

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

FORWARD-LOOKING STATEMENTS

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

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

In addition to risk factors previously disclosed in BlackRock’s Securities and Exchange Commission (“SEC”) reports and those identified elsewhere in this report, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: (1) the introduction, withdrawal, success and timing of business initiatives and strategies; (2) changes and volatility in political, economic or industry conditions, the interest rate environment, foreign exchange rates or financial and capital markets, which could result in changes in demand for products or services or in the value of assets under management (“AUM”); (3) the relative and absolute investment performance of BlackRock’s investment products; (4) the impact of increased competition; (5) the impact of future acquisitions or divestitures; (6) the unfavorable resolution of legal proceedings; (7) the extent and timing of any share repurchases; (8) the impact, extent and timing of technological changes and the adequacy of intellectual property, information and cyber security protection; (9) the impact of legislative and regulatory actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, and regulatory, supervisory or enforcement actions of government agencies relating to BlackRock or The PNC Financial Services Group, Inc. (“PNC”); (10) terrorist activities, international hostilities and natural disasters, which may adversely affect the general economy, domestic and local financial and capital markets, specific industries or BlackRock; (11) the ability to attract and retain highly talented professionals;

(12) fluctuations in the carrying value of BlackRock’s economic investments; (13) the impact of changes to tax legislation, including income, payroll and transaction taxes, and taxation on products or transactions, which could affect the value proposition to clients and, generally, the tax position of the Company; (14) BlackRock’s success in maintaining the distribution of its products; (15) the impact of BlackRock electing to provide support to its products from time to time and any potential liabilities related to securities lending or other indemnification obligations; and (16) the impact of problems at other financial institutions or the failure or negative performance of products at other financial institutions.

OVERVIEW

BlackRock, Inc. (together, with its subsidiaries, unless the context otherwise indicates, “BlackRock” or the “Company”) is a leading publicly traded investment management firm with \$4.645 trillion of AUM at December 31, 2015. With approximately 13,000 employees in more than 30 countries, BlackRock provides a broad range of investment and risk management services to institutional and retail clients worldwide.

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

EXECUTIVE SUMMARY

(in millions, except per share data)

	2015	2014	2013
GAAP basis:			
Total revenue	\$ 11,401	\$ 11,081	\$ 10,180
Total expense	6,737	6,607	6,323
Operating income	\$ 4,664	\$ 4,474	\$ 3,857
Operating margin	40.9%	40.4%	37.9%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests ⁽¹⁾	(69)	(49)	97
Income tax expense	(1,250)	(1,131)	(1,022)
Net income attributable to BlackRock	\$ 3,345	\$ 3,294	\$ 2,932
Diluted earnings per common share	\$ 19.79	\$ 19.25	\$ 16.87
Effective tax rate	27.2%	25.6%	25.8%
As adjusted⁽²⁾:			
Total revenue	\$ 11,401	\$ 11,081	\$ 10,180
Total expense	6,706	6,518	6,156
Operating income	\$ 4,695	\$ 4,563	\$ 4,024
Operating margin	42.9%	42.9%	41.4%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests ⁽¹⁾	(70)	(56)	7
Income tax expense	(1,312)	(1,197)	(1,149)
Net income attributable to BlackRock	\$ 3,313	\$ 3,310	\$ 2,882
Diluted earnings per common share	\$ 19.60	\$ 19.34	\$ 16.58
Effective tax rate	28.4%	26.6%	28.5%
Other:			
Assets under management (end of period)	\$ 4,645,412	\$ 4,651,895	\$ 4,324,088
Diluted weighted-average common shares outstanding ⁽³⁾	169,038,571	171,112,261	173,828,902
Common and preferred shares outstanding (end of period)	165,596,139	166,921,863	168,724,763
Book value per share ⁽⁴⁾	\$ 172.12	\$ 164.06	\$ 156.69
Cash dividends declared and paid per share	\$ 8.72	\$ 7.72	\$ 6.72

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

2015 COMPARED WITH 2014

GAAP. Operating income of \$4,664 million increased \$190 million and operating margin of 40.9% increased 50 bps from 2014. Operating income reflected growth in base fees and performance fees, partially offset by higher expense. The Company's 2015 expense reflected higher revenue-related expense, including compensation, and distribution and servicing costs, partially offset by lower general and administration expense and lower amortization of intangible assets. In connection with the Barclays Global Investors ("BGI") acquisition, BlackRock recorded a \$50 million indemnification asset for unrecognized tax benefits. Due to the resolution of outstanding tax matters in 2014, BlackRock recorded \$50 million of general and administration expense in 2014 to reflect the reduction of the indemnification asset and an offsetting \$50 million tax benefit. Results for 2014 also included \$11 million of closed-end fund launch costs. Nonoperating income (expense), less net income (loss) attributable to NCI, decreased \$20 million from 2014 due to lower net gains on investments in 2015.

Income tax expense for 2015 included a \$54 million net noncash benefit associated with the revaluation of certain deferred income tax liabilities, including the effect of tax legislation enacted in the United Kingdom and state and local income tax changes and benefited from \$75 million of nonrecurring items. Income tax expense for 2014 included \$94 million of tax benefits, including the \$50 million tax benefit mentioned above, a \$9 million net noncash benefit, primarily associated with the revaluation of certain deferred income tax liabilities as a result of domestic state and local tax changes, and a \$73 million net tax benefit related to several favorable nonrecurring items.

Diluted earnings per common share rose \$0.54, or 3%, compared with the prior year period, reflecting higher operating income and the benefit of share repurchases, partially offset by the impact of a higher 2015 effective tax rate and lower nonoperating income.

As Adjusted. Operating income of \$4,695 million increased \$132 million from 2014 and the operating margin for both 2015 and 2014 was 42.9%. Income tax expense on an as adjusted basis for 2015 included a \$75 million net benefit and excluded the net noncash benefit of \$54 million

described above. General and administration expense for 2014 excluded the \$50 million related to the reduction of the indemnification asset described above. Income tax expense for 2014 included a \$73 million net 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. Diluted earnings per common share rose \$0.26, or 1%, from 2014.

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 the previously mentioned \$50 million general and administration expense related to the reduction of an indemnification asset 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. Expense for 2013 included a \$39 million noncash, nonoperating pre-tax gain related to the carrying value of the Company's equity method investment as a result of an initial public offering of PennyMac Financial Services, Inc. (the "PennyMac IPO"). In addition, in 2013, the Company made a charitable contribution of approximately six million units of the Company's investment in PennyMac to a donor advised fund (the "Charitable Contribution"). In connection with the Charitable Contribution, the Company also recorded a noncash, nonoperating pre-tax gain of \$80 million related to the contributed investment. The decrease in nonoperating income (expense) also reflected net lower returns on the co-investment and seed portfolio and higher interest expense resulting from a long-term debt issuance in March 2014, partially offset by the positive impact of the monetization of a nonstrategic, opportunistic private equity investment during 2014.

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

Diluted earnings per 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. Results for 2014 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 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 benefit of approximately \$29 million and benefits from certain nonrecurring items and excluded the \$69 million net noncash benefit, described above. Diluted earnings per common share rose \$2.76, or 17%, from 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 framework for long-term value creation is predicated on generating differentiated organic growth, leveraging scale to increase operating margins over time, and returning capital to shareholders on a consistent basis. BlackRock's diversified platform, in terms of style, product, client and geography, enables it to generate more stable cash flows through market cycles, positioning BlackRock to invest for the long-term by striking an appropriate balance between investing for future growth and practical discretionary expense management.

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 among 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 intends to achieve these goals by pursuing global growth themes in client and product segments including core investments, fixed income, 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.

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. Management also uses non-GAAP financial measures as a benchmark to compare its

performance with other companies and to enhance the comparability of this information for the reporting periods presented. Non-GAAP measures may pose limitations because they do not include all of BlackRock's revenue and expense. 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.

Management uses both GAAP and non-GAAP financial measures in evaluating BlackRock's financial performance. Adjustments to GAAP financial measures ("non-GAAP adjustments") include certain items management deems nonrecurring or occur infrequently, transactions that ultimately will not impact BlackRock's book value or certain tax items that do not impact cash flow.

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

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

Management believes operating income, as adjusted, and operating margin, as adjusted, are effective indicators of BlackRock's financial performance over time and, therefore, provide useful disclosure to investors.

(in millions)	2015	2014	2013
Operating income, GAAP basis	\$ 4,664	\$ 4,474	\$ 3,857
Non-GAAP expense adjustments:			
PNC LTIP funding obligation	30	32	33
Compensation expense related to appreciation (depreciation) on deferred compensation plans	1	7	10
Reduction of indemnification asset	—	50	—
Charitable Contribution	—	—	124
Operating income, as adjusted	4,695	4,563	4,024
Product launch costs and commissions	5	11	18
Operating income used for operating margin measurement	\$ 4,700	\$ 4,574	\$ 4,042
Revenue, GAAP basis	\$ 11,401	\$ 11,081	\$ 10,180
Non-GAAP adjustments:			
Distribution and servicing costs	(409)	(364)	(353)
Amortization of deferred sales commissions	(48)	(56)	(52)
Revenue used for operating margin measurement	\$ 10,944	\$ 10,661	\$ 9,775
Operating margin, GAAP basis	40.9%	40.4%	37.9%
Operating margin, as adjusted	42.9%	42.9%	41.4%

- **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. 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). 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 was 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).

- Operating income used for measuring operating margin, as adjusted, is equal to operating income, as adjusted, excluding the impact of product launch costs (e.g. 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.

During 2013, the noncash, nonoperating pre-tax gain of \$80 million related to the contributed PennyMac investment was 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>	2015	2014	2013
Nonoperating income (expense), GAAP basis	\$ (62)	\$ (79)	\$ 116
Less: Net income (loss) attributable to NCI	7	(30)	19
Nonoperating income (expense), net of NCI	(69)	(49)	97
Gain related to Charitable Contribution	—	—	(80)
Compensation expense related to (appreciation) depreciation on deferred compensation plans	(1)	(7)	(10)
Nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted	\$ (70)	\$ (56)	\$ 7

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

(in millions, except per share data)

	2015	2014	2013
Net income attributable to BlackRock, GAAP basis	\$ 3,345	\$ 3,294	\$ 2,932
Non-GAAP adjustments:			
PNC LTIP funding obligation, net of tax	22	25	23
Income tax matters	(54)	(9)	(69)
Amount related to the Charitable Contribution, net of tax	—	—	(4)
Net income attributable to BlackRock, as adjusted	\$ 3,313	\$ 3,310	\$ 2,882
Diluted weighted-average common shares outstanding ⁽⁴⁾	169.0	171.1	173.8
Diluted earnings per common share, GAAP basis ⁽⁴⁾	\$ 19.79	\$ 19.25	\$ 16.87
Diluted earnings per common share, as adjusted ⁽⁴⁾	\$ 19.60	\$ 19.34	\$ 16.58

See the aforementioned discussion regarding operating income, as adjusted, and operating margin, as adjusted, for information on the PNC LTIP funding obligation and the Charitable Contribution.

For each period presented, the non-GAAP adjustment related to the PNC LTIP funding obligation was 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 income tax matters adjustments for 2015, 2014 and 2013 reflected the revaluation of deferred income tax liabilities. The amount for 2015 included a \$54 million net noncash benefit, primarily related to the impact of legislation enacted in the United Kingdom and state and local income tax changes. 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 the impact of legislation enacted in the United Kingdom and state and local income tax changes. Such amounts for 2015, 2014 and 2013 have been excluded from as adjusted results as they will not have a cash flow impact and to ensure comparability among periods presented.

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

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

(in millions)	AUM			Net Inflows (Outflows)		
	2015	2014	2013	2015	2014	2013
Retail	\$ 541,125	\$ 534,329	\$ 487,777	\$ 38,512	\$ 54,944	\$ 38,804
iShares	1,092,561	1,024,228	914,372	129,852	100,601	63,971
Institutional:						
Active	962,852	959,160	932,410	26,746	(10,420)	(928)
Index	1,738,777	1,816,124	1,677,650	(43,096)	36,128	15,266
Institutional subtotal	2,701,629	2,775,284	2,610,060	(16,350)	25,708	14,338
Long-term	4,335,315	4,333,841	4,012,209	152,014	181,253	117,113
Cash management	299,884	296,353	275,554	7,510	25,696	10,056
Advisory ⁽¹⁾	10,213	21,701	36,325	(9,629)	(13,173)	(7,442)
Total	\$ 4,645,412	\$ 4,651,895	\$ 4,324,088	\$ 149,895	\$ 193,776	\$ 119,727

AUM and Net Inflows (Outflows) by Product Type

(in millions)	AUM			Net Inflows (Outflows)		
	2015	2014	2013	2015	2014	2013
Equity	\$ 2,423,772	\$ 2,451,111	\$ 2,317,695	\$ 52,778	\$ 52,420	\$ 69,257
Fixed income	1,422,368	1,393,653	1,242,186	76,944	96,406	11,508
Multi-asset	376,336	377,837	341,214	17,167	28,905	42,298
Alternatives						
Core	92,085	88,006	85,026	4,080	3,061	2,703
Currency and commodities ⁽²⁾	20,754	23,234	26,088	1,045	461	(8,653)
Subtotal	112,839	111,240	111,114	5,125	3,522	(5,950)
Long-term	4,335,315	4,333,841	4,012,209	152,014	181,253	117,113
Cash management	299,884	296,353	275,554	7,510	25,696	10,056
Advisory ⁽¹⁾	10,213	21,701	36,325	(9,629)	(13,173)	(7,442)
Total	\$ 4,645,412	\$ 4,651,895	\$ 4,324,088	\$ 149,895	\$ 193,776	\$ 119,727

AUM and Net Inflows (Outflows) by Investment Style

(in millions)	AUM			Net Inflows (Outflows)		
	2015	2014	2013	2015	2014	2013
Active	\$ 1,462,672	\$ 1,453,613	\$ 1,391,243	\$ 60,510	\$ 34,408	\$ 41,177
Index & iShares	2,872,643	2,880,228	2,620,966	91,504	146,845	75,936
Long-term	4,335,315	4,333,841	4,012,209	152,014	181,253	117,113
Cash management	299,884	296,353	275,554	7,510	25,696	10,056
Advisory ⁽¹⁾	10,213	21,701	36,325	(9,629)	(13,173)	(7,442)
Total	\$ 4,645,412	\$ 4,651,895	\$ 4,324,088	\$ 149,895	\$ 193,776	\$ 119,727

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

(2) Amounts include commodity iShares.

The following table presents the component changes in BlackRock’s AUM for 2015, 2014 and 2013.

(in millions)	December 31,		
	2015	2014	2013
Beginning assets under management	\$ 4,651,895	\$ 4,324,088	\$ 3,791,588
Net inflows (outflows)			
Long-term	152,014	181,253	117,113
Cash management	7,510	25,696	10,056
Advisory ⁽¹⁾	(9,629)	(13,173)	(7,442)
Total net inflows (outflows)	149,895	193,776	119,727
Acquisitions ⁽²⁾	2,219	—	26,932
Market change	(57,495)	261,682	398,707
FX impact ⁽³⁾	(101,102)	(127,651)	(12,866)
Total change	(6,483)	327,807	532,500
Ending assets under management	\$ 4,645,412	\$ 4,651,895	\$ 4,324,088

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

(2) Amounts for 2015 represent \$1.3 billion of AUM acquired in the acquisition of certain assets of BlackRock Kelso Capital Advisors LLC (“BKCA”) in March 2015, \$560 million of AUM acquired in the Infraestructura Institucional acquisition in October 2015 and \$366 million of AUM acquired in the FutureAdvisor acquisition in October 2015. The FutureAdvisor acquisition amount does not include AUM that was held in *iShares* holdings. Amounts for 2013 represent \$16.0 billion of AUM acquired in the Credit Suisse ETF franchise in July 2013 (the “Credit Suisse ETF Transaction”) and \$11.0 billion of AUM acquired in the MGP A acquisition in October 2013.

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

BlackRock has historically grown AUM through organic growth and acquisitions. Management believes that the Company will be able to continue to grow AUM organically 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 2015

The following table presents the component changes in AUM by client type and product type for 2015.

(in millions)	December 31, 2014	Net inflows (outflows)	Acquisitions ⁽¹⁾	Market change	FX impact ⁽²⁾	December 31, 2015	Full Year Average AUM ⁽³⁾
Retail:							
Equity	\$ 200,445	\$ 8,543	\$ —	\$ (10,040)	\$ (5,193)	\$ 193,755	\$ 199,474
Fixed income	189,820	31,114	—	(5,691)	(2,590)	212,653	205,919
Multi-asset	125,341	(1,307)	366	(8,108)	(985)	115,307	125,019
Alternatives	18,723	162	1,293	(177)	(591)	19,410	19,351
Retail subtotal	534,329	38,512	1,659	(24,016)	(9,359)	541,125	549,763
<i>iShares</i> :							
Equity	790,067	78,408	—	(32,349)	(12,970)	823,156	810,836
Fixed income	217,671	50,309	—	(7,508)	(6,282)	254,190	239,164
Multi-asset	1,773	1,074	—	(90)	(27)	2,730	1,924
Alternatives	14,717	61	—	(2,160)	(133)	12,485	14,268
<i>iShares</i> subtotal	1,024,228	129,852	—	(42,107)	(19,412)	1,092,561	1,066,192
Institutional:							
Active:							
Equity	125,143	(462)	—	960	(4,199)	121,442	125,410
Fixed income	518,590	5,690	—	(1,220)	(8,632)	514,428	523,536
Multi-asset	242,913	18,409	—	1,074	(10,355)	252,041	254,781
Alternatives	72,514	3,109	560	(175)	(1,067)	74,941	73,683
Active subtotal	959,160	26,746	560	639	(24,253)	962,852	977,410
Index:							
Equity	1,335,456	(33,711)	—	6,157	(22,483)	1,285,419	1,333,159
Fixed income	467,572	(10,169)	—	2,317	(18,623)	441,097	466,494
Multi-asset	7,810	(1,009)	—	(289)	(254)	6,258	7,305
Alternatives	5,286	1,793	—	(924)	(152)	6,003	5,907
Index subtotal	1,816,124	(43,096)	—	7,261	(41,512)	1,738,777	1,812,865
Institutional subtotal	2,775,284	(16,350)	560	7,900	(65,765)	2,701,629	2,790,275
Long-term	4,333,841	152,014	2,219	(58,223)	(94,536)	4,335,315	\$ 4,406,230
Cash management	296,353	7,510	—	267	(4,246)	299,884	
Advisory ⁽⁴⁾	21,701	(9,629)	—	461	(2,320)	10,213	
Total	\$ 4,651,895	\$ 149,895	\$ 2,219	\$ (57,495)	\$ (101,102)	\$ 4,645,412	

(1) Amounts represent \$1.3 billion of AUM acquired in the acquisition of certain assets of BKCA in March 2015, \$560 million of AUM acquired in the Infraestructura Institucional acquisition in October 2015 and \$366 million of AUM acquired in the FutureAdvisor acquisition in October 2015. The FutureAdvisor acquisition amount does not include AUM that was held in *iShares* holdings.

- (2) Foreign exchange reflects the impact of translating non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.
- (3) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.
- (4) Advisory AUM represents long-term portfolio liquidation assignments.

The following table presents component changes in AUM by product type for 2015.

(in millions)	December 31, 2014	Net inflows (outflows)	Acquisitions ⁽¹⁾	Market change	FX impact ⁽²⁾	December 31, 2015	Full Year Average AUM ⁽³⁾
Equity:							
Active	\$ 292,802	\$ 4,210	\$ —	\$ (7,738)	\$ (7,955)	\$ 281,319	\$ 292,204
iShares	790,067	78,408	—	(32,349)	(12,970)	823,156	810,836
Non-ETF index	1,368,242	(29,840)	—	4,815	(23,920)	1,319,297	1,365,839
Equity subtotal	2,451,111	52,778	—	(35,272)	(44,845)	2,423,772	2,468,879
Fixed income:							
Active	701,324	35,928	—	(6,907)	(10,692)	719,653	722,023
iShares	217,671	50,309	—	(7,508)	(6,282)	254,190	239,164
Non-ETF index	474,658	(9,293)	—	2,313	(19,153)	448,525	473,926
Fixed income subtotal	1,393,653	76,944	—	(12,102)	(36,127)	1,422,368	1,435,113
Multi-asset	377,837	17,167	366	(7,413)	(11,621)	376,336	389,029
Alternatives:							
Core	88,006	4,080	1,853	(213)	(1,641)	92,085	90,077
Currency and commodities ⁽⁴⁾	23,234	1,045	—	(3,223)	(302)	20,754	23,132
Alternatives subtotal	111,240	5,125	1,853	(3,436)	(1,943)	112,839	113,209
Long-term	4,333,841	152,014	2,219	(58,223)	(94,536)	4,335,315	\$ 4,406,230
Cash management	296,353	7,510	—	267	(4,246)	299,884	
Advisory ⁽⁵⁾	21,701	(9,629)	—	461	(2,320)	10,213	
Total	\$ 4,651,895	\$ 149,895	\$ 2,219	\$(57,495)	\$ (101,102)	\$ 4,645,412	

- (1) Amounts represent \$1.3 billion of AUM acquired in the acquisition of certain assets of BKCA in March 2015, \$560 million of AUM acquired in the Infraestructura Institucional acquisition in October 2015 and \$366 million of AUM acquired in the FutureAdvisor acquisition in October 2015. The FutureAdvisor acquisition amount does not include AUM that was held in iShares holdings.
- (2) Foreign exchange reflects the impact of translating non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.
- (3) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.
- (4) Amounts include commodity iShares.
- (5) Advisory AUM represents long-term portfolio liquidation assignments.

The following table presents component changes in AUM by investment style for 2015.

(in millions)	December 31, 2014	Net inflows (outflows)	Acquisitions ⁽¹⁾	Market change	FX impact ⁽²⁾	December 31, 2015	Full Year Average AUM ⁽³⁾
Active	\$ 1,453,613	\$ 60,510	\$ 2,219	\$ (22,026)	\$ (31,644)	\$ 1,462,672	\$ 1,487,060
Index & iShares	2,880,228	91,504	—	(36,197)	(62,892)	2,872,643	2,919,170
Long-term	4,333,841	152,014	2,219	(58,223)	(94,536)	4,335,315	\$ 4,406,230
Cash management	296,353	7,510	—	267	(4,246)	299,884	
Advisory ⁽⁴⁾	21,701	(9,629)	—	461	(2,320)	10,213	
Total	\$ 4,651,895	\$ 149,895	\$ 2,219	\$(57,495)	\$ (101,102)	\$ 4,645,412	

- (1) Amounts represent \$1.3 billion of AUM acquired in the acquisition of certain assets of BKCA in March 2015, \$560 million of AUM acquired in the Infraestructura Institucional acquisition in October 2015 and \$366 million of AUM acquired in the FutureAdvisor acquisition in October 2015. The FutureAdvisor acquisition amount does not include AUM that was held in iShares holdings.
- (2) Foreign exchange reflects the impact of translating non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.
- (3) Average AUM is calculated as the average of the month-end spot AUM amounts for the trailing thirteen months.
- (4) Advisory AUM represents long-term portfolio liquidation assignments.

AUM decreased \$6.5 billion to \$4.645 trillion at December 31, 2015 from \$4.652 trillion at December 31, 2014 driven largely by foreign exchange movements and net market depreciation that more than offset organic growth.

Net market depreciation of \$57.5 billion was driven by \$35.3 billion from equity products due to lower U.S. and global equity markets and \$12.1 billion from fixed income products.

AUM decreased \$101.1 billion due to the impact of foreign exchange movements, primarily resulting from the strengthening of the U.S. dollar against the euro, the British pound and the Canadian dollar.

For further discussion on AUM, see “Item 1. Business — Assets Under Management”.

Component Changes in AUM for 2014

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

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

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

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

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

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

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

(1) Foreign exchange reflects the impact of translating 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.

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

(in millions)	December 31, 2013	Net inflows (outflows)	Market change	FX impact ⁽¹⁾	December 31, 2014	Full Year Average AUM ⁽²⁾
Active	\$ 1,391,243	\$ 34,408	\$ 67,816	\$ (39,851)	\$ 1,453,616	\$ 1,439,474
Index & iShares	2,620,966	146,845	192,042	(79,628)	2,880,225	2,762,663
Long-term	4,012,209	181,253	259,858	(119,479)	4,333,841	\$ 4,202,137
Cash management	275,554	25,696	715	(5,612)	296,353	
Advisory ⁽³⁾	36,325	(13,173)	1,109	(2,560)	21,701	
Total	\$ 4,324,088	\$ 193,776	\$ 261,682	\$ (127,651)	\$ 4,651,895	

(1) Foreign exchange reflects the impact of translating 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.

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.

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 translating non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

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

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

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

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

its *Aladdin* platform to provide risk management and other outsourcing services for institutional investors and custom and tailored solutions to address complex risk exposures.

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

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

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

- Employee compensation and benefits expense includes salaries, commissions, temporary help, deferred and incentive compensation, employer payroll taxes, severance and related benefit costs.
- Distribution and servicing costs, which are primarily AUM driven, include payments made to Merrill Lynch-affiliated entities under a global distribution agreement, to PNC and Barclays, as well as other third parties, primarily associated with obtaining and retaining client investments in certain BlackRock products.
- Direct fund expense primarily consists 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. Foreign currency remeasurement (gains) losses were \$(8) million, \$(11) million and \$1 million for 2015, 2014 and 2013, respectively.

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 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. The portion of nonoperating income (expense) not attributable to BlackRock is allocated to NCI on the consolidated statements of income.

Revenue

The following table presents the Company’s revenue for 2015, 2014 and 2013.

<i>(in millions)</i>	2015	2014	2013
Investment advisory, administration fees and securities lending revenue:			
Equity:			
Active	\$ 1,709	\$ 1,844	\$ 1,741
<i>iShares</i>	2,751	2,705	2,390
Non-ETF index	680	677	594
Equity subtotal	5,140	5,226	4,725
Fixed income:			
Active	1,566	1,396	1,269
<i>iShares</i>	554	484	464
Non-ETF index	282	260	238
Fixed income subtotal	2,402	2,140	1,971
Multi-asset	1,253	1,204	1,039
Alternatives:			
Core	653	638	576
Currency and commodities	73	89	107
Alternatives subtotal	726	727	683
Long-term	9,521	9,297	8,418
Cash management	319	292	321
Total base fees	9,840	9,589	8,739
Investment advisory performance fees:			
Equity	205	111	91
Fixed income	26	31	25
Multi-asset	34	32	24
Alternatives	356	376	421
Total performance fees	621	550	561
<i>BlackRock Solutions</i> and advisory	646	635	577
Distribution fees	55	70	73
Other revenue	239	237	230
Total revenue	\$ 11,401	\$ 11,081	\$ 10,180

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 product type:

	Mix of Base Fees			Mix of Average AUM by Asset Class ⁽¹⁾		
	2015	2014	2013	2015	2014	2013
Equity:						
Active	17%	18%	20%	6%	7%	7%
<i>iShares</i>	28%	28%	26%	17%	17%	16%
Non-ETF index	7%	7%	7%	30%	30%	29%
Equity subtotal	52%	53%	53%	53%	54%	52%
Fixed income:						
Active	15%	15%	15%	16%	15%	16%
<i>iShares</i>	6%	5%	5%	5%	4%	5%
Non-ETF index	3%	3%	3%	10%	10%	10%
Fixed income subtotal	24%	23%	23%	31%	29%	31%
Multi-asset	13%	13%	12%	8%	8%	7%
Alternatives:						
Core	7%	7%	7%	2%	2%	2%
Currency and commodities	1%	1%	1%	0%	1%	1%
Alternatives subtotal	8%	8%	8%	2%	3%	3%
Long-term	97%	97%	96%	94%	94%	93%
Cash management	3%	3%	4%	6%	6%	7%
Total excluding Advisory AUM	100%	100%	100%	100%	100%	100%

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

2015 Compared with 2014

Revenue increased \$320 million, or 3%, from 2014, driven by higher base fees and growth in performance fees.

Investment advisory, administration fees and securities lending revenue of \$9,840 million for 2015 increased \$251 million from \$9,589 million in 2014 primarily driven by organic growth, despite the impact of foreign exchange and market volatility. Securities lending revenue increased \$36 million from 2014 to \$513 million in 2015, reflecting an increase in average balances of securities on loan.

Investment advisory performance fees were \$621 million in 2015 compared with \$550 million in 2014. The current year reflected higher fees from equity products and strong 2015 performance from a single hedge fund with an annual performance measurement period that ended in the third quarter of 2015. The prior year reflected a large fee associated with the liquidation of a closed-end mortgage fund in 2014.

BlackRock Solutions and advisory revenue in 2015 totaled \$646 million compared with \$635 million in 2014. The current year reflected higher revenue from *Aladdin*

mandates and lower revenue from disposition-related advisory assignments. *BlackRock Solutions* and advisory revenue included \$528 million in *Aladdin* revenue compared with \$474 million in 2014.

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 revenue 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 year ended 2014 reflected higher revenue from *Aladdin* mandates and higher revenue from advisory assignments. *BlackRock Solutions* and advisory revenue included \$474 million in *Aladdin* revenue compared with \$433 million in 2013.

Expense

The following table presents the Company's expense for 2015, 2014 and 2013.

(in millions)	2015	2014	2013
Expense, GAAP:			
Employee compensation and benefits	\$ 4,005	\$ 3,829	\$ 3,560
Distribution and servicing costs	409	364	353
Amortization of deferred sales commissions	48	56	52
Direct fund expense	767	748	657
General and administration:			
Marketing and promotional	365	413	409
Occupancy and office related	280	267	277
Portfolio services	221	215	203
Technology	170	164	160
Professional services	120	126	128
Communications	37	39	37
Regulatory, filing and license fees	24	36	31
Closed-end fund launch costs	4	10	16
Charitable Contribution	—	—	124
Reduction of indemnification asset	—	50	—
Other general and administration	159	133	155
Total general and administration expense	1,380	1,453	1,540
Amortization of intangible assets	128	157	161
Total expense, GAAP	\$ 6,737	\$ 6,607	\$ 6,323
Less non-GAAP expense adjustments:			
Employee compensation and benefits:			
PNC LTIP funding obligation	\$ 30	\$ 32	\$ 33
Compensation expense related to appreciation (depreciation) on deferred compensation plans	1	7	10
Subtotal	31	39	43
General and administration:			
Reduction of indemnification asset	—	50	—
Charitable Contribution	—	—	124
Subtotal	—	50	124
Total non-GAAP expense adjustments	\$ 31	\$ 89	\$ 167
Expense, as adjusted:			
Employee compensation and benefits	\$ 3,974	\$ 3,790	\$ 3,517
Distribution and servicing costs	409	364	353
Amortization of deferred sales commissions	48	56	52
Direct fund expense	767	748	657
General and administration	1,380	1,403	1,416
Amortization of intangible assets	128	157	161
Total expense, as adjusted	\$ 6,706	\$ 6,518	\$ 6,156

2015 Compared with 2014

GAAP. Expense increased \$130 million, or 2%, from 2014, primarily reflecting higher revenue-related expense, including compensation and benefits expense, and distribution and servicing costs, partially offset by lower general and administration expense and amortization of intangible assets. Expense for 2014 included an expense related to a \$50 million reduction of an indemnification asset.

Employee compensation and benefits expense increased \$176 million, or 5%, to \$4,005 million in 2015 from \$3,829 million in 2014, reflecting higher headcount, and higher incentive and deferred compensation, partially offset by the impact of foreign exchange movements. Employees at December 31, 2015 totaled approximately 13,000 compared with approximately 12,200 at December 31, 2014.

Distribution and servicing costs totaled \$409 million in 2015 compared with \$364 million in 2014. 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 2015 and 2014 included \$194 million and \$183 million, respectively, attributable to Bank of America/Merrill Lynch.

General and administration expense decreased \$73 million from 2014, primarily reflecting the previously mentioned \$50 million reduction of an indemnification asset, lower marketing and promotional expense, and lower legal and regulatory expense, partially offset by the impact of transaction-related expense.

Amortization of intangible assets expense decreased \$29 million, or 18%, to \$128 million in 2015 from \$157 million in 2014, reflecting certain finite-lived intangible assets becoming fully amortized.

As Adjusted. Expense, as adjusted, increased \$188 million, or 3%, to \$6,706 million in 2015 from \$6,518 million in 2014. The increase in total expense, as adjusted, is primarily attributable to higher revenue-related expense, including compensation and benefits expense and distribution and servicing costs, partially offset by lower amortization of intangible assets and lower general and administration expense. Amounts related to the reduction of the indemnification asset in 2014 have been excluded from as adjusted results.

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. Distribution and servicing costs for 2014 and 2013 included \$183 million and \$184 million, respectively, attributable to Bank of America/ Merrill Lynch.

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

General and administration expense decreased \$87 million, primarily due to the \$124 million related to the Charitable Contribution incurred in 2013 and foreign currency remeasurement, partially offset by the \$50 million reduction of an indemnification asset.

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

NONOPERATING RESULTS

Nonoperating income (expense), less net income (loss) attributable to NCI for 2015, 2014 and 2013 was as follows:

(in millions)	2015	2014	2013
Nonoperating income (expense), GAAP basis	\$ (62)	\$ (79)	\$ 116
Less: Net income (loss) attributable to NCI ⁽¹⁾	7	(30)	19
Nonoperating income (expense) ⁽²⁾	(69)	(49)	97
Gain related to the Charitable Contribution	—	—	(80)
Compensation expense related to (appreciation) depreciation on deferred compensation plans	(1)	(7)	(10)
Nonoperating income (expense), as adjusted ⁽²⁾	\$ (70)	\$ (56)	\$ 7

(1) Amounts included a gain of \$58 million and a loss of \$41 million attributable to consolidated variable interest entities ("VIEs") for 2015 and 2014, respectively. During 2013, the Company did not record any nonoperating income (loss) or net income (loss) attributable to VIEs on the consolidated statements of income.

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

The components of nonoperating income (expense), less net income (loss) attributable to NCI for 2015, 2014 and 2013 were as follows:

<i>(in millions)</i>	2015	2014	2013
Net gain (loss) on investments ⁽¹⁾			
Private equity	\$ 71	\$ 69	\$ 52
Real estate	12	16	24
Other alternatives ⁽²⁾	(2)	55	65
Other investments ⁽³⁾	(19)	7	16
Subtotal	62	147	157
Other gains ⁽⁴⁾	46	—	—
Gain related to the PennyMac IPO	—	—	39
Gain related to the Charitable Contribution	—	—	80
Investments related to deferred compensation plans	1	7	10
Total net gain (loss) on investments ⁽¹⁾	109	154	286
Interest and dividend income	26	29	22
Interest expense	(204)	(232)	(211)
Net interest expense	(178)	(203)	(189)
Total nonoperating income (expense) ⁽¹⁾	(69)	(49)	97
Gain related to the Charitable Contribution	—	—	(80)
Compensation expense related to (appreciation) depreciation on deferred compensation plans	(1)	(7)	(10)
Nonoperating income (expense), as adjusted ⁽¹⁾	\$ (70)	\$ (56)	\$ 7

- (1) Net of net income (loss) attributable to NCI. Amounts for 2015 also include net gain (loss) on consolidated VIEs.
- (2) Amounts primarily include net gains (losses) related to direct hedge fund strategies and hedge fund solutions. The prior year periods also included net gains related to opportunistic credit strategies.
- (3) Amounts include net gains (losses) related to equity and fixed income investments, and BlackRock’s seed capital hedging program.
- (4) The amount for 2015 primarily includes a gain related to the acquisition of certain assets of BKCA.

2015 Compared with 2014

BlackRock Kelso Capital Advisors LLC. On March 6, 2015, BlackRock acquired certain assets related to managing BlackRock Capital Investment Corporation (formerly known as BlackRock Kelso Capital Corporation) from BKCA. In connection with the acquisition, BlackRock recorded a noncash, nonoperating, pre-tax gain of \$40 million related to the fair value of its pre-existing interest in BKCA. See Note 9, *Goodwill*, and Note 10, *Intangible Assets*, for further discussion on the BKCA acquisition.

Net gains on investments of \$109 million in 2015 decreased \$45 million from 2014 due to lower net positive marks in 2015. Net gains on investments in 2015 included a \$40 million gain related to the BKCA acquisition and a \$35 million unrealized gain on a private equity investment. Net gains on investments in 2014 included the positive impact of the monetization of a nonstrategic, opportunistic private equity investment.

Interest expense decreased \$28 million from 2014 primarily due to repayments of long-term borrowings in the fourth quarter of 2014.

Income Tax Expense

<i>(in millions)</i>	GAAP			As adjusted		
	2015	2014	2013	2015	2014	2013
Income before income taxes ⁽¹⁾	\$ 4,595	\$ 4,425	\$ 3,954	\$ 4,625	\$ 4,507	\$ 4,031
Income tax expense	\$ 1,250	\$ 1,131	\$ 1,022	\$ 1,312	\$ 1,197	\$ 1,149
Effective tax rate	27.2%	25.6%	25.8%	28.4%	26.6%	28.5%

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

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.

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

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, Channel Islands, 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.

2015. Income tax expense (GAAP) reflected:

- a net noncash benefit of \$54 million, primarily associated with the revaluation of certain deferred income tax liabilities; and
- a benefit from \$75 million of nonrecurring items.

The as adjusted effective tax rate of 28.4% for 2015 excluded the net noncash benefit of \$54 million mentioned above, as it will not have a cash flow impact and to ensure comparability among periods presented.

2014. Income tax expense (GAAP) reflected:

- a \$94 million tax benefit, primarily due to the resolution of certain outstanding tax matters related to the acquisition of BGI, including the previously mentioned \$50 million tax benefit (see *Executive Summary* for more information);
- a \$73 million net tax benefit related to several favorable nonrecurring items; and
- a net noncash benefit of \$9 million associated with the revaluation of deferred income tax liabilities.

The as adjusted effective tax rate of 26.6% for 2014 excluded the \$9 million net noncash benefit as it will not have a cash flow impact and to ensure comparability among periods presented and \$50 million tax benefit mentioned above. 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.

2013. Income tax expense (GAAP) 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;
- 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 excluded the \$69 million net noncash benefit and the \$48 million tax benefit related to the Charitable Contribution 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 and consolidated sponsored investment funds, including consolidated VIEs.

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 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 its 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 Sponsored Investment Funds

The Company consolidates certain sponsored investment funds accounted for as voting rights entities ("VREs") and VIEs, (collectively, "Consolidated Sponsored Investment Funds"). See Note 2, *Significant Accounting Policies*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K for further information of the Company's consolidation policy.

The Company cannot readily access cash and cash equivalents or other assets held by Consolidated Sponsored Investment Funds to use in its operating activities. In addition, the Company cannot readily sell investments held by Consolidated Sponsored Investment Funds in order to obtain cash for use in the Company's operations.

	December 31, 2015			
	GAAP Basis	Separate Account Assets/Collateral ⁽¹⁾	Consolidated Sponsored Investment Funds ⁽²⁾	As Adjusted
Assets				
Cash and cash equivalents	\$ 6,083	\$ —	\$ 88	\$ 5,995
Accounts receivable	2,237	—	—	2,237
Investments	1,578	—	84	1,494
Assets of consolidated VIEs:				
Cash and cash equivalents	148	—	148	—
Investments	1,030	—	297	733
Other assets	67	—	67	—
Separate account assets and collateral held under securities lending agreements	182,187	182,187	—	—
Other assets ⁽³⁾	1,436	—	(6)	1,442
Subtotal	194,766	182,187	678	11,901
Goodwill and intangible assets, net	30,495	—	—	30,495
Total assets	\$ 225,261	\$ 182,187	\$ 678	\$ 42,396
Liabilities				
Accrued compensation and benefits	\$ 1,971	\$ —	\$ —	\$ 1,971
Accounts payable and accrued liabilities	1,068	—	—	1,068
Liabilities of consolidated VIEs	177	—	177	—
Borrowings	4,930	—	—	4,930
Separate account liabilities and collateral liabilities under securities lending agreements	182,187	182,187	—	—
Deferred income tax liabilities ⁽⁴⁾	4,851	—	—	4,851
Other liabilities	1,033	—	(40)	1,073
Total liabilities	196,217	182,187	137	13,893
Equity				
Total stockholders' equity	28,503	—	—	28,503
Noncontrolling interests	541	—	541	—
Total equity	29,044	—	541	28,503
Total liabilities and equity	\$ 225,261	\$ 182,187	\$ 678	\$ 42,396

- (1) Amounts represent segregated client assets generating advisory fees in which BlackRock has no economic interest or liability.
- (2) Amounts represent the portion of assets and liabilities of Consolidated Sponsored Investment Funds attributable to NCI.
- (3) Amounts include property and equipment and other assets.
- (4) Amount includes approximately \$5.6 billion of deferred income tax liabilities related to goodwill and intangibles. See Note 20, *Income Taxes*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K for more information.

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, 2015 and 2014 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, 2015 and 2014 included \$100 million and \$120 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 2015).

Accounts receivable at December 31, 2015 increased \$117 million from December 31, 2014 due to an increase in unit trust receivables (substantially offset by an increase in unit trust payables recorded within accounts payable and

accrued liabilities) and higher performance fee receivables. Investments were \$1,578 million at December 31, 2015 (for more information see *Investments* herein). Goodwill and intangible assets increased \$190 million from December 31, 2014, primarily due to the BKCA, Infraestructura Institucional and FutureAdvisor acquisitions, partially offset by \$128 million of amortization of intangible assets. Other assets (including property, plant and equipment) increased \$284 million from December 31, 2014, primarily related to an increase in property and equipment, higher earnings from certain strategic investments, and an increase in current taxes receivable.

Liabilities. Accrued compensation and benefits at December 31, 2015 increased \$106 million from December 31, 2014, primarily due to 2015 incentive compensation accruals. Accounts payable and accrued liabilities at December 31, 2015 increased \$33 million from

December 31, 2014 due to higher unit trust payables (substantially offset by an increase in unit trust receivables recorded within accounts receivable) and increased accruals, partially offset by a decrease in current income taxes payable.

Net deferred income tax liabilities at December 31, 2015 decreased \$138 million, primarily due to the effects of temporary differences associated with stock compensation, the BKCA acquisition, realization of loss carryforwards, and goodwill and intangibles. Other liabilities increased \$147 million from December 31, 2014, primarily resulting from an increase in uncertain tax positions and consolidated funds liabilities.

Investments and Investments of Consolidated VIEs

The Company’s investments and investments of consolidated VIEs (collectively, “Total Investments”) were \$1,578 million and \$1,030 million, respectively, at December 31, 2015. Total Investments include consolidated investments held by sponsored investment funds accounted for as VREs and VIEs. Management reviews BlackRock’s Total Investments on an “economic” basis, which eliminates the portion of Total 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 Total Investments that is owned by the Company, net of NCI, as a gauge to measure the impact of changes in net nonoperating income (expense) 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. The economic impact of Total Investments held pursuant to deferred compensation arrangements is substantially offset by a change in compensation expense. The impact of certain 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.

	December 31, 2015	December 31, 2014
(in millions)		
Investments, GAAP	\$ 1,578	\$ 1,921
Investments held by consolidated VIEs, GAAP ⁽¹⁾	1,030	3,320
Total Investments	2,608	5,241
Investments held by consolidated VREs	(700)	(713)
Investments held by consolidated VIEs	(1,030)	(3,320)
Net interest in consolidated VREs	616	696
Net interest in consolidated VIEs ⁽²⁾	733	—
Total Investments, as adjusted	2,227	1,904
Federal Reserve Bank stock	(93)	(92)
Deferred compensation investments	(79)	(85)
Hedged investments	(407)	(323)
Carried interest (VIEs/VREs)	(100)	(85)
Total “economic” investment exposure	\$ 1,548	\$ 1,319

(1) Amounts represent investments held in sponsored investment funds that are consolidated in accordance with GAAP as either a VIE or VRE. See Note 2, *Significant Accounting Policies*, for further information on the Company’s consolidation policy and the 2015 adoption of ASU 2015-02.

(2) Amount includes \$81 million of carried interest (VIEs), which has no impact on the Company’s “economic” investment exposure.

The following table represents the carrying value of the Company’s economic investment exposure, by asset type, at December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
(in millions)		
Private equity	\$ 375	\$ 314
Real estate	91	117
Other alternatives ⁽¹⁾	240	289
Other investments ⁽²⁾	842	599
Total “economic” investment exposure	\$ 1,548	\$ 1,319

(1) Other alternatives include distressed credit/mortgage funds/opportunistic funds and hedge funds/funds of hedge funds.

(2) Other investments primarily include seed investments in fixed income, equity and multi-asset mutual funds/strategies as well as U.K. government securities, primarily held for regulatory purposes.

As adjusted investment activity for 2015 was as follows:

(in millions)

Total Investments, as adjusted, December 31, 2014	\$ 1,904
Purchases/capital contributions	1,300
Sales/maturities	(847)
Distributions ⁽¹⁾	(169)
Market appreciation(depreciation)/earnings from equity method investments	24
Carried interest capital allocations/distributions received	15
Total Investments, as adjusted, December 31, 2015	\$ 2,227

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

LIQUIDITY AND CAPITAL RESOURCES

BlackRock Cash Flows Excluding the Impact of Consolidated Sponsored Investment Funds

The consolidated statements of cash flows include the cash flows of the Consolidated Sponsored Investment Funds. The Company uses an adjusted cash flow statement, which excludes the impact of Consolidated Sponsored Investment Funds, 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, 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:

(in millions)

	GAAP Basis	Impact on Cash Flows of Consolidated Sponsored Investment Funds	Cash Flows Excluding Impact of Consolidated Sponsored Investment Funds
Cash and cash equivalents, December 31, 2013	\$ 4,390	\$ 114	\$ 4,276
Cash flows from operating activities	3,087	(534)	3,621
Cash flows from investing activities	239	(174)	413
Cash flows from financing activities	(1,861)	714	(2,575)
Effect of exchange rate changes on cash and cash equivalents	(132)	—	(132)
Net change in cash and cash equivalents	1,333	6	1,327
Cash and cash equivalents, December 31, 2014	\$ 5,723	\$ 120	\$ 5,603
Cash flows from operating activities	3,004	(348)	3,352
Cash flows from investing activities	(465)	(156)	(309)
Cash flows from financing activities	(2,064)	484	(2,548)
Effect of exchange rate changes on cash and cash equivalents	(115)	—	(115)
Net change in cash and cash equivalents	360	(20)	380
Cash and cash equivalents, December 31, 2015	\$ 6,083	\$ 100	\$ 5,983

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 expense, 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, 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 outflows from investing activities, excluding the impact of Consolidated Sponsored Investment Funds, for 2015 were \$309 million and primarily reflected \$412 million of investment purchases, \$221 million of purchases of property and equipment and \$273 million related to certain acquisitions, partially offset by \$531 million of net proceeds from sales and maturities of certain investments.

Cash outflows from financing activities, excluding the impact of Consolidated Sponsored Investment Funds, for 2015 were \$2,548 million, primarily resulting from \$1.3 billion of share repurchases, including \$1.1 billion in open-market transactions and \$231 million of employee tax withholdings related to employee stock transactions and \$1.5 billion of cash dividend payments, partially offset by \$126 million of proceeds from stock options and \$105 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, 2015 and 2014 were as follows:

(in millions)	December 31, 2015	December 31, 2014
Cash and cash equivalents ⁽¹⁾	\$ 6,083	\$ 5,723
Cash and cash equivalents held by consolidated sponsored investment funds, excluding VIEs ⁽²⁾	(100)	(120)
Subtotal	5,983	5,603
Credit facility — undrawn	4,000	3,990
Total liquidity resources ⁽³⁾	\$ 9,983	\$ 9,593

- (1) The percentage of cash and cash equivalents held by the Company's U.S. subsidiaries was approximately 50% at both December 31, 2015 and 2014. See *Net Capital Requirements* herein for more information on net capital requirements in certain regulated subsidiaries.
- (2) The Company cannot readily access such cash to use in its operating activities.
- (3) Amounts do not reflect year-end incentive compensation accruals of approximately \$1.5 billion and \$1.4 billion for 2015 and 2014, respectively, which were paid in February of the following year.

Total liquidity resources increased \$390 million during 2015, primarily reflecting cash from operations, partially offset by cash payments of 2014 year-end incentive awards, share repurchases of \$1.3 billion and cash dividend payments.

A significant portion of the Company's \$2,227 million of Total Investments, as adjusted, is illiquid in nature and, as such, cannot be readily convertible to cash.

Share Repurchases. The Company repurchased 3.1 million common shares in open market-transactions under the share repurchase program for approximately \$1.1 billion during 2015. At December 31, 2015, there were 6.3 million shares still authorized to be repurchased.

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, 2015 and 2014, 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. The Company was in compliance with all applicable regulatory net capital requirements.

Undistributed Earnings of Foreign Subsidiaries. As of December 31, 2015, the Company has not provided for U.S. federal and state income taxes on approximately \$4.7 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

2015 Revolving Credit Facility. In April 2015, the Company's credit facility was further amended to extend the maturity date to March 2020 and to increase the amount of the aggregate commitment to \$4.0 billion (the "2015 credit facility"). The 2015 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 2015 credit facility to an aggregate principal amount not to exceed \$5.0 billion. Interest on borrowings outstanding accrues at a rate based on the applicable London Interbank Offered Rate plus a spread. The 2015 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, 2015. The 2015 credit facility provides back-up liquidity to fund ongoing working capital for general corporate purposes and various investment opportunities. At December 31, 2015, the Company had no amount outstanding under the 2015 credit facility.

Commercial Paper Program. The maximum aggregate amount for 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 \$4.0 billion as amended in April 2015. The commercial paper program is currently supported by the 2015 credit facility. At December 31, 2015, BlackRock had no CP Notes outstanding.

Long-Term Borrowings.

The carrying value of long-term borrowings at December 31, 2015 included the following:

(in millions)	Maturity Amount	Carrying Value	Maturity
6.25% Notes	\$ 700	\$ 699	September 2017
5.00% Notes	1,000	997	December 2019
4.25% Notes	750	745	May 2021
3.375% Notes	750	744	June 2022
3.50% Notes	1,000	992	March 2024
1.25% Notes	760	753	May 2025
Total Long-term Borrowings	\$ 4,960	\$ 4,930	

During 2015, the Company fully repaid \$750 million of 1.375% notes at maturity. In May 2015, the Company issued €700 million of 1.25% senior unsecured notes maturing in May 2025. Upon conversion to U.S. dollars the Company designated the €700 million debt offering as a net

investment hedge to offset its currency exposure relating to its net investment in certain euro functional currency operations. 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, 2015:

(in millions)	2016	2017	2018	2019	2020	Thereafter	Total
Contractual obligations and commitments:							
Long-term borrowings:							
Principal	\$ —	\$ 700	\$ —	\$ 1,000	\$ —	\$ 3,260	\$ 4,960
Interest	196	196	152	152	102	224	1,022
Operating leases	134	133	131	125	120	560	1,203
Purchase obligations	79	50	2	—	—	—	131
Investment commitments	179	—	—	—	—	—	179
Total contractual obligations and commitments	588	1,079	285	1,277	222	4,044	7,495
Contingent obligations:							
Contingent distribution obligations	185	—	—	—	—	—	185
Contingent payments related to business acquisitions ⁽¹⁾	12	8	21	10	12	—	63
Total contractual obligations, commitments and contingent obligations⁽²⁾	\$ 785	\$ 1,087	\$ 306	\$ 1,287	\$ 234	\$ 4,044	\$ 7,743

(1) The amount of contingent payments reflected for any year represents the expected payment amounts using foreign currency exchange rates as of December 31, 2015 under the terms of the business acquisition's agreement. The fair value of the contingent obligations is not significant to the consolidated statement of financial condition and is recorded within other liabilities.

(2) At December 31, 2015, the Company had approximately \$350 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, 2015, the Company's obligations primarily reflected standard service contracts for portfolio services, market data, office-related services and third-party marketing and promotional services, and obligations for equipment. Purchase obligations are recorded on the consolidated financial statements when services are provided and, as such, obligations for services and equipment not received are not included in the consolidated statement of financial condition at December 31, 2015.

Investment Commitments. At December 31, 2015, the Company had \$179 million of various capital commitments to fund sponsored investment funds, including consolidated VIEs. These funds include private equity funds, real estate funds, infrastructure funds and opportunistic 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 \$179 million, the Company had approximately \$38 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 certain acquisitions, BlackRock is required to make contingent payments, subject to the acquired businesses achieving specified performance targets over a certain period, subsequent to the applicable acquisition date.

The fair value of the remaining aggregate contingent payments at December 31, 2015 is included in other liabilities and is not significant to the consolidated statement of financial condition.

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 Total Investments, or cash/cash of consolidated VIEs to the extent that it is distributed, and as a deferred carried interest liability/other liabilities of consolidated VIEs on its consolidated statements of financial condition. Carried interest is 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, 2015. 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 loss resulting from a borrower's failure to fulfill its obligations under the securities lending agreement should the value of the collateral pledged by the borrower at the time of default be insufficient to cover the borrower's obligation under the securities lending agreement. At December 31, 2015, the Company indemnified certain of its clients for their securities lending loan balances of approximately \$169.3 billion. The Company held, as agent, cash and securities totaling \$179.6 billion as collateral for indemnified securities on loan at December 31, 2015. The fair value of these indemnifications was not material at December 31, 2015.

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, 2015 totaled \$1,971 million and included incentive compensation of \$1,452 million, deferred compensation of \$266 million and other compensation and benefits related obligations of \$253 million. Substantially all of the incentive compensation liability was paid in the first quarter of 2016, while the deferred compensation obligations are generally payable over periods of up to five years.

Critical Accounting Policies

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

Consolidation

In the normal course of business, the Company is the manager of various types of sponsored investment vehicles. The Company performs an analysis for investment products to determine if the product is a VIE or a VRE. Assessing whether an entity is a VIE or a VRE involves judgment and analysis. Factors considered in this assessment include the entity's legal organization, the entity's capital structure and equity ownership, and any related party or de facto agent implications of the Company's involvement with the entity. Investments that are determined to be VREs are consolidated if the Company can exert control over the financial and operating policies of the investee, which generally exists if there is greater than 50% voting interest. See Note 4, *Consolidated Voting Right Entities*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K for more information. Investments that are determined to be VIEs are consolidated if the Company is the primary beneficiary ("PB") of the entity.

At December 31, 2015, BlackRock was determined to be the PB for certain investment products that were determined to be VIEs, which required BlackRock to consolidate them. BlackRock was deemed to be the PB because it has the power to direct the activities that most significantly impact the entities' economic performance and has the obligation to absorb losses or the right to receive benefits that potentially could be significant to the VIE. See Note 5, *Variable Interest Entities*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K for more information.

See Note 2, *Significant Accounting Policies — Accounting Pronouncements Adopted in 2015*, in the notes to the consolidated financial statements beginning on page F-1 of this Form 10-K for more information on ASU 2015-02.

Investments

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

BlackRock's equity method investees that are investment companies record their underlying investments at fair value. Therefore, under the equity method of accounting, BlackRock's share of the investee's underlying net income predominantly represents fair value adjustments in the investments held by the equity method investees. BlackRock's share of the investee's underlying net income or loss is based upon the most currently available information

and is recorded as nonoperating income (expense) for investments in investment companies, or as other revenue for certain strategic investments, which are recorded in other assets, since such investees are considered to be an extension of BlackRock's core business.

At December 31, 2015, the Company had \$527 million and \$265 million of equity method investments, including equity method investments held for deferred compensation, reflected within investments and other assets, respectively, and at December 31, 2014, the Company had \$654 million and \$208 million of equity method investees reflected in investments and other assets, respectively.

Impairments of Investments. Management periodically assesses equity method, available-for-sale, held-to-maturity and cost investments for other-than-temporary Impairment ("OTTI"). If an OTTI exists, an impairment charge is recorded in nonoperating income (expense) on the consolidated statements of the income.

For equity method, held-to-maturity and cost method investments, if circumstances indicate that an OTTI may exist, the investments are evaluated using market values, where available, or the expected future cash flows of the investment. If the Company determines an OTTI exists, an impairment charge is recognized for the excess of the carrying amount of the investment over its estimated fair value.

For available-for-sale securities, when the fair value is lower than cost, 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 fair 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. For equity securities, if the impairment is considered other-than-temporary, an impairment charge is recognized for the excess of the carrying amount of the investment over its fair value. 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 intends to sell the security or it is more likely than not that it will be required to sell the security, the entire difference between the amortized cost and fair value must be recognized in earnings. 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 an impairment related to credit, the credit loss will be bifurcated from the total decline in value and recorded in earnings with the remaining portion recorded in accumulated other comprehensive income.

For the Company's investments in CLOs, the Company reviews cash flow estimates over the life of each CLO investment. On a quarterly basis, if the present value of the estimated future cash flows is lower than the carrying value of the investment and there is an adverse change in estimated cash flows, an impairment is considered to be other-than-temporary. An impairment charge is recognized for the excess of the carrying amount of the investment over its estimated fair value.

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.

Changes in Valuation. Changes in value on \$2,261 million of Total Investments will impact the Company's nonoperating income (expense), \$44 million will impact accumulated other comprehensive income, \$203 million are held at cost or amortized cost and the remaining \$100 million relates to carried interest, which will not impact nonoperating income (expense). At December 31, 2015, changes in fair value of approximately \$1,649 million of such consolidated VIEs/VREs 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 \$1,268 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, 2015, ranged from 1 to 9 years with a weighted-average remaining estimated useful life of 3.7 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, 2015 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, 2015, the Company's common stock closed at \$340.52, which exceeded its book value of approximately \$172.12 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 used to determine the fair value of the indefinite-lived intangible asset. If an indefinite-lived intangible is determined to be more likely than not impaired, then the fair value of the asset is compared with its carrying value and any excess of the carrying value over the fair value would be recognized as an expense in the period in which the impairment occurs.

For finite-lived intangible assets, if potential impairment circumstances are considered to exist, the Company will perform a recoverability 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 carrying value of the asset is determined not to be recoverable based on the undiscounted cash flow test, 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 \$128 million, \$157 million and \$161 million for 2015, 2014 and 2013, respectively.

In 2015, 2014 and 2013, the Company performed impairment tests, including evaluating various qualitative factors and performing certain quantitative assessments. 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, 2015, BlackRock had \$466 million of gross unrecognized tax benefits, of which \$320 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, 2015, the Company had deferred tax assets of \$20 million and net deferred tax liabilities of approximately \$4,851 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.

The 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.

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 \$166 million and current income taxes payables of \$79 million at December 31, 2015.

Revenue Recognition

Investment advisory and administration fees are recognized as the services are performed. Such fees are primarily based on pre-determined percentages of the market value of AUM or, in the case of certain real estate clients, net operating income generated by the underlying properties. Investment advisory and administration fees are affected by changes in AUM, including market appreciation or depreciation, foreign exchange translation and net inflows or outflows. Investment advisory and administration fees for investment funds are shown net of fees waived pursuant to contractual expense limitations of the funds or voluntary waivers.

The Company contracts with third parties and related parties for various fund distribution and shareholder servicing to be performed on behalf of certain funds the Company manages. Such arrangements generally are priced as a portion of the management fee paid by the fund. In certain cases, the fund

takes on the primary responsibility for payment for services such that the Company bears no credit risk to the third-party. The Company accounts for such retrocession arrangements in accordance with ASC 605-45, *Revenue Recognition – Principal Agent Considerations* ("ASC 605-45"), and records its management fees net of retrocessions. Retrocessions for 2015, 2014 and 2013 were \$870 million, \$891 million and \$785 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 2015, 2014 and 2013, securities lending revenue earned by the Company totaled \$513 million, \$477 million and \$447 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 is allocated carried interest from certain alternative investment products upon exceeding performance thresholds. BlackRock may be required to reverse/return all, or part, of such carried interest allocations depending upon future performance of these funds. Therefore, BlackRock records carried interest subject to such clawback provisions in Total Investments or cash/cash of consolidated VIEs 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, 2015 and 2014, the Company had \$143 million and \$105 million, respectively, of deferred carried interest recorded in other liabilities/other liabilities of consolidated VIEs on the consolidated statements of financial condition. A portion of the deferred carried interest liability will be paid to certain employees. The ultimate timing of the recognition of performance fee revenue, if any, for these products is unknown.

The following table presents changes in the deferred carried interest liability (including the portion related to consolidated VIEs) for 2015 and 2014:

(in millions)	2015	2014
Beginning balance	\$ 105	\$ 108
Net increase (decrease)	69	69
Performance fee revenue recognized	(31)	(72)
Ending balance	\$ 143	\$ 105

For 2015, 2014 and 2013, performance fee revenue totaled \$621 million, \$550 million and \$561 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 2015, 2014 and 2013, *BlackRock Solutions* and advisory revenue totaled \$646 million, \$635 million and \$577 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 revenue until performance thresholds have been exceeded and the likelihood of clawback is mathematically improbable.

RECENT DEVELOPMENTS

In November 2015, the Company announced that it had entered an agreement to assume investment management responsibilities of approximately \$87 billion of cash assets under management from BofA® Global Capital Management, Bank of America’s asset management business. The transaction is expected to close in the first half of 2016, subject to customary regulatory approvals and closing conditions. This transaction is not expected to be material to the Company’s consolidated financial condition or results of operations.

Accounting Developments

For accounting pronouncements that the Company adopted during 2015 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, 2015, the majority of the Company’s investment advisory and administration

fees were based on average or period end AUM of the applicable investment funds or separate accounts. Movements in equity market prices, interest rates/credit spreads, foreign exchange rates or all three could cause the value of AUM to decline, which would result in lower investment advisory and administration fees.

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

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

BlackRock has investments primarily in sponsored investment products that invest in a variety of asset classes, including real estate, private equity and hedge funds. Investments generally are made for co-investment purposes, to establish a performance track record, to hedge exposure to certain deferred compensation plans or for regulatory purposes. Currently, the Company has a seed capital hedging program in which it enters into swaps to hedge market and interest rate exposure to certain investments. At December 31, 2015, the Company had outstanding total return swaps and interest rate swaps with an aggregate notional value of approximately \$360 million and \$46 million, respectively.

At December 31, 2015, approximately \$1.7 billion of BlackRock’s Total Investments were maintained in consolidated sponsored investment funds accounted for as VREs and VIEs. 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 \$1,548 million. See *Balance Sheet Overview-Investments and Investments of Consolidated VIEs* in Management’s Discussion and Analysis of Financial Condition and Results of Operations for further information on the Company’s Total Investments.

Equity Market Price Risk. At December 31, 2015, the Company’s net exposure to equity market price risk in its investment portfolio was approximately \$578 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 \$57.8 million in the carrying value of such investments.

Interest-Rate/Credit Spread Risk. At December 31, 2015, the Company was exposed to interest rate risk and credit spread risk as a result of approximately \$970 million of Total 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 \$14.6 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 \$343 million at December 31, 2015. A 10% adverse change in the applicable foreign exchange rates would result in approximately a \$34.3 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, 2015, the Company had outstanding forward foreign currency exchange contracts with an aggregate notional value of approximately \$169 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. There were no changes in our internal control over financial reporting that occurred during the fourth quarter of the fiscal year ending December 31, 2015 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.