 2015

**Pamela Daley**  
/S/ WILLIAM S. DEMCHAK

Director

February 27, 2015

**William S. Demchak**  
/S/ JESSICA EINHORN

Director

February 27, 2015

**Jessica Einhorn**  
/S/ FABRIZIO FREDA

Director

February 27, 2015

**Fabrizio Freda**  
/S/ MURRY S. GERBER

Director

February 27, 2015

**Murry S. Gerber**  
/S/ ROBERT S. KAPITO

Director

February 27, 2015

**Robert S. Kapito**  
/S/ DAVID H. KOMANSKY

Director

February 27, 2015

**David H. Komansky**  
/S/ SIR DERYCK MAUGHAN

Director

February 27, 2015

**Sir Deryck Maughan**  
/S/ CHERYL D. MILLS

Director

February 27, 2015

**Cheryl D. Mills**  
/S/ THOMAS H. O BRIEN

Director

February 27, 2015

**Thomas H. O'Brien**

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<b>Signature</b>	<b>Title</b>	<b>Date</b>
/S/ IVAN G. SEIDENBERG  <b>Ivan G. Seidenberg</b>	Director	February 27, 2015
/S/ MARCO ANTONIO SLIM DOMIT  <b>Marco Antonio Slim Domit</b>	Director	February 27, 2015
/S/ JOHN S. VARLEY  <b>John S. Varley</b>	Director	February 27, 2015
/S/ SUSAN L. WAGNER  <b>Susan L. Wagner</b>	Director	February 27, 2015

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of BlackRock, Inc.:

We have audited the accompanying consolidated statements of financial condition of BlackRock, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of BlackRock, Inc. and subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York

February 27, 2015

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BlackRock, Inc.

Consolidated Statements of Financial Condition

<i>(in millions, except shares and per share data)</i>	December 31, 2014	December 31, 2013
<b>Assets</b>		
Cash and cash equivalents	\$ 5,723	\$ 4,390
Accounts receivable	2,120	2,247
Investments	1,921	2,151
Assets of consolidated variable interest entities:		
Cash and cash equivalents	278	161
Bank loans, other investments and other assets	3,352	2,325
Separate account assets	161,287	155,113
Separate account collateral held under securities lending agreements	33,654	21,788
Property and equipment (net of accumulated depreciation of \$587 and \$611 at December 31, 2014 and 2013, respectively)	467	525
Intangible assets (net of accumulated amortization of \$1,040 and \$1,057 at December 31, 2014 and 2013, respectively)	17,344	17,501
Goodwill	12,961	12,980
Other assets	701	692
<b>Total assets</b>	<b>\$ 239,808</b>	<b>\$ 219,873</b>
<b>Liabilities</b>		
Accrued compensation and benefits	\$ 1,865	\$ 1,747
Accounts payable and accrued liabilities	1,035	1,084
Liabilities of consolidated variable interest entities:		
Borrowings	3,389	2,369
Other liabilities	245	74
Borrowings	4,938	4,939
Separate account liabilities	161,287	155,113
Separate account collateral liabilities under securities lending agreements	33,654	21,788
Deferred income tax liabilities	4,989	5,085
Other liabilities	886	1,004
<b>Total liabilities</b>	<b>212,288</b>	<b>193,203</b>
<b>Commitments and contingencies (Note 13)</b>		
<b>Temporary equity</b>		
Redeemable noncontrolling interests	35	54
<b>Permanent Equity</b>		
BlackRock, Inc. stockholders' equity		
Common stock, \$ 0.01 par value;	2	2

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Shares authorized: 500,000,000 at December 31, 2014 and 2013; Shares issued: 171,252,185 at December 31, 2014 and 2013; Shares outstanding: 164,786,788 and 166,589,688 at December 31, 2014 and 2013, respectively;

Series B nonvoting participating preferred stock, \$0.01 par value; Shares authorized: 150,000,000 at December 31, 2014 and 2013; Shares issued and outstanding: 823,188 at December 31, 2014 and 2013;

Series C nonvoting participating preferred stock, \$0.01 par value; Shares authorized: 6,000,000 at December 31, 2014 and 2013; Shares issued and outstanding: 1,311,887 at December 31, 2014 and 2013

Additional paid-in capital	<b>19,386</b>	19,473
Retained earnings	<b>10,164</b>	8,208
Appropriated retained earnings	<b>(19)</b>	22
Accumulated other comprehensive loss	<b>(273)</b>	(35)
Treasury stock, common, at cost (6,465,397 and 4,662,497 shares held at December 31, 2014 and 2013, respectively)	<b>(1,894)</b>	(1,210)
Total BlackRock, Inc. stockholders' equity	<b>27,366</b>	26,460
Nonredeemable noncontrolling interests	<b>104</b>	135
Nonredeemable noncontrolling interests of consolidated variable interest entities	<b>15</b>	21
Total permanent equity	<b>27,485</b>	26,616
Total liabilities, temporary equity and permanent equity	<b>\$ 239,808</b>	\$ 219,873

See accompanying notes to consolidated financial statements.

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BlackRock, Inc.

Consolidated Statements of Income

<i>(in millions, except shares and per share data)</i>	Year ended December 31,		
	2014	2013	2012
<b>Revenue</b>			
Investment advisory, administration fees and securities lending revenue			
Related parties	\$ 6,738	\$ 5,991	\$ 5,292
Other third parties	2,851	2,748	2,780
Total investment advisory, administration fees and securities lending revenue	9,589	8,739	8,072
Investment advisory performance fees	550	561	463
<i>BlackRock Solutions</i> and advisory	635	577	518
Distribution fees	70	73	71
Other revenue	237	230	213
Total revenue	11,081	10,180	9,337
<b>Expense</b>			
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 expenses	748	657	591
General and administration	1,453	1,540	1,359
Amortization of intangible assets	157	161	157
Total expense	6,607	6,323	5,813
Operating income	4,474	3,857	3,524
<b>Nonoperating income (expense)</b>			
Net gain (loss) on investments	165	305	163
Net gain (loss) on consolidated variable interest entities	(41)		(38)
Interest and dividend income	29	22	36
Interest expense	(232)	(211)	(215)
Total nonoperating income (expense)	(79)	116	(54)
Income before income taxes	4,395	3,973	3,470
Income tax expense	1,131	1,022	1,030
Net income	3,264	2,951	2,440
Less:			
Net income (loss) attributable to redeemable noncontrolling interests	2	(1)	9
Net income (loss) attributable to nonredeemable noncontrolling interests	(32)	20	(27)
Net income attributable to BlackRock, Inc.	\$ 3,294	\$ 2,932	\$ 2,458

**Earnings per share attributable to BlackRock, Inc.  
common stockholders:**

Basic	\$	<b>19.58</b>	\$	17.23	\$	14.03
Diluted	\$	<b>19.25</b>	\$	16.87	\$	13.79
<b>Cash dividends declared and paid per share</b>	\$	<b>7.72</b>	\$	6.72	\$	6.00

**Weighted-average common shares outstanding:**

Basic	<b>168,225,154</b>	170,185,870	174,961,018
Diluted	<b>171,112,261</b>	173,828,902	178,017,679

See accompanying notes to consolidated financial statements.

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BlackRock, Inc.

Consolidated Statements of Comprehensive Income

<i>(in millions)</i>	Year ended December 31,		
	2014	2013	2012
<b>Net income</b>	<b>\$ 3,264</b>	<b>\$ 2,951</b>	<b>\$ 2,440</b>
Other comprehensive income:			
Change in net unrealized gains (losses) from available-for-sale investments, net of tax:			
Unrealized holding gains (losses), net of tax <sup>(1)</sup>	3	4	26
Less: reclassification adjustment included in net income <sup>(1)</sup>	8	13	6
Net change from available-for-sale investments, net of tax	(5)	(9)	20
Benefit plans, net <sup>(1)</sup>	(2)	10	(5)
Foreign currency translation adjustments	(231)	23	53
Other comprehensive income (loss)	(238)	24	68
Comprehensive income	<b>3,026</b>	2,975	2,508
Less: Comprehensive income (loss) attributable to noncontrolling interests	(30)	19	(18)
<b>Comprehensive income attributable to BlackRock, Inc.</b>	<b>\$ 3,056</b>	<b>\$ 2,956</b>	<b>\$ 2,526</b>

(1) The tax benefit (expense) was not material in 2014, 2013 and 2012.  
See accompanying notes to consolidated financial statements.

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BlackRock, Inc.

## Consolidated Statements of Changes in Equity

	Ad- diti- onal Paid-in Capital <sup>(1)</sup>	Retained Earnings	Accum- ulated Other Compre- hensive Income (Loss)	Shares Held in Escrow	Treasury Stock	Total Equity	Non redeemable Non controlling Interests	Non redeemable Non controlling Interests Conso- lidated	Perman- ent Equity	Redeemable Non controlling Interests /	Temporary Equity <sup>(2)</sup>
<i>(in millions)</i>											
December 31, 2011	\$ 20,276	\$ 5,046	\$ 72	\$ (127)	\$ (1)	\$ (218)	\$ 25,048	\$ 184	\$ 38	\$ 25,270	\$ 92
Net income		2,458				2,458	11	(38)	2,431		9
Allocation of losses of consolidated collateralized loan obligations			(43)			(43)		43			
Release of common stock from escrow	(1)			1							
Dividends paid		(1,060)				(1,060)			(1,060)		
Stock-based compensation	451					451				451	
Merrill Lynch cash capital contribution	7					7				7	
Issuance of common shares related to employee stock transactions	(376)				432	56				56	
Employee tax withholdings related to employee stock transactions					(146)	(146)				(146)	
Shares repurchased	(1,000)				(500)	(1,500)				(1,500)	
Net tax benefit (shortfall) from stock-based compensation	64					64				64	
Subscriptions (redemptions/ distributions) noncontrolling interest holders							(33)	(10)	(43)		343
							(7)	(6)	(13)		(412)

Net consolidations (deconsolidations) of sponsored investment funds											
Other comprehensive income (loss)			68		68		68				
December 31, 2012	\$ 19,421	\$ 6,444	\$ 29	\$ (59)	\$ (432)	\$ 25,403	\$ 155	\$ 27	\$ 25,585	\$ 32	

(1) Amount includes \$2 million and \$1 million of common stock at December 31, 2012 and 2011, respectively.

(2) Amounts include \$89 million of redemptions and \$89 million of net consolidations related to consolidated variable interest entities ( VIEs ).

See accompanying notes to consolidated financial statements.



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BlackRock, Inc.

## Consolidated Statements of Changes in Equity

	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)	Accu mulated Other Compre hensive Income (Loss)
	Additional Paid-in Capital <sup>(1)</sup>	Retained Earnings	Retained Earnings	Retained Earnings	Treasury Stock Common	Total BlackRock Stock holders Equity	Non redeemable Non controlling Interests	Non redeemable Non controlling Interests of consolidated entities	Total Equity	Redeemable No controlling Interests / Temporary Equity
(in millions)										
December 31, 2012	\$ 19,421	\$ 6,444	\$ 29	\$ (59)	\$ (432)	\$ 25,403	\$ 155	\$ 27	\$ 25,585	\$ 32
Net income		2,932				2,932	20		2,952	(1)
Consolidation of a collateralized loan obligation			(4)			(4)			(4)	
Allocation of gains (losses) of consolidated collateralized loan obligations			(3)			(3)	3			
Dividends paid		(1,168)				(1,168)			(1,168)	
Stock-based compensation	447				1	448			448	
Issuance of common shares related to employee stock transactions	(429)				464	35			35	
Employee tax withholdings related to employee stock transactions					(243)	(243)			(243)	
Shares repurchased					(1,000)	(1,000)			(1,000)	
Net tax benefit (shortfall) from stock-based compensation	36					36			36	
Subscriptions (redemptions/distributions) noncontrolling interest holders							(59)	125	66	137
Net consolidations (deconsolidations) of sponsored investment funds							19	(134)	(115)	(114)
Other comprehensive income (loss)				24		24			24	
December 31, 2013	\$ 19,475	\$ 8,208	\$ 22	\$ (35)	\$ (1,210)	\$ 26,460	\$ 135	\$ 21	\$ 26,616	\$ 54

(1) Amounts include \$2 million of common stock at both December 31, 2013 and 2012.  
See accompanying notes to consolidated financial statements.

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BlackRock, Inc.

## Consolidated Statements of Changes in Equity

	Additional		Accumulated		Total		Non		Redeemable	
	Paid-in	Retained	Other	Compre	Treasury	BlackRock	redeemable	Non	Non	Non
	Capital <sup>(1)</sup>	Earnings	Appro	hensive	Stock	holders	controlling	controlling	controlling	controlling
			riated	Income	Common	Equity	Interests	Interests	Interests	Interests
(in millions)			Earnings	(Loss)	Equity	Interests	VI	Equity	Equity	Equity
			(Loss)	(Loss)	Common	Equity	Interests	VI	Equity	Equity
December 31, 2013	\$ 19,475	\$ 8,208	\$ 22	\$ (35)	\$ (1,210)	\$ 26,460	\$ 135	\$ 21	\$ 26,616	\$ 54
Net income		3,294				3,294	9	(41)	3,262	2
Allocation of gains (losses) of consolidated collateralized loan obligations			(41)			(41)		41		
Dividends paid		(1,338)				(1,338)			(1,338)	
Stock-based compensation	453					453			453	
Issuance of common shares related to employee stock transactions	(646)				660	14			14	
Employee tax withholdings related to employee stock transactions					(344)	(344)			(344)	
Shares repurchased					(1,000)	(1,000)			(1,000)	
Net tax benefit (shortfall) from stock-based compensation	106					106			106	
Subscriptions (redemptions/distributions) noncontrolling interest holders							(40)	(6)	(46)	248
Net consolidations (deconsolidations) of sponsored investment funds										(269)
Other comprehensive income (loss)				(238)		(238)			(238)	
<b>December 31, 2014</b>	<b>\$ 19,388</b>	<b>\$ 10,164</b>	<b>\$ (19)</b>	<b>\$ (273)</b>	<b>\$ (1,894)</b>	<b>\$ 27,366</b>	<b>\$ 104</b>	<b>\$ 15</b>	<b>\$ 27,485</b>	<b>\$ 35</b>

(1) Amounts include \$2 million of common stock at both December 31, 2014 and 2013.

(2) Amounts include \$75 million of redemptions and \$75 million of net consolidations related to consolidated VIEs. See accompanying notes to consolidated financial statements.

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BlackRock, Inc.

## Consolidated Statements of Cash Flows

*(in millions)*

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>			
Net income	\$ 3,264	\$ 2,951	\$ 2,440
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	278	291	295
Amortization of deferred sales commissions	56	52	55
Stock-based compensation	453	448	451
Deferred income tax expense (benefit)	(104)	(193)	(61)
Net (gains) losses on nontrading investments	(37)	(73)	(43)
Purchases of investments within consolidated sponsored investment funds	(160)	(195)	(108)
Proceeds from sales and maturities of investments within consolidated sponsored investment funds	137	145	96
Gain related to PennyMac initial public offering		(39)	
Gain related to the charitable contribution		(80)	
Charitable contribution		124	
Assets and liabilities of consolidated VIEs:			
Change in cash and cash equivalents	168	143	(24)
Net (gains) losses within consolidated VIEs	41		38
Net (purchases) proceeds within consolidated VIEs	(599)	142	(203)
(Earnings) losses from equity method investees	(158)	(158)	(175)
Distributions of earnings from equity method investees	57	80	42
Other adjustments	5	10	(4)
Changes in operating assets and liabilities:			
Accounts receivable	78	14	(292)
Investments, trading	(416)	(218)	(664)
Other assets	(1)	(92)	(10)
Accrued compensation and benefits	101	203	138
Accounts payable and accrued liabilities	(69)	7	114
Other liabilities	(13)	80	155
Cash flows from operating activities	<b>3,081</b>	<b>3,642</b>	<b>2,240</b>
<b>Cash flows from investing activities</b>			
Purchases of investments	(369)	(412)	(402)
Proceeds from sales and maturities of investments	654	286	695
Distributions of capital from equity method investees	143	83	73
Net consolidations (deconsolidations) of sponsored investment funds	(123)	(48)	(215)
Acquisitions, net of cash acquired		(298)	(267)
Purchases of property and equipment	(66)	(94)	(150)
Cash flows from investing activities	<b>239</b>	<b>(483)</b>	<b>(266)</b>

<b>Cash flows from financing activities</b>			
Repayments of short-term borrowings		(100)	
Repayments of long-term borrowings	(1,000)	(750)	(500)
Proceeds from long-term borrowings	997		1,495
Cash dividends paid	(1,338)	(1,168)	(1,060)
Proceeds from stock options exercised	4	28	47
Repurchases of common stock	(1,344)	(1,243)	(1,645)
Net proceeds from (repayments of) borrowings by consolidated VIEs	512	(410)	331
Net (redemptions/distributions paid)/subscriptions received from noncontrolling interest holders	202	203	300
Excess tax benefit from stock-based compensation	106	41	74
Other financing activities	6	7	14
Cash flows from financing activities	(1,855)	(3,392)	(944)
Effect of exchange rate changes on cash and cash equivalents	(132)	17	70
Net increase (decrease) in cash and cash equivalents	1,333	(216)	1,100
Cash and cash equivalents, beginning of year	4,390	4,606	3,506
Cash and cash equivalents, end of year	\$ 5,723	\$ 4,390	\$ 4,606
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for:			
Interest	\$ 216	\$ 202	\$ 201
Interest on borrowings of consolidated VIEs	\$ 142	\$ 102	\$ 75
Income taxes (net of refunds)	\$ 1,227	\$ 1,064	\$ 976
<b>Supplemental schedule of noncash investing and financing transactions:</b>			
Issuance of common stock	\$ 646	\$ 429	\$ 378
Increase (decrease) in noncontrolling interests due to net consolidation (deconsolidation) of sponsored investment funds	\$ (269)	\$ (229)	\$ (425)
Increase (decrease) in borrowings due to consolidation of VIEs	\$ 585	\$ 363	\$ 406
See accompanying notes to consolidated financial statements.			

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BlackRock, Inc.

Notes to the Consolidated Financial Statements

**1. Introduction and Basis of Presentation**

**Business.** BlackRock, Inc. (together, with its subsidiaries, unless the context otherwise indicates, BlackRock or the Company ) is a leading publicly traded investment management firm providing a broad range of investment and risk management services to institutional and retail clients worldwide.

BlackRock's diverse platform of active (alpha) and index (beta) investment strategies across asset classes enables the Company to tailor investment outcomes and asset allocation solutions for clients. Product offerings include single- and multi-asset class portfolios investing in equities, fixed income, alternatives and money market instruments. Products are offered directly and through intermediaries in a variety of vehicles, including open-end and closed-end mutual funds, *iShares*<sup>®</sup> exchange-traded funds ( ETFs ), separate accounts, collective investment funds and other pooled investment vehicles. BlackRock also offers the *BlackRock Solutions*<sup>®</sup> investment and risk management technology platform, *Aladdin*<sup>®</sup>, risk analytics and advisory services and solutions to a broad base of institutional investors.

At December 31, 2014, The PNC Financial Services Group, Inc. ( PNC ) held 21.0% of the Company's voting common stock and 22.0% of the Company's capital stock, which includes outstanding common and nonvoting preferred stock.

**Basis of Presentation.** These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) and include the accounts of the Company and its controlled subsidiaries. Noncontrolling interests on the consolidated statements of financial condition represents the portion of consolidated sponsored investment funds in which the Company does not have direct equity ownership. Accounts and transactions between consolidated entities have been eliminated.

The preparation of 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 financial statements and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates.

Certain items previously reported have been reclassified to conform to the current year presentation.

**2. Significant Accounting Policies**

**Cash and Cash Equivalents.** Cash and cash equivalents primarily consists of cash, money market funds and short-term, highly liquid investments with original maturities of three months or less in which the Company is exposed to market and credit risk. Cash and cash equivalent balances that are legally restricted from use by the Company are recorded in other assets on the consolidated statements of financial condition. Cash balances maintained by consolidated sponsored investment funds are not considered legally restricted and are included in cash and

cash equivalents on the consolidated statements of financial condition. Cash balances maintained by consolidated variable interest entities ( VIEs ) are included in assets of consolidated variable interest entities on the consolidated

statements of financial condition.

**Investments. Investments in Debt and Marketable Equity Securities.** BlackRock classifies debt and marketable equity investments as trading, available-for-sale, or held-to-maturity based on the Company's intent to sell the security or, for a debt security, the Company's intent and ability to hold the debt security to maturity.

Trading securities are those investments that are purchased principally for the purpose of selling them in the near term. Trading securities are carried at fair value on the consolidated statements of financial condition with changes in fair value recorded in nonoperating income (expense) on the consolidated statements of income in the period of the change.

Held-to-maturity debt securities are purchased with the positive intent and ability to be held to maturity and are recorded at amortized cost on the consolidated statements of financial condition.

Available-for-sale securities are those securities that are not classified as trading or held-to-maturity. Available-for-sale securities are carried at fair value on the consolidated statements of financial condition with changes in fair value recorded in the accumulated other comprehensive income (loss) component of stockholders equity in the period of the change. Upon the disposition of an available-for-sale security, the Company reclassifies the gain or loss on the security from accumulated other comprehensive income (loss) to nonoperating income (expense) on the consolidated statements of income.

**Equity Method.** For equity investments where BlackRock does not control the investee, and where it is not the primary beneficiary ( 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. BlackRock's share of the investee's underlying net income or loss is recorded as net gain (loss) on investments within nonoperating income (expense) and as other revenue for certain strategic investments since such companies are considered to be an extension of BlackRock's core business. BlackRock's share of net income of the investee is recorded based upon the most current information available at the time, which may precede the date of the consolidated statement of financial condition. Distributions received from the investment reduce the Company's carrying value of the investee and the cost basis if deemed to be a return of capital.

**Cost Method.** For nonmarketable equity investments where BlackRock neither controls nor has significant influence over the investee, the investments are accounted for using the cost method of accounting. Dividends received from the investment are recorded as dividend income within nonoperating income (expense).

**Impairments 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



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investment. If the undiscounted expected future cash flows are lower than the Company's carrying value of the investment and the Company determines an impairment exists, an impairment charge is recorded on the consolidated statement of income.

When the fair value of available-for-sale securities is lower than cost, the Company evaluates the securities 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 statements 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.

**Consolidation.** For investment products in which BlackRock's voting interest is less than 50%, 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 achieved through arrangements that do not involve or are not directly linked to voting interests are deemed VIEs. BlackRock reviews factors, including whether the entity has equity that is sufficient to permit the entity to finance its activities without additional subordinated support from other parties and the rights and obligations of the equity holders to receive expected residual returns or absorb expected losses, to determine if the investment product is a VIE. BlackRock continuously evaluates such factors as facts and circumstances change. BlackRock is required to consolidate a VIE when it is deemed to be the PB.

The Company uses two methods for determining whether it is the PB of VIEs in accordance with current accounting guidance depending on the nature and characteristics of the VIE. For collateralized loan obligations (CLOs), the Company is deemed to be PB if it has the power to direct activities of the entity that most significantly impact the entity's economic performance and has the obligation to absorb losses or the right to receive benefits that potentially could be significant to the VIE. For certain sponsored investment funds, including money markets, the Company is deemed to be the PB, if it absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both.

*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. 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 to otherwise remove BlackRock as the general partner or managing member without cause based on an unaffiliated simple majority vote, or have other substantive participating rights. If the presumption of control is not overcome, BlackRock will consolidate the investment vehicle.

*Retention of Specialized Accounting Principles.* Upon consolidation of certain sponsored investment funds, the Company retains the specialized accounting principles of the underlying funds. All of the underlying investments held by such consolidated sponsored investment funds are carried at fair value with corresponding changes in the investments' fair values reflected in nonoperating income (expense) on the consolidated statements of income. When the Company no longer controls these funds due to reduced ownership percentage or other reasons, the funds are deconsolidated and accounted for under another accounting method if the Company still maintains an investment.

*Separate Account Assets and Liabilities.* 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 life insurance company does not underwrite any insurance contracts that involve any insurance risk transfer from the insured to the life insurance company. The separate account assets primarily include equity securities, debt securities, money market funds and derivatives. The separate account assets are not subject to general claims of the creditors of BlackRock. These separate account assets and the related equal and offsetting liabilities are recorded as separate account assets and separate account liabilities on the consolidated statements of financial condition.

The net investment income attributable to separate account assets supporting individual and group pension contracts accrues directly to the contract owner and is not reported on the consolidated statements of income. While BlackRock has no economic interest in these separate account assets and liabilities, BlackRock earns policy administration and management fees associated with these products, which are included in investment advisory, administration fees and securities lending revenue on the consolidated statements of income.

*Separate Account Collateral Assets Held and Liabilities Under Securities Lending Agreements.* The Company facilitates securities lending arrangements whereby securities held by separate accounts maintained by BlackRock Life Limited are lent to third parties under global master securities lending agreements. In exchange, the Company receives collateral with minimum values generally ranging from approximately 102% to 112% of the value of the securities lent in order to reduce counterparty risk. The required collateral value is calculated on a daily basis. The

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global master securities lending agreements provide the Company the right to request additional collateral or, in the event of borrower default, the right to liquidate collateral. Under the Company's securities lending arrangements, the Company can resell or repledge the collateral and the borrower can resell or repledge the loaned securities. The securities lending transactions entered into by the Company are accompanied by an agreement that entitles the Company to request the borrower to return the securities at any time; therefore, these transactions are not reported as sales.

As a result of the Company's ability to resell or repledge the collateral, the Company records on the consolidated statements of financial condition the cash and noncash collateral received under these BlackRock Life Limited securities lending arrangements as its own asset in addition to an equal and offsetting collateral liability for the obligation to return the collateral. During 2014 and 2013, the Company had not resold or repledged any of the collateral received under these arrangements. At December 31, 2014 and 2013, the fair value of loaned securities held by separate accounts was approximately \$30.6 billion and \$19.7 billion, respectively, and the fair value of the collateral held under these securities lending agreements was approximately \$33.7 billion and \$21.8 billion, respectively.

***Property and Equipment.*** Property and equipment are recorded at cost less accumulated depreciation. Depreciation is generally determined by cost less any estimated residual value using the straight-line method over the estimated useful lives of the various classes of property and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term.

BlackRock develops a variety of risk management, investment analytic and investment system services for internal use, utilizing proprietary software that is hosted and maintained by BlackRock. The Company capitalizes certain costs incurred in connection with developing or obtaining software for internal use. Capitalized software costs are included within property and equipment on the consolidated statements of financial condition and are amortized, beginning when the software project is put into production, over the estimated useful life of the software of approximately three years.

***Goodwill and Intangible Assets.*** Goodwill represents the cost of a business acquisition in excess of the fair value of the net assets acquired. In its assessment of goodwill for impairment, the Company considers such factors as the book value and market capitalization of the Company. On a quarterly basis, the Company considers if triggering events have occurred that may indicate a potential goodwill impairment. If a triggering event has occurred, the Company performs assessments, which may include reviews of significant valuation assumptions, to determine if goodwill may be impaired. The Company performs an impairment assessment of its goodwill at least annually as of July 31<sup>st</sup>.

Intangible assets are comprised of indefinite-lived intangible assets and finite-lived intangible assets acquired in a business acquisition. The value of contracts to manage assets in proprietary open-end funds and collective trust funds and certain other commingled products without a specified termination date is generally classified as indefinite-lived intangible assets. The assignment of indefinite lives to such contracts primarily is based upon the

following: (i) the assumption that there is no foreseeable limit on the contract period to manage these products; (ii) the Company expects to, and has the ability to, continue to operate these products indefinitely; (iii) the products have multiple investors and are not reliant on a single investor or small group of investors for their continued operation; (iv) current competitive factors and economic conditions do not indicate a finite life; and (v) there is a high likelihood of continued renewal based on historical experience. In addition, trade names/trademarks are considered

indefinite-lived intangible assets when they are expected to generate cash flows indefinitely.

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 useful lives.

The Company performs assessments to determine if any intangible assets are potentially impaired and whether the indefinite-lived and finite-lived classifications are still appropriate. The carrying value of finite-lived management contracts and their remaining useful lives are reviewed at least annually to determine if circumstances exist which may indicate a potential impairment. The Company performs such impairment assessments of its intangible assets including indefinite-lived management contracts and trade names/trademarks, at least annually, as of July 31<sup>st</sup>. In evaluating whether it is more likely than not that the fair value of indefinite-lived intangibles is less than its carrying value, BlackRock assesses various significant qualitative factors, including assets under management ( AUM ), revenue basis points, projected AUM growth rates, operating margins, tax rates and discount rates. In addition, the Company considers 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 the 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 used to determine the fair value of the indefinite-lived intangible asset.

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 carrying value of the asset and its current fair value would be recognized as an expense in the period in which the impairment occurs.

***Noncontrolling Interests.*** The Company reports noncontrolling interests as equity, separate from the parent's equity, on the consolidated statements of financial condition. In addition, the Company's consolidated net income on the consolidated statements of income includes the income (loss) attributable to noncontrolling interest holders of the Company's consolidated sponsored investment funds and CLOs. Income (loss) attributable to noncontrolling interests is not adjusted for income taxes for

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consolidated sponsored investment funds and CLOs that are treated as pass-through entities for tax purposes.

***Classification and Measurement of Redeemable Securities.*** The Company includes redeemable noncontrolling interests related to certain consolidated sponsored investment funds in temporary equity on the consolidated statements of financial condition.

***Appropriated Retained Earnings.*** Upon the consolidation of CLOs, BlackRock records an adjustment to appropriated retained earnings on the consolidated statements of financial condition equal to the difference between the fair value of the CLOs' assets and the fair value of their liabilities. Such amounts are recorded as appropriated retained earnings as the CLO noteholders ultimately will receive the benefits or absorb the losses associated with the CLOs' assets and liabilities. The net change in the fair value of the CLOs' assets and liabilities is recorded as net income (loss) attributable to nonredeemable noncontrolling interests and as a change to appropriated retained earnings.

***Treasury Stock.*** The Company records common stock purchased for treasury at cost. At the date of subsequent reissuance, the treasury stock account is reduced by the cost of such stock using the average cost method.

***Revenue Recognition***

***Investment Advisory, Administration Fees and Securities Lending Revenue.*** 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 committed capital. 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 mutual 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 (primarily international funds) 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 Accounting Standards Codification (ASC) 605-45, *Revenue Recognition - Principal Agent Considerations*, and records its management fees net of retrocessions. Retrocessions for 2014, 2013 and 2012 were \$891 million, \$785 million and \$793 million, respectively, and were reflected net in investment advisory, administration fees and securities lending revenue on the consolidated statements of income.

The Company also earns revenue by lending securities as an agent on behalf of clients, primarily to brokerage institutions. Revenue is accounted for on an accrual basis. The revenue earned is shared between the Company and the funds or other third-party accounts managed by the Company from which the securities are borrowed.

***Investment Advisory Performance Fees / Carried Interest.*** The Company receives investment advisory performance fees or incentive allocations from certain actively managed

investment funds and certain separately managed accounts (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.

*BlackRock Solutions and Advisory.* BlackRock provides a variety of risk management, investment analytic, enterprise investment system and financial markets 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 of illiquid securities, disposition and workout assignments (including long-term portfolio liquidation assignments), strategic planning and execution, and enterprise investment system outsourcing to clients. Fees earned for *BlackRock Solutions* and advisory services are recorded as services are performed 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. The fees earned for *BlackRock Solutions* and advisory services are recorded in *BlackRock Solutions* and advisory on the consolidated statements of income.

*Other Revenue.* The Company earns fees for transition management services comprised of commissions from acting as an introducing broker-dealer in buying and selling securities on behalf of the Company's customers. Commissions related to transition management services are recorded on a trade-date basis as securities transactions occur and are reflected in other revenue on the consolidated statements of income.

The Company earns commissions revenue upon the sale of unit trusts and Class A mutual funds. Revenue is recorded at the time of the sale of the product.

Other revenue also includes equity method investment earnings related to certain strategic investments and marketing fees earned for services to distribute *iPath*<sup>®</sup> products, which are exchange-traded notes issued by Barclays.

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***Stock-based Compensation.*** Entities are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost is recognized over the period during which an employee is required to provide service (usually the vesting period) in exchange for the stock-based award.

The Company measures the grant-date fair value of restricted stock units ( RSUs ) using the Company s share price on the date of grant. For employee share options and instruments with market conditions, the Company uses pricing models. If an equity award is modified after the grant date, incremental compensation cost is recognized for an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. Awards under the Company s stock-based compensation plans vest over various periods. Compensation cost is recorded by the Company on a straight-line basis over the requisite service period for each separate vesting portion of the award as if the award is, in-substance, multiple awards. Compensation cost is reduced by the number of awards expected to be forfeited prior to vesting. Forfeiture estimates generally are derived using historical forfeiture information, where available, and are reviewed for reasonableness at least quarterly.

The Company amortizes the grant-date fair value of stock-based compensation awards made to retirement-eligible employees over the requisite service period. Upon notification of retirement, the Company accelerates the unamortized portion of the award over the contractually required retirement notification period, if applicable.

***Distribution and Servicing Costs.*** Distribution and servicing costs include payments to third parties, primarily associated with distribution and servicing of client investments in certain BlackRock products. Distribution and servicing costs are expensed when incurred.

***Amortization of Deferred Sales Commissions.*** The Company holds the rights to receive certain cash flows from sponsored mutual funds sold without a front-end sales charge ( back-end load shares ). The carrying value of these deferred mutual fund commissions is recorded within other assets on the consolidated statements of financial condition and is being amortized over periods between one and six years. The Company receives distribution fees from these funds and contingent deferred sales commissions ( CDSCs ) upon shareholder redemption of certain back-end load shares that are recorded within distribution fees on the consolidated statements of income. Upon receipt of CDSCs, the Company records revenue and the remaining unamortized deferred sales commission is expensed.

***Direct Fund Expenses.*** Direct fund expenses, which are expensed as incurred, primarily consist of third-party nonadvisory expenses incurred by BlackRock related to certain funds for the use of certain index trademarks, reference data for certain indices, custodial services, fund administration, fund accounting, transfer agent services, shareholder reporting services, audit and tax services as well as other fund-related expenses directly attributable to the nonadvisory operations of the fund.

***Leases.*** The Company accounts for its operating leases, which may include escalation clauses, in accordance with ASC 840-10, *Leases*. The Company expenses the lease payments associated with operating leases evenly during

the lease term (including rent-free periods) commencing when the Company obtains the right to control the use of the leased property.

***Foreign Exchange.*** Monetary assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the date of the consolidated statements of financial condition.

Nonmonetary assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at historical exchange rates. Revenue and expenses are translated at average exchange rates during the period. Gains or losses resulting from translating foreign currency financial statements into U.S. dollars are included in accumulated other comprehensive income, a separate component of stockholders' equity, on the consolidated statements of financial condition. Gains or losses resulting from foreign currency transactions are included in general and administration expense on the consolidated statements of income. For 2014, 2013 and 2012, the gains (losses) from foreign currency transactions were immaterial.

**Income Taxes.** Deferred income tax assets and liabilities are recognized for the 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 income tax assets and liabilities is recognized on the consolidated statements of income in the period that includes the enactment date.

Management periodically assesses the recoverability of its deferred income tax assets based upon expected future earnings, taxable income in prior carryback years, future deductibility of the asset, changes in applicable tax laws and other factors. If management determines that it is not more likely than not that the deferred tax asset will be fully recoverable in the future, a valuation allowance will be established for the difference between the asset balance and the amount expected to be recoverable in the future. This allowance will result in additional income tax expense. Further, the Company records its income taxes receivable and payable based upon its estimated income tax position.

Excess tax benefits related to stock-based compensation are recognized as additional paid-in capital and are reflected as financing cash flows on the consolidated statements of cash flows. If the Company does not have additional paid-in capital credits (cumulative tax benefits recorded to additional paid-in capital), the Company will record an expense for any deficit, or shortfall, between the recorded tax benefit and tax return benefit. At December 31, 2014 and 2013, BlackRock had excess additional paid-in capital credits to absorb potential future deficits between recorded tax benefits and tax return benefits.

**Earnings per Share (EPS).** Basic EPS is calculated by dividing net income applicable to common shareholders by the weighted-average number of shares outstanding during the period. Diluted EPS includes the determinants of basic EPS and common stock equivalents outstanding during the period. Diluted EPS is computed using the treasury stock method.

Due to the similarities in terms between BlackRock's nonvoting participating preferred stock and the Company's common stock, the Company considers its nonvoting participating preferred stock to be a common stock



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equivalent for purposes of EPS calculations. As such, the Company has included the outstanding nonvoting participating preferred stock in the calculation of average basic and diluted shares outstanding.

Prior to 2013, the Company calculated EPS pursuant to the two-class method, which specifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents are considered participating securities and should be included in the computation of EPS. The Company's participating securities consisted of its unvested share-based payment awards that contained rights to nonforfeitable dividends or dividend equivalents. The dilutive effect of participating securities was calculated under the more dilutive of either the treasury stock method or the two-class method. The Company's remaining participating securities vested in January 2013.

**Business Segments.** The Company's management directs BlackRock's operations as one business, the asset management business. As such, the Company operates in one business segment as defined in ASC 280-10, *Segment Reporting* (ASC 280-10).

### ***Fair Value Measurements.***

**Hierarchy of Fair Value Inputs.** The Company uses a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

#### Level 1 Inputs:

Quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date.

Level 1 assets may include listed mutual funds (including those accounted for under the equity method of accounting as these mutual funds are investment companies that have publicly available net asset values ( NAVs ), which in accordance with GAAP, are calculated under fair value measures and the changes in fair values are equal to the earnings of such funds), ETFs, listed equities and certain exchange-traded derivatives.

#### Level 2 Inputs:

Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; quotes from pricing services or brokers for which the Company can determine that orderly transactions took place at the quoted price or that the inputs used to arrive at the price are observable; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. As a practical expedient, the Company uses the NAV (or its equivalent) of certain investments as their fair value.

Level 2 assets may include debt securities, bank loans, short-term floating-rate notes, asset-backed securities, securities held within consolidated hedge funds, certain equity method limited partnership interests in hedge funds valued based on NAV (or its

equivalent) where the Company has the ability to redeem at the measurement date or within the near term without redemption restrictions, restricted public securities valued at a discount, as well as over-the-counter derivatives, including interest and inflation rate swaps and foreign currency exchange contracts that have inputs to the valuations that generally can be corroborated by observable market data.

Level 3 Inputs:

Unobservable inputs for the valuation of the asset or liability, which may include nonbinding broker quotes. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation. Certain investments that are valued using a NAV (or its equivalent) and are subject to current redemption restrictions that will not be lifted in the near term are included in Level 3.

Level 3 assets may include general and limited partnership interests in private equity funds, funds of private equity funds, real estate funds, hedge funds, funds of hedge funds, direct private equity investments held within consolidated funds, bank loans and bonds.