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. ("BlackRock" or the "Company") is the world's largest publicly traded investment management firm. BlackRock has portfolio managers located around the world, including the United States, the United Kingdom, the Netherlands, Japan, Hong Kong, Singapore, Australia and Germany. At December 31, 2013, the Company managed $4.324 trillion of AUM on behalf of institutional and individual investors worldwide. The Company provides a wide array of products, including passively and actively managed products in various equity, fixed income, multi-asset, alternative investment and cash management products. BlackRock offers clients diversified access to global markets through separate accounts, collective investment trusts, open-end and closed-end mutual funds, exchange-traded products, hedge funds and funds of funds. BlackRock also provides global advisory services for private investment funds and retail products. The Company's non-U.S. investment funds are based in a number of domiciles and cover a range of asset classes, including equities, fixed income, cash management and alternatives. In addition, *BlackRock Solutions®* provides market risk management, financial markets advisory and enterprise investment system services to a broad base of clients. Financial markets advisory services include valuation services relating to illiquid securities, dispositions and workout assignments (including long-term portfolio liquidation assignments), risk management and strategic planning and execution.

In the United States, retail offerings include various open-end and closed-end funds, including *iShares®*, the global product leader in exchange-traded products for institutional, retail, including high net worth, investors. *iShares* global AUM totaled $914.4 billion at December 31, 2013. The BlackRock Global Funds, the Company's primary retail fund group offered outside the United States, are authorized for distribution in 35 jurisdictions worldwide. Additional fund offerings include structured products, real estate funds, hedge funds, hedge funds of funds, private equity funds and funds of funds, and managed futures funds. These products are sold to both U.S. and non-U.S., retail and institutional investors in a wide variety of active and passive strategies covering equity, fixed income and alternative assets.

BlackRock's client base consists of financial institutions and other corporate clients, pension plans, charities, official institutions, such as central banks, sovereign wealth funds, supranational authorities and other government entities and retail investors around the world. BlackRock maintains a significant sales and marketing presence both inside and outside the United States that is focused on establishing and maintaining retail and institutional investment management relationships by marketing its services to investors directly and through financial professionals, pension consultants and establishing third-party distribution relationships, including the distribution of BlackRock products and services through Merrill Lynch under a global distribution agreement, which was automatically renewed for a three-year extension after the initial term ending on January 1, 2014.

At December 31, 2013, PNC held 20.9% of the Company's voting common stock and 21.9% of the Company's capital stock, which includes outstanding common and nonvoting preferred stock.

Summarized financial information concerning the Company's results of operations for the years ended December 31, 2013 ("2013"), December 31, 2012 ("2012") and December 31, 2011 ("2011") is included below.

EXECUTIVE SUMMARY

(in millions, except per share data)	2013	2012	2011
GAAP basis:			
Total revenue	**$ 10,180**	$ 9,337	$ 9,081
Total expenses	**6,323**	5,813	5,832
Operating income	**$ 3,857**	$ 3,524	$ 3,249
Operating margin	**37.9%**	37.7%	35.8%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests[1]	**97**	(36)	(116)
Income tax expense	**(1,022)**	(1,030)	(796)
Net income attributable to BlackRock	**$ 2,932**	$ 2,458	$ 2,337
% attributable to common shares	**100.0%**	99.9%	99.1%
Net income attributable to common shares	**$ 2,932**	$ 2,455	$ 2,315
Diluted earnings per common share	**$ 16.87**	$ 13.79	$ 12.37
Effective tax rate	**25.8%**	29.5%	25.4%
As adjusted[2]:			
Total revenue	**$ 10,180**	$ 9,337	$ 9,081
Total expenses	**6,156**	5,763	5,689
Operating income	**$ 4,024**	$ 3,574	$ 3,392
Operating margin	**41.4%**	40.4%	39.7%
Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests[1]	**7**	(42)	(113)
Income tax expense	**(1,149)**	(1,094)	(1,040)
Net income attributable to BlackRock	**$ 2,882**	$ 2,438	$ 2,239
% attributable to common shares	**100.0%**	99.9%	99.1%
Net income attributable to common shares	**$ 2,882**	$ 2,435	$ 2,218
Diluted earnings per common share	**$ 16.58**	$ 13.68	$ 11.85
Effective tax rate	**28.5%**	31.0%	31.7%
Other:			
Assets under management (end of period)	**$ 4,324,088**	$ 3,791,588	$ 3,512,681
Diluted weighted-average common shares outstanding[3]	**173,828,902**	178,017,679	187,116,410
Shares outstanding (end of period)	**168,724,763**	171,215,729	178,309,109
Book value per share[4]	**$ 156.69**	$ 148.20	$ 140.07
Cash dividends declared and paid per share	**$ 6.72**	$ 6.00	$ 5.50

(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 stock is considered to be a common stock equivalent for purposes of determining basic and diluted earnings per share calculations. In addition, unvested restricted stock units ("RSUs") that contain nonforfeitable rights to dividends are not included for 2012 and 2011 as they were deemed to be participating securities in accordance with accounting principles generally accepted in the United States ("GAAP"). Upon vesting of the participating RSUs, the shares were added to the weighted-average shares outstanding that resulted in an increase to the percentage of net income attributable to common shares. The Company's remaining participating securities vested in January 2013.

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

2013 COMPARED WITH 2012

GAAP. Operating income of $3,857 million increased $333 million from 2012. In the second quarter of 2013, as a result of an initial public offering of PennyMac Financial Services, Inc. (the "PennyMac IPO"), the Company recorded a noncash, nonoperating pre-tax gain of $39 million related to the carrying value of its equity method investment. Subsequent to the PennyMac IPO, the Company made a charitable contribution of 6.1 million units of its equity method investment with a fair value of $124 million to a new 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. For further information, see Note 11, *Other Assets*, to the consolidated financial statements.

Operating income reflects growth in base fees and strong performance fees and higher *BlackRock Solutions* and advisory revenue, partially offset by higher expenses, primarily due to the $124 million expense related to the Charitable Contribution and higher revenue-related expenses. The results for 2013 also included $43 million of organizational alignment costs, reflecting compensation and severance costs associated with the alignment of staffing with the Company's strategic priorities and growth opportunities. Operating income in 2012 included a $30 million charge related to a contribution to certain of the Company's bank-managed short-term investment funds ("STIFs"). Nonoperating income (expense), less net income (loss) attributable to NCI increased $133 million due to the $39 million pre-tax gain related to the PennyMac IPO and the $80 million gain related to the Charitable Contribution and higher net positive marks on investments during 2013 compared with 2012. Income tax expense included a $69 million net noncash benefit for 2013 and a $30 million net noncash benefit for 2012. The net noncash benefits for both periods primarily related to the revaluation of certain deferred income tax liabilities, including the effect of legislation enacted in the United Kingdom and domestic state and local income tax changes. In addition, 2013 income tax expense included an approximately $48 million tax benefit recognized in connection with the Charitable Contribution, a tax benefit of approximately $29 million, primarily due to the realization of tax loss carryforwards and benefits from certain nonrecurring items. Earnings per diluted common share rose $3.08, or 22%, compared with 2012 due to higher net income and the benefit of share repurchases.

As Adjusted. Operating income of $4,024 million and operating margin of 41.4% increased $450 million and 100 basis points, respectively, from 2012. The current year results included the previously mentioned organizational alignment costs of $43 million and the $39 million pre-tax gain related to the PennyMac IPO. Income tax expense on an as adjusted basis included a tax benefit of approximately $29 million, primarily due to the realization of tax loss carryforwards, and benefits from certain nonrecurring items and excluded the $69 million net noncash benefit in 2013 and the $30 million net noncash benefit in 2012 described above. Earnings per diluted common share rose $2.90, or 21%, from 2012. The financial impact related to the Charitable Contribution has been excluded from as adjusted results for 2013.

2012 COMPARED WITH 2011

GAAP. Operating income of $3,524 million and operating margin of 37.7% increased $275 million and 190 basis points, respectively, from 2011 reflecting growth in base fees and higher performance fees. Operating income in 2012 included a $30 million charge related to the contribution to the Company's STIFs. Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests, increased $80 million due to higher net positive marks on investments in 2012 compared with 2011, partially offset by higher interest expense resulting from long-term debt issuances in May 2012 and May 2011. In 2012, income tax expense included a $21 million benefit related to the resolution of certain outstanding tax positions and a $50 million net noncash benefit related to the revaluation of certain deferred income tax liabilities, including the effect of tax legislation enacted in the United Kingdom and the state and local income tax effect resulting from changes in the Company's organizational structure. In 2011, income tax expenses included a $24 million benefit related to the resolution of certain outstanding tax positions and $198 million of net noncash tax benefits due to a state tax election and enacted U.K., Japan, U.S. state and local tax legislation. Earnings per diluted common share rose $1.42 from 2011 due to higher net income and the benefit of share repurchases. During 2012, the Company repurchased 9.1 million shares.

As Adjusted. Operating income of $3,574 million and operating margin of 40.4% increased $182 million and 70 basis points, respectively, from 2011 reflecting higher revenues. Operating income on an as adjusted basis excluded non-GAAP expense adjustments totaling $50 million in 2012 and $143 million in 2011. Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests, increased $71 million. Income tax expense on an as adjusted basis excluded the $50 million and $198 million noncash benefits for 2012 and 2011, respectively, described above. Earnings per diluted common share rose $1.83 from 2011 reflecting the improvement in net income and the benefit of share repurchases.

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

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

BUSINESS OUTLOOK

BlackRock's highly diversified multi-product platform was created to meet the needs of its clients in all market environments. BlackRock is positioned to provide active and passive investment solutions across asset classes and geographies and leverage *BlackRock Solutions'* world-class risk management, analytics and advisory capabilities on behalf of clients.

BlackRock's key client themes — Income, Alternatives, Outcome Investing, Strategic Beta, Emerging Markets and Retirement Solutions — are expected to drive the Company's organic growth across its businesses.

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

iShares will be driven by the continued shift from active to passive investment strategies and adoption of ETFs. *iShares* is positioned to benefit from global market expansion, growth in fixed income ETFs and continued product innovation, while focusing on increasing U.S. market share, especially in the "buy-and-hold" segment.

BlackRock believes Institutional results will be driven by strength in specialty areas, including Defined Contribution, Financial Institutions and Official Institutions, more effective cross-selling efforts and leveraging *BlackRock Solutions'* analytical and risk management expertise.

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

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

NON-GAAP FINANCIAL MEASURES

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

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

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

Operating income, as adjusted, equals operating income, GAAP basis, excluding certain items management deems nonrecurring, recurring infrequently or transactions that ultimately will not impact BlackRock's book value, as indicated in the table below. 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)	**2013**	**2012**	**2011**
Operating income, GAAP basis	**$ 3,857**	$ 3,524	$ 3,249
Non-GAAP expense adjustments:			
PNC LTIP funding obligation	**33**	22	44
Charitable Contribution	**124**	—	—
U.K. lease exit costs	**—**	(8)	63
Contribution to STIFs	**—**	30	—
Merrill Lynch compensation contribution	**—**	—	7
Restructuring charges	**—**	—	32
Compensation expense related to appreciation (depreciation) on deferred compensation plans	**10**	6	(3)
Operating income, as adjusted	**4,024**	3,574	3,392
Closed-end fund launch costs	**16**	22	26
Closed-end fund launch commissions	**2**	3	3
Operating income used for operating margin measurement	**$ 4,042**	$ 3,599	$ 3,421
Revenue, GAAP basis	**$ 10,180**	$ 9,337	$ 9,081
Non-GAAP adjustments:			
Distribution and servicing costs	**(353)**	(364)	(386)
Amortization of deferred sales commissions	**(52)**	(55)	(81)
Revenue used for operating margin measurement	**$ 9,775**	$ 8,918	$ 8,614
Operating margin, GAAP basis	**37.9%**	37.7%	35.8%
Operating margin, as adjusted	**41.4%**	40.4%	39.7%

- **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 and a Merrill Lynch & Co., Inc. ("Merrill Lynch") cash compensation contribution has been excluded because it ultimately does not impact BlackRock's book value. The expense related to the Merrill Lynch cash compensation contribution ceased at the end of third quarter 2011. In 2013, the $124 million expense related to the Charitable Contribution has been excluded from operating income, as adjusted, due to its nonrecurring nature and because the noncash, nonoperating pre-tax gain of $80 million directly related to the contributed PennyMac investment is reported in nonoperating income (expense). The U.K. lease exit costs represent costs to exit two locations in London in 2011. The amount in 2012 represents an adjustment related to the estimated lease exit costs initially recorded in 2011. The contribution to STIFs represents a contribution to certain of the Company's bank-managed STIFs. Restructuring charges consist of compensation costs and professional fees. Compensation expense associated with appreciation (depreciation) on investments related to certain BlackRock deferred compensation plans has been excluded as returns on investments set aside for these plans, which substantially offset this expense, are reported in nonoperating income (expense).

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

- ***Operating margin, as adjusted*****,** allows BlackRock to compare performance from period to period by adjusting for items that may not recur, recur infrequently or may have an economic offset in

nonoperating income (expense). BlackRock also uses operating margin, as adjusted, to monitor corporate performance and efficiency and as a benchmark to compare its performance with other companies. Management uses both GAAP and non-GAAP financial measures in evaluating BlackRock's financial performance. The non-GAAP measure by itself may pose limitations because it does not include all of BlackRock's revenues and expenses.

Operating income used for measuring operating margin, as adjusted, is equal to operating income, as adjusted, excluding the impact of closed-end fund launch costs and related commissions. Management believes the exclusion of such costs and related commissions is useful because these costs can fluctuate considerably and revenues 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 revenues.

(b) Nonoperating income (expense), less net income (loss) attributable to noncontrolling interests, as adjusted, is presented below. The compensation expense offset is recorded in operating income. This compensation expense has been included in nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted, to offset returns on investments set aside for these plans, which are reported in nonoperating income (expense), GAAP basis.

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

(in millions)	**2013**	2012	2011
Nonoperating income (expense), GAAP basis	**$ 116**	$ (54)	$ (114)
Less: Net income (loss) attributable to NCI	**19**	(18)	2
Nonoperating income (expense)	**97**	(36)	(116)
Gain related to Charitable Contribution	**(80)**	—	—
Compensation expense related to (appreciation) depreciation on deferred compensation plans	**(10)**	(6)	3
Nonoperating income (expense), less net income (loss) attributable to NCI, as adjusted	**$ 7**	$ (42)	$ (113)

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

See note (a) Operating income, as adjusted, and operating margin, as adjusted, for information on the PNC LTIP funding obligation, Merrill Lynch compensation contribution, Charitable Contribution, U.K. lease exit costs, contribution to STIFs and restructuring charges.

The 2013 results 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. During 2013, income tax changes included adjustments related to the revaluation of certain deferred income tax liabilities, including the effect of legislation enacted in the United Kingdom and domestic state and local income tax changes. During 2012, income tax changes included adjustments related to the revaluation of certain deferred income tax liabilities, including the effect of legislation enacted in the United Kingdom and the state and local income tax effect resulting from changes in the Company's organizational structure. During 2011, income tax changes included adjustments related to the revaluation of certain deferred income tax liabilities due to a state tax election and enacted U.K., Japan, U.S. state and local tax legislation. The resulting decrease in income taxes has been excluded from net income attributable to BlackRock, Inc., as adjusted, as these items will not have a cash flow impact and to ensure comparability among periods presented.

(in millions, except per share data)	2013	2012	2011
Net income attributable to BlackRock, GAAP basis	**$ 2,932**	$ 2,458	$ 2,337
Non-GAAP adjustments, net of tax:[d]			
PNC LTIP funding obligation	**23**	14	30
Amount related to the Charitable Contribution	**(4)**	—	—
U.K. lease exit costs	**—**	(5)	43
Contribution to STIFs	**—**	21	—
Merrill Lynch compensation contribution	**—**	—	5
Restructuring charges	**—**	—	22
Income tax changes	**(69)**	(50)	(198)
Net income attributable to BlackRock, as adjusted	**$ 2,882**	$ 2,438	$ 2,239
Allocation of net income, as adjusted, to common shares[e]	**$ 2,882**	$ 2,435	$ 2,218
Diluted weighted-average common shares outstanding[f]	**173.8**	178.0	187.1
Diluted earnings per common share, GAAP basis[f]	**$ 16.87**	$ 13.79	$ 12.37
Diluted earnings per common share, as adjusted[f]	**$ 16.58**	$ 13.68	$ 11.85

(d) For each period presented, the non-GAAP adjustments, including the PNC LTIP funding obligation, Merrill Lynch compensation contribution, U.K. lease exit costs, contribution to STIFs and restructuring charges were tax effected at the respective blended rates applicable to the adjustments. Amounts for 2013 also included the tax benefit of approximately $48 million related to the Charitable Contribution.

(e) Amounts for 2012 and 2011 exclude net income attributable to participating securities (see below).

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

Prior to 2013, certain unvested restricted stock units were not included in diluted weighted-average common shares outstanding as they were deemed participating securities in accordance with required provisions of Accounting Standards Codification ("ASC") 260-10, *Earnings per Share*. In 2012 and 2011, average outstanding participating securities were 0.2 million and 1.8 million, respectively. For further information, see Note 22, *Earnings per Share*, to the consolidated financial statements.

Assets Under Management

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

AUM and Net Subscriptions (Redemptions) by Client Type

	AUM			Net Subscriptions (Redemptions)		
(in millions)	2013	2012	2011	2013	2012[1]	2011[2]
Retail	**$ 487,777**	$ 403,484	$ 363,359	$ 38,804	$ 11,556	$ 13,409
iShares	**914,372**	752,706	593,356	63,971	85,167	53,000
Institutional:						
Active	**932,410**	884,695	831,275	(928)	(24,046)	(16,897)
Index	**1,677,650**	1,441,481	1,349,956	15,266	(75,142)	17,837
Total institutional	**2,610,060**	2,326,176	2,181,231	14,338	(99,188)	940
Total long-term	**4,012,209**	**3,482,366**	**3,137,946**	**117,113**	**(2,465)**	**67,349**
Cash management	**275,554**	263,743	254,665	10,056	5,048	(22,899)
Advisory[3]	**36,325**	45,479	120,070	(7,442)	(74,540)	(29,903)
Total	**$ 4,324,088**	**$ 3,791,588**	**$ 3,512,681**	**$ 119,727**	**$ (71,957)**	**$ 14,547**

AUM and Net Subscriptions (Redemptions) by Product Type

	AUM			Net Subscriptions (Redemptions)		
(in millions)	2013	2012	2011	2013	2012[1]	2011[2]
Equity	**$ 2,317,695**	$ 1,845,501	$ 1,560,106	$ 69,257	$ 54,016	$ 24,139
Fixed income	**1,242,186**	1,259,322	1,247,722	11,508	(66,829)	4,326
Multi-asset	**341,214**	267,748	225,170	42,298	15,817	42,654
Alternatives						
Core	**85,026**	68,367	63,647	2,703	(3,922)	48
Currency and commodities[4]	**26,088**	41,428	41,301	(8,653)	(1,547)	(3,818)
Subtotal	**111,114**	109,795	104,948	(5,950)	(5,469)	(3,770)
Total long-term	**4,012,209**	**3,482,366**	**3,137,946**	**117,113**	**(2,465)**	**67,349**
Cash management	**275,554**	263,743	254,665	10,056	5,048	(22,899)
Advisory[3]	**36,325**	45,479	120,070	(7,442)	(74,540)	(29,903)
Total	**$ 4,324,088**	**$ 3,791,588**	**$ 3,512,681**	**$ 119,727**	**$ (71,957)**	**$ 14,547**

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

(2) Amounts exclude BGI merger-related outflows due to manager concentration considerations prior to the third quarter of 2011 and outflows from scientific active equity performance prior to the second quarter of 2011 of $28.3 billion. As a result of client investment manager concentration limits and the scientific active equity performance, outflows were expected to occur for a period of time subsequent to the close of the BGI transaction.

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

(4) Amounts include commodity *iShares*.

The following table presents the component changes in BlackRock's AUM for 2013, 2012 and 2011.

	December 31,		
(in millions)	2013	2012	2011
Beginning assets under management	**$ 3,791,588**	$ 3,512,681	$ 3,560,968
Net subscriptions (redemptions)			
Long-term[1]	**117,113**	(2,465)	67,349
Cash management	**10,056**	5,048	(22,899)
Advisory[2]	**(7,442)**	(74,540)	(29,903)
Total net subscriptions (redemptions)	**119,727**	(71,957)	14,547
BGI merger-related outflows[3]	**—**	—	(28,251)
Acquisitions[4]	**26,932**	13,742	—
Market appreciation (depreciation)	**398,707**	321,377	(27,513)
Foreign exchange[5]	**(12,866)**	15,745	(7,070)
Total change	**532,500**	278,907	(48,287)
Ending assets under management	**$ 4,324,088**	$ 3,791,588	$ 3,512,681

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

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

(3) Amounts include outflows due to manager concentration considerations prior to the third quarter of 2011 and outflows from scientific active equity performance prior to the second quarter of 2011. As a result of client investment manager concentration limits and the scientific active equity performance, outflows were expected to occur for a period of time subsequent to the close of the BGI transaction.

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

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

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

Component Changes in AUM for 2013

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

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

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

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

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

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

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

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

(in millions)	December 31, 2012	Net subscriptions (redemptions)	Adjustments[1]	Acquisitions[2]	Market change	FX impact[3]	December 31, 2013	Full Year Average AUM[4]
Equity:								
Active	$ 287,215	$ (15,377)	$ —	$ —	$ 46,530	$ (1,106)	**$ 317,262**	$ 295,776
iShares	534,648	74,119	—	13,021	95,335	1,012	**718,135**	620,113
Fixed income:								
Active	656,331	10,443	—	—	(11,584)	(2,981)	**652,209**	648,143
iShares	192,852	(7,450)	—	1,294	(8,477)	616	**178,835**	186,264
Multi-asset	267,748	42,298	5,998	—	23,804	1,366	**341,214**	297,262
Alternatives:								
Core	68,367	2,703	—	10,972	3,012	(28)	**85,026**	73,827
Currency and commodities[6]	41,428	(8,653)	—	1,645	(7,405)	(927)	**26,088**	32,646
Subtotal	**2,048,589**	**98,083**	**5,998**	**26,932**	**141,215**	**(2,048)**	**2,318,769**	**2,154,031**
Non-ETF Index:								
Equity	1,023,638	10,515	(5,172)	—	262,476	(9,159)	**1,282,298**	1,154,863
Fixed income	410,139	8,515	(826)	—	(4,841)	(1,845)	**411,142**	406,057
Subtotal Non-ETF Index	**1,433,777**	**19,030**	**(5,998)**	—	257,635	**(11,004)**	**1,693,440**	**1,560,920**
Long-term	**3,482,366**	**117,113**	—	**26,932**	**398,850**	**(13,052)**	**4,012,209**	**$ 3,714,951**
Cash management	263,743	10,056	—	—	395	1,360	**275,554**	
Advisory[5]	45,479	(7,442)	—	—	(538)	(1,174)	**36,325**	
Total	**$ 3,791,588**	**$ 119,727**	**$ —**	**$ 26,932**	**$ 398,707**	**$ (12,866)**	**$ 4,324,088**	

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

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

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

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

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

(6) Amounts include commodity *iShares*.

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

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

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

The following table presents the component changes in AUM by client type and product for 2012.

(in millions)	December 31, 2011	Net subscriptions (redemptions)(1)	Acquisitions(2)	Market change	FX impact(3)	December 31, 2012
Retail:						
Equity	$ 156,412	$ (5,359)	$ 68	$ 12,835	$ 792	$ 164,748
Fixed income	115,055	15,965	—	7,350	55	138,425
Multi-asset	82,785	630	—	7,146	65	90,626
Alternatives	9,107	320	164	16	78	9,685
Retail subtotal	363,359	11,556	232	27,347	990	403,484
iShares:						
Equity	419,651	52,973	3,517	56,433	2,074	534,648
Fixed income	153,802	28,785	3,026	6,325	914	192,852
Multi-asset	562	178	78	50	1	869
Alternatives	19,341	3,231	701	1,047	17	24,337
iShares subtotal	593,356	85,167	7,322	63,855	3,006	752,706
Institutional:						
Active:						
Equity	125,515	(14,139)	—	16,766	882	129,024
Fixed income	499,927	(15,060)	—	33,179	56	518,102
Multi-asset	135,678	12,333	—	16,826	1,871	166,708
Alternatives	70,155	(7,180)	6,161	2,284	(559)	70,861
Active subtotal	831,275	(24,046)	6,161	69,055	2,250	884,695
Index:						
Equity	858,528	20,541	27	137,679	306	1,017,081
Fixed income	478,938	(96,519)	—	20,986	6,538	409,943
Multi-asset	6,145	2,676	—	1,050	(326)	9,545
Alternatives	6,345	(1,840)	—	226	181	4,912
Index subtotal	1,349,956	(75,142)	27	159,941	6,699	1,441,481
Institutional subtotal	2,181,231	(99,188)	6,188	228,996	8,949	2,326,176
Long-term	**3,137,946**	**(2,465)**	**13,742**	**320,198**	**12,945**	**3,482,366**
Cash management	254,665	5,048	—	1,983	2,047	263,743
Advisory(4)	120,070	(74,540)	—	(804)	753	45,479
Total	**$ 3,512,681**	**$ (71,957)**	**$ 13,742**	**$ 321,377**	**$ 15,745**	**$ 3,791,588**

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

(2) Amounts represent AUM acquired in the SRPEP Transaction in September 2012 of $6.2 billion and the Claymore Transaction in March 2012 of $7.6 billion.

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

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

The following table presents component changes in AUM by product for 2012.

(in millions)	December 31, 2011	Net subscriptions (redemptions)[1]	Acquisitions[2]	Market change	FX impact[3]	December 31, 2012
Equity:						
Active	$ 275,156	$ (18,111)	$ —	$ 28,550	$ 1,620	$ 287,215
iShares	419,651	52,973	3,517	56,433	2,074	534,648
Fixed income:						
Active	614,804	892	—	40,524	111	656,331
iShares	153,802	28,785	3,026	6,325	914	192,852
Multi-asset	225,170	15,817	78	25,072	1,611	267,748
Alternatives:						
Core	63,647	(3,922)	6,166	2,266	210	68,367
Currency and commodities[4]	41,301	(1,547)	860	1,307	(493)	41,428
Subtotal	**1,793,531**	**74,887**	**13,647**	**160,477**	**6,047**	**2,048,589**
Non-ETF Index:						
Equity	865,299	19,154	95	138,730	360	1,023,638
Fixed income	479,116	(96,506)	—	20,991	6,538	410,139
Subtotal Non-ETF Index	**1,344,415**	**(77,352)**	**95**	**159,721**	**6,898**	**1,433,777**
Long-term	**3,137,946**	**(2,465)**	**13,742**	**320,198**	**12,945**	**3,482,366**
Cash management	254,665	5,048	—	1,983	2,047	263,743
Advisory[5]	120,070	(74,540)	—	(804)	753	45,479
Total	**$ 3,512,681**	**$ (71,957)**	**$ 13,742**	**$ 321,377**	**$ 15,745**	**$ 3,791,588**

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

(2) Amounts represent AUM acquired in the SRPEP Transaction in September 2012 of $6.2 billion and Claymore Transaction in March 2012 of $7.6 billion.

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

(4) Amounts include commodity *iShares*.

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

AUM increased $278.9 billion, or 8%, to $3.792 trillion at December 31, 2012 from $3.513 trillion at December 31, 2011. The increase in AUM was driven largely by market gains and positive net new business, excluding the effect of two single client low-fee, institutional index fixed income outflows of $36.0 billion and $74.2 billion in the first quarter of 2012 and the third quarter of 2012, respectively. Total flows included $74.5 billion of planned advisory distributions and acquired AUM related to the SRPEP and the Claymore Transactions of $13.7 billion.

Net market appreciation of $321.4 billion reflected growth in U.S. and global equity markets and $67.8 billion appreciation in fixed income products across the majority of strategies.

The $15.7 billion net increase in AUM from converting non-U.S. dollar denominated AUM into U.S. dollars was primarily due to the weakening of the U.S. dollar against the pound sterling and the euro, partially offset by the strengthening of the U.S. dollar against 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 subscriptions or redemptions. Net subscriptions or redemptions represent the sum of new client assets, additional fundings from existing clients (including dividend reinvestment), withdrawals of assets from, and termination of, client accounts and distributions to investors representing return of capital and return on investments to investors. Market appreciation or depreciation includes current income earned on, and changes in the fair value of, securities held in client accounts. Foreign exchange translation reflects the impact of converting non-U.S. dollar denominated AUM into U.S. dollars for reporting purposes.

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

Investment advisory agreements for certain separate accounts and investment funds provide for performance fees based upon relative and/or absolute investment performance, in addition to base fees based on AUM. Investment advisory performance fees generally are earned after a given period of time and when investment performance exceeds a contractual threshold. As such, the

timing of recognition of performance fees may increase the volatility of BlackRock's revenue and earnings. Historically, the magnitude of performance fees in the third and fourth quarters generally exceeds that of the first two calendar quarters in a year due to the greater number of 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 expenses reflect employee compensation and benefits, distribution and servicing costs, amortization of deferred sales commissions, direct fund expenses, general and administration expenses 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 expenses primarily consist of third-party nonadvisory expenses 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 expenses, audit and tax services as well as other fund-related expenses 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 expenses include marketing and promotional, occupancy and office-related costs, portfolio services (including clearing expenses related to transition management services), technology, professional services, communications, closed-end fund launch costs and other general and administration expenses, including the impact of foreign currency remeasurement.

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, distressed credit/mortgage debt securities, hedge funds and real estate. Investments generally are made for co-investment purposes, to establish a performance track record, to hedge exposure to certain deferred compensation plans or for regulatory purposes, including Federal Reserve Bank stock. BlackRock does not engage in proprietary trading activities that could conflict with the interests of its clients.

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

Revenue

(in millions)	2013	2012	2011
Investment advisory, administration fees and securities lending revenue:			
Equity:			
Active	**$ 1,741**	$ 1,753	$ 1,967
iShares	**2,390**	1,941	1,847
Fixed income:			
Active	**1,269**	1,182	1,104
iShares	**464**	441	317
Multi-asset	**1,039**	957	894
Alternatives:			
Core	**576**	525	557
Currency and commodities	**107**	131	136
Subtotal	**7,586**	6,930	6,822
Non-ETF Index:			
Equity	**594**	552	488
Fixed income	**238**	229	203
Subtotal Non-ETF Index	**832**	781	691
Long-term	**8,418**	7,711	7,513
Cash management	**321**	361	383
Total base fees	**8,739**	8,072	7,896
Investment advisory performance fees:			
Equity	**91**	88	145
Fixed income	**25**	48	35
Multi-asset	**24**	15	20
Alternatives	**421**	312	171
Total	**561**	463	371
BlackRock Solutions and advisory	**577**	518	510
Distribution fees	**73**	71	100
Other revenue	**230**	213	204
Total revenue	**$ 10,180**	$ 9,337	$ 9,081

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

	Mix of Base Fees			Mix of Average AUM by Asset Class[1]		
	2013	2012	2011	2013	2012	2011
Equity:						
Active	**20%**	22%	25%	**7%**	8%	9%
iShares	**26%**	23%	23%	**16%**	13%	13%
Fixed income:						
Active	**15%**	15%	14%	**16%**	18%	19%
iShares	**5%**	5%	4%	**5%**	5%	4%
Multi-asset	**12%**	12%	11%	**7%**	7%	6%
Alternatives:						
Core	**7%**	7%	7%	**2%**	2%	2%
Currency and commodities	**1%**	2%	2%	**1%**	1%	1%
Subtotal	**86%**	86%	86%	**54%**	54%	54%
Non-ETF Index:						
Equity	**7%**	7%	6%	**29%**	26%	26%
Fixed income	**3%**	3%	3%	**10%**	13%	13%
Subtotal Non-ETF Index:	**10%**	10%	9%	**39%**	39%	39%
Long-term	**96%**	**96%**	**95%**	**93%**	**93%**	**93%**
Cash management	**4%**	4%	5%	**7%**	7%	7%
Total excluding Advisory AUM	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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

2013 Compared with 2012

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

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

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

BlackRock Solutions and advisory revenue in 2013 totaled $577 million compared with $518 million in 2012. The current year reflected a $47 million increase in *Aladdin* business revenues to $421 million and higher advisory assignments revenue.

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

2012 Compared with 2011

Revenues increased $256 million, or 3%, from 2011 reflecting market growth, positive flows, improvements in securities lending revenue and strength in performance fees.

Investment advisory, administration fees and securities lending revenue totaled $8,072 million in 2012 compared with $7,896 million in 2011, reflecting an improvement in securities lending revenue and higher advisory fees reflecting higher long-term average AUM. Securities lending fees were $510 million in 2012 compared with $397 million in 2011, reflecting higher lending rates and an increase in average balances of securities on loan.

Investment advisory performance fees were $463 million in 2012 compared with $371 million in 2011, primarily reflecting higher performance fees from alternative products, including fees from a disposition-related opportunistic fund, which were partially offset by lower fees from equity products.

BlackRock Solutions and advisory revenue in 2012 increased $8 million, or 2%, from 2011, primarily due to a $51 million increase in *Aladdin* business revenue to $374 million, partially offset by the run off of revenues associated with a lower level of advisory assets and lower one-time revenue from advisory assignments.

Distribution fees of $71 million in 2012 decreased $29 million, or 29%, from $100 million in 2011, primarily due to lower AUM in certain share classes of BlackRock funds.

Other revenue increased $9 million, largely reflecting higher earnings from certain strategic investments, partially offset by lower sales commissions and marketing fees earned for services to distribute *iPath*® products.

Expenses

(in millions)	2013	2012	2011
Expenses, GAAP:			
Employee compensation and benefits	**$ 3,560**	$ 3,287	$ 3,199
Distribution and servicing costs	**353**	364	386
Amortization of deferred sales commissions	**52**	55	81
Direct fund expenses	**657**	591	563
General and administration:			
Marketing and promotional	**409**	384	315
Occupancy and office related	**277**	248	373
Portfolio services	**203**	196	189
Technology	**160**	150	146
Professional services	**128**	114	139
Communications	**37**	39	40
Regulatory, filing and license fees	**31**	17	16
Charitable Contribution	**124**	—	—
Closed-end fund launch costs	**16**	22	26
Other general and administration	**155**	189	171
Total general and administration expenses	**1,540**	1,359	1,415
Restructuring charges	**—**	—	32
Amortization of intangible assets	**161**	157	156
Total expenses, GAAP	**$ 6,323**	**$ 5,813**	**$ 5,832**
Less non-GAAP expense adjustments:			
Employee compensation and benefits:			
PNC LTIP funding obligation	**33**	22	44
Merrill Lynch compensation contribution	**—**	—	7
Compensation expense related to appreciation (depreciation) on deferred compensation plans	**10**	6	(3)
Subtotal	**43**	28	48
General and administration:			
Charitable Contribution	**124**	—	—
U.K. lease exit costs	**—**	(8)	63
Contribution to STIFs	**—**	30	—
Subtotal	**124**	22	63
Restructuring charges	**—**	—	32
Total non-GAAP expense adjustments	**167**	**50**	**143**
Expenses, as adjusted:			
Employee compensation and benefits	**3,517**	3,259	3,151
Distribution and servicing costs	**353**	364	386
Amortization of deferred sales commissions	**52**	55	81
Direct fund expenses	**657**	591	563
General and administration	**1,416**	1,337	1,352
Amortization of intangible assets	**161**	157	156
Total expenses, as adjusted	**$ 6,156**	**$ 5,763**	**$ 5,689**

2013 Compared with 2012

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

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

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

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

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

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

2012 Compared with 2011

GAAP. Expenses decreased $19 million to $5,813 million from 2011, primarily reflecting a reduction in general and administration expenses, amortization of deferred sales commissions and distribution and servicing costs, partially offset by higher employee compensation and benefits and direct fund expenses. General and administration expenses in 2012 included a $30 million charge related to a contribution to STIFs.

Employee compensation and benefits expense increased $88 million, or 3%, to $3,287 million in 2012 from $3,199 million in 2011, reflecting an increase in incentive compensation driven by higher operating income, including higher performance fees. Employees at December 31, 2012 totaled approximately 10,500 compared with approximately 10,100 at December 31, 2011.

Distribution and servicing costs decreased $22 million, or 6%, to $364 million in 2012 from $386 million in 2011. The $22 million decrease related to lower service fees from variable annuities and lower cash management-related distribution costs. Distribution and servicing costs for 2012 and 2011 included $195 million and $207 million, respectively, of costs attributable to Bank of America/Merrill Lynch.

Amortization of deferred sales commissions decreased $26 million, or 32%, to $55 million in 2012 from $81 million in 2011, primarily related to lower sales in certain share classes of U.S. open-end mutual funds.

Direct fund expenses increased $28 million from 2011 million, primarily reflecting growth in average AUM for the funds (predominantly iShares) where BlackRock pays certain nonadvisory expenses of the funds.

General and administration expenses decreased $56 million, or 4%, to $1,359 million in 2012 from $1,415 million in 2011. Lower occupancy and office-related expenses, primarily due to $63 million of U.K. lease exit costs incurred in 2011, and lower professional services costs contributed to the overall net decrease in general and administration expenses. The decrease in general and administration expenses was partially offset by higher marketing and promotional expenses in connection with the brand campaign and a one-time contribution to STIFs.

Restructuring charges of $32 million recorded in 2011, primarily related to severance, accelerated amortization of certain previously granted stock awards, and legal and outplacement costs associated with a reduction in work force and reengineering efforts.

As Adjusted. Expenses, as adjusted, increased $74 million, or 1%, to $5,763 million in 2012 from $5,689 million in 2011. The increase in total expenses, as adjusted, is primarily attributable to increases in employee compensation and benefits and direct fund expenses, partially offset by a reduction in amortization of deferred sales commissions, distribution and servicing costs and general and administration expenses.

NONOPERATING RESULTS

Nonoperating income (expense), less net income (loss) attributable to NCI for 2013, 2012 and 2011 was as follows:

(in millions)	**2013**	**2012**	**2011**
Nonoperating income (expense), GAAP basis[1]	**$ 116**	$ (54)	$ (114)
Less: Net income (loss) attributable to NCI	**19**	(18)	2
Nonoperating income (expense)[2]	**97**	(36)	(116)
Gain related to the Charitable Contribution	**(80)**	—	—
Compensation expense related to (appreciation) depreciation on deferred compensation plans	**(10)**	(6)	3
Nonoperating income (expense), as adjusted[2]	**$ 7**	$ (42)	$ (113)

(1) During 2013, the Company did not record any nonoperating income (loss) or net income (loss) attributable to consolidated variable interest entities on the consolidated statements of income. Amounts included losses of $38 million and $18 million attributable to consolidated variable interest entities for 2012 and 2011, respectively.

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

The components of nonoperating income (expense), less net income (loss) attributable to NCI for 2013, 2012 and 2011 were as follows:

(in millions)	2013	2012	2011
Net gain (loss) on investments[1]			
Private equity	**$ 52**	$ 36	$ 36
Real estate	**24**	14	10
Distressed credit/mortgage funds	**40**	69	(13)
Hedge funds/funds of hedge funds	**25**	20	(5)
Other investments[2]	**16**	(2)	1
Subtotal	**157**	137	29
Gain related to the PennyMac IPO	**39**	—	—
Gain related to the Charitable Contribution	**80**	—	—
Investments related to deferred compensation plans	**10**	6	(3)
Total net gain (loss) on investments	**286**	143	26
Interest and dividend income	**22**	36	34
Interest expense	**(211)**	(215)	(176)
Net interest expense	**(189)**	(179)	(142)
Total nonoperating income (expense)[1]	**97**	(36)	(116)
Gain related to the Charitable Contribution	**(80)**	—	—
Compensation expense related to (appreciation) depreciation on deferred compensation plans	**(10)**	(6)	3
Nonoperating income (expense), as adjusted[1]	**$ 7**	$ (42)	$ (113)

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

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

2013 Compared with 2012

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

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

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

2012 Compared with 2011

Net gains on investments increased $117 million from 2011 due to higher net positive marks in 2012 compared with 2011.

Net interest expense increased from 2011, primarily due to long-term debt issuances in May 2011 and May 2012.

Income Tax Expense

	GAAP			As adjusted		
(in millions)	2013	2012	2011	2013	2012	2011
Income before income taxes[1]	**$ 3,954**	$ 3,488	$ 3,133	**$ 4,031**	$ 3,532	$ 3,279
Income tax expense	**$ 1,022**	$ 1,030	$ 796	**$ 1,149**	$ 1,094	$ 1,040
Effective tax rate	**25.8%**	29.5%	25.4%	**28.5%**	31.0%	31.7%

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

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

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

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

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

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

2011. The GAAP effective tax rate of 25.4% for 2011 included a $24 million benefit related to the resolution of certain outstanding tax positions and $198 million of net noncash tax benefits due to a state tax election and enacted U.K., Japan, U.S. state and local tax legislation.

The 2011 as adjusted effective tax rate of 31.7% included the $24 million benefit related to the revaluation of certain deferred income tax liabilities and excluded the $198 million net noncash benefit.

BALANCE SHEET OVERVIEW

As Adjusted Balance Sheet

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

The Company presents the as adjusted balance sheet as additional information to enable investors to exclude certain assets that have equal and offsetting liabilities or noncontrolling interests that ultimately do not have an impact on stockholders' equity (excluding appropriated retained earnings related to consolidated collateralized loan obligations ("CLOs")) or cash flows. Management views the as adjusted balance sheet, a non-GAAP financial measure, as an economic presentation of its 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 consolidated statements of income. While BlackRock has no economic interest in these assets or liabilities, BlackRock earns an investment advisory fee for the service of managing these assets on behalf of the clients.

In addition, the Company records on its consolidated statements of financial condition the separate account collateral received under 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.

Consolidated VIEs

At December 31, 2013, BlackRock's consolidated VIEs included multiple CLOs and one private investment fund. The assets of these VIEs are not available to creditors of the Company and the Company has no obligation to settle the liabilities of the VIEs. While BlackRock has no material economic interest in these assets or liabilities, BlackRock earns an investment advisory fee, as well as a potential performance fee, for the service of managing these assets on behalf of clients.

Consolidated Sponsored Investment Funds

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

(in millions)	December 31, 2013				
		Segregated client assets generating advisory fees in which BlackRock has no economic interest or liability			
	GAAP Basis	Separate Account Assets/ Collateral	Consolidated VIEs	Consolidated Sponsored Investment Funds	As Adjusted
Assets					
Cash and cash equivalents	$ 4,390	$ —	$ —	$ 114	$ 4,276
Accounts receivable	2,247	—	—	—	2,247
Investments	2,151	—	—	94	2,057
Assets of consolidated VIEs	2,486	—	2,486	—	—
Separate account assets and collateral held under securities lending agreements	176,901	176,901	—	—	—
Other assets[1]	1,217	—	—	20	1,197
Subtotal	189,392	176,901	2,486	228	9,777
Goodwill and intangible assets, net	30,481	—	—	—	30,481
Total assets	$ 219,873	$ 176,901	$ 2,486	$ 228	$ 40,258
Liabilities					
Accrued compensation and benefits	$ 1,747	$ —	$ —	$ —	$ 1,747
Accounts payable and accrued liabilities	1,084	—	—	—	1,084
Borrowings	4,939	—	—	—	4,939
Liabilities of consolidated VIEs	2,443	—	2,443	—	—
Separate account liabilities and collateral liabilities under securities lending agreements	176,901	176,901	—	—	—
Deferred income tax liabilities	5,085	—	—	—	5,085
Other liabilities	1,004	—	—	39	965
Total liabilities	193,203	176,901	2,443	39	13,820
Equity					
Total stockholders' equity[2]	26,460	—	22	—	26,438
Noncontrolling interests	210	—	21	189	—
Total equity	26,670	—	43	189	26,438
Total liabilities and equity	$ 219,873	$ 176,901	$ 2,486	$ 228	$ 40,258

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

(2) GAAP amount includes $22 million of appropriated retained earnings related solely to consolidated CLOs in which the Company has no equity exposure.

The following discussion summarizes the significant changes in assets and liabilities on a GAAP basis. 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, 2013 and 2012 included $114 million and $133 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 2013).

Investments increased $401 million from December 31, 2012 (for more information see *Investments* herein). Goodwill and intangible assets increased $169 million from December 31, 2012, primarily due to the MGPA acquisition and Credit Suisse ETF Transaction, partially offset by $161 million of intangible assets amortization expense. Other assets (including property, plant and equipment) increased $34 million from December 31, 2012, primarily related to an increase in strategic investments and other receivables, partially offset by a decrease in property and equipment due to depreciation and a decrease in current taxes receivable.

Liabilities. Accrued compensation and benefits at December 31, 2013 increased $200 million from December 31, 2012, primarily due to 2013 incentive compensation accruals. Accounts payable and accrued liabilities at December 31, 2013 increased $29 million from December 31, 2012 due to an increase in current income taxes payable and increased accruals, including direct fund expenses, partially offset by lower unit trust payables (substantially offset by a decrease in unit trust receivables recorded within accounts receivable). Borrowings decreased $848 million from December 31, 2012 resulting from the repayments of $750 million and $100 million of long-term and short-term borrowings, respectively.

Net deferred income tax liabilities at December 31, 2013 decreased $208 million, primarily due to the effects of temporary differences associated with stock compensation and investment income. The change also reflects the revaluation of certain deferred income tax liabilities due to legislation enacted in the United Kingdom, domestic state and local income tax changes, and realization of tax loss carryforwards. Other liabilities at December 31, 2013 increased $146 million from December 31, 2012, primarily resulting from an increase in liability of unrecognized tax benefits, a contingent liability related to the Credit Suisse ETF Transaction and other operating liabilities.

Investments

Investments totaled $2,151 million at December 31, 2013 and $1,750 million at December 31, 2012. Investments include consolidated investments held by sponsored investment funds deemed to be controlled by BlackRock. Management reviews BlackRock's investments on an "economic" basis, which eliminates the portion of investments that does not impact BlackRock's book value or net income attributable to BlackRock. BlackRock's management does not advocate that investors consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

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

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

(in millions)	**December 31, 2013**	**December 31, 2012**
Total investments, GAAP	**$ 2,151**	$ 1,750
Investments held by consolidated sponsored investment funds[1]	**(826)**	(524)
Net exposure to consolidated investment funds	**732**	430
Total investments, as adjusted	**2,057**	1,656
Federal Reserve Bank stock	**(90)**	(89)
Carried interest	**(103)**	(85)
Deferred compensation investments	**(97)**	(62)
Hedged investments	**(184)**	(209)
Total "economic" investment exposure	**$ 1,583**	$ 1,211

(1) At December 31, 2013 and 2012, approximately $826 million and $524 million, respectively, of BlackRock's total GAAP investments were held in sponsored investment funds that were deemed to be controlled by BlackRock in accordance with GAAP, and, therefore, are consolidated even though BlackRock may not economically own a majority of such funds.

The following table represents the carrying value of the Company's economic investment exposure, by asset type, at December 31, 2013 and 2012:

(in millions)	**December 31, 2013**	**December 31, 2012**
Private equity	**$ 328**	$ 298
Real estate	**125**	122
Distressed credit/mortgage funds	**148**	214
Hedge funds/funds of hedge funds	**348**	159
Other investments[1]	**634**	418
Total "economic" investment exposure	**$ 1,583**	$ 1,211

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

As adjusted investment activity for 2013 was as follows:

(in millions)	
Investments, as adjusted, December 31, 2012	$ 1,656
Purchases/capital contributions	912
Sales/maturities	(469)
Distributions	(216)
Market valuations/earnings from equity method investments	156
Carried interest capital allocations	18
Investments, as adjusted, December 31, 2013	**$ 2,057**

The following table represents investments, as adjusted at December 31, 2013:

(in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other Investments Not Held at Fair Value[1]	Investments at December 31, 2013
Total investments, as adjusted[2]	**$ 607**	**$ 545**	**$ 489**	**$ 416**	**$ 2,057**

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

(in millions)	GAAP Basis	Impact on Cash Flows of Consolidated Sponsored Investment Funds	Impact on Cash Flows of Consolidated VIEs	Cash Flows Excluding Impact of Consolidated Sponsored Investment Funds and VIEs
Cash and cash equivalents, December 31, 2011	$ 3,506	$ 196	$ —	$ 3,310
Cash flows from operating activities	2,240	(256)	(227)	2,723
Cash flows from investing activities	(266)	(211)	—	(55)
Cash flows from financing activities	(944)	404	227	(1,575)
Effect of exchange rate changes on cash and cash equivalents	70	—	—	70
Net change in cash and cash equivalents	1,100	(63)	—	1,163
Cash and cash equivalents, December 31, 2012	4,606	133	—	4,473
Cash flows from operating activities	**3,642**	**(137)**	**286**	**3,493**
Cash flows from investing activities	**(483)**	**39**	**—**	**(522)**
Cash flows from financing activities	**(3,392)**	**79**	**(286)**	**(3,185)**
Effect of exchange rate changes on cash and cash equivalents	**17**	**—**	**—**	**17**
Net change in cash and cash equivalents	**(216)**	**(19)**	**—**	**(197)**
Cash and cash equivalents, December 31, 2013	**$ 4,390**	**$ 114**	**$ —**	**$ 4,276**

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

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

Cash outflows from investing activities, excluding the impact of consolidated sponsored investment funds and VIEs, for 2013 were $522 million and primarily reflected $555 million

of investment purchases and $298 million related to the Credit Suisse ETF Transaction and the MGPA acquisition, partially offset by $342 million of net proceeds from sales and maturities of certain investments.

Cash outflows from financing activities, excluding the impact of consolidated sponsored investment funds and VIEs, for 2013 were $3.2 billion, primarily resulting from $1.2 billion of share repurchases, including $1.0 billion in open market transactions and $243 million of employee tax withholdings related to employee stock transactions, $1.2 billion of cash dividend payments, a $750 million long-term debt repayment and a $100 million short-term debt repayment. Cash outflows from financing activities were partially offset by cash inflows related to $41 million of excess tax benefits from stock-based compensation.

The Company manages its financial condition and funding to maintain appropriate liquidity for the business. Liquidity resources at December 31, 2013 and 2012 were as follows:

(in millions)	December 31, 2013	December 31, 2012
Cash and cash equivalents	**$ 4,390**	$ 4,606
Cash and cash equivalents held by consolidated sponsored investment funds[1]	**(114)**	(133)
Subtotal	**4,276**	4,473
Credit facility — undrawn	**3,990**	3,685
Total liquidity	**$ 8,266**	$ 8,158

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

Total liquidity increased $108 million during 2013, primarily reflecting positive operating cash flow and the increased aggregate commitment of the 2013 credit facility to $3.990 billion, partially offset by the $750 million repayment of long-term borrowings, cash payments of 2012 year-end incentive awards, share repurchases, including $1.0 billion in open market transactions, and cash dividend payments.

A significant portion of the Company's $2,057 million of total investments, as adjusted, is illiquid in nature and, as such, may not be readily convertible to cash.

Share Repurchase Approvals. In January 2013, the Board of Directors (the "Board") approved an increase in the availability under the Company's existing share repurchase program to allow for the repurchase of up to 10.2 million shares of BlackRock common stock. The Company repurchased 3.7 million common shares in open market-transactions under the share repurchase program for $1.0 billion during 2013. At December 31, 2013, there were 6.5 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 December 31, 2013, the Company was required to maintain approximately $1.1 billion compared with $1.2 billion at December 31, 2012 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. The decrease in required net capital was primarily due to a reduction in the BTC minimum Tier 1 capital requirement from $500 million to $385 million in August 2013.

Undistributed Earnings of Foreign Subsidiaries. As of December 31, 2013, the Company has not provided for U.S. federal and state income taxes on approximately $3.1 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

2013 Revolving Credit Facility. In March 2011, the Company entered into a five-year $3.5 billion unsecured revolving credit facility (the "2011 credit facility"). In March 2012, the 2011 credit facility was amended to extend the maturity date by one year to March 2017 and in April 2012 the amount of the aggregate commitment was increased to $3.785 billion (the "2012 credit facility"). In March 2013, the Company's credit facility was amended to extend the maturity date by one year to March 2018 and the amount of the aggregate commitment was increased to $3.990 billion (the "2013 credit facility"). The 2013 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 2013 credit facility to an aggregate principal amount not to exceed $4.990 billion. Interest on borrowings outstanding accrues at a rate based on the applicable London Interbank Offered Rate plus a spread. The 2013 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, 2013. The 2013 credit facility provides back-up liquidity, funds ongoing working capital for general corporate purposes and funds various investment opportunities. At December 31, 2013, the Company had no amount outstanding under the 2013 credit facility.

Commercial Paper Program. On October 14, 2009, BlackRock established a commercial paper program (the "CP Program") under which the Company could issue unsecured commercial paper notes (the "CP Notes") on a private placement basis up to a maximum aggregate amount outstanding at any time of $3.0 billion. On May 13, 2011, BlackRock increased the maximum aggregate amount that may be borrowed under the CP Program to $3.5 billion. On

May 17, 2012, BlackRock increased the maximum aggregate amount to $3.785 billion. In April 2013, BlackRock increased the maximum aggregate amount for which the Company could issue unsecured CP Notes on a private-placement basis up to a maximum aggregate amount outstanding at any time of $3.990 billion. The commercial paper program is currently supported by the 2013 credit facility. At December 31, 2013, BlackRock had no CP Notes outstanding.

Long-term Borrowings.

At December 31, 2013, the principal amount of long-term borrowings, including the current portion, was $4.95 billion.

2015 and 2022 Notes. In May 2012, the Company issued $1.5 billion in aggregate principal amount of unsecured unsubordinated obligations. These notes were issued as two separate series of senior debt securities, including $750 million of 1.375% notes maturing in June 2015 (the "2015 Notes") and $750 million of 3.375% notes maturing in June 2022 (the "2022 Notes"). Net proceeds were used to fund the repurchase of BlackRock's common stock and Series B Preferred from Barclays and affiliates and for general corporate purposes. Interest on the 2015 Notes and 2022 Notes of approximately $10 million and $25 million per year, respectively, is payable semi-annually on June 1 and December 1 of each year, which commenced December 1, 2012. The 2015 Notes and 2022 Notes may be redeemed prior to maturity at any time in whole or in part at the option of the Company at a "make-whole" redemption price. The "make-whole" redemption price represents a price, subject to the specific terms of the 2015 and 2022 Notes and related indenture, that is the greater of (a) par value and (b) the present value of future payments that will not be paid because of an early redemption, which is discounted at a fixed spread over a comparable Treasury security.

2013 and 2021 Notes. In May 2011, the Company issued $1.5 billion in aggregate principal amount of unsecured unsubordinated obligations. These notes were issued as two separate series of senior debt securities, including $750 million of 4.25% notes maturing in May 2021 and $750 million of floating rate notes ("2013 Floating Rate Notes"), which were repaid in May 2013. Net proceeds of this offering were used to fund the repurchase of BlackRock's Series B Preferred from affiliates of Merrill Lynch. Interest on the 4.25% notes due in 2021 ("2021 Notes") is payable semi-annually on May 24 and November 24 of each year, which commenced November 24, 2011, and is approximately $32 million per year. The 2021 Notes may be redeemed prior to maturity at any time in whole or in part at the option of the Company at a "make-whole" redemption price.

In May 2011, in conjunction with the issuance of the 2013 Floating Rate Notes, the Company entered into a $750 million notional interest rate swap maturing in 2013 to hedge the future cash flows of its obligation at a fixed rate of 1.03%. During the second quarter of 2013, the interest rate swap matured and the 2013 Floating Rate Notes were fully repaid.

2012, 2014 and 2019 Notes. In December 2009, the Company issued $2.5 billion in aggregate principal amount of unsecured and unsubordinated obligations. These notes were issued as three separate series of senior debt securities, including $0.5 billion of 2.25% notes, which were repaid in December 2012, $1.0 billion of 3.50% notes and $1.0 billion of 5.0% notes maturing in December 2014 and 2019, respectively. Net proceeds of this offering were used to repay borrowings under the CP program, which was used to finance a portion of the BGI Transaction, and for general corporate purposes. These notes may be redeemed prior to maturity at any time in whole or in part at the option of the Company at a "make-whole" redemption price. Interest on the 2014 Notes and 2019 Notes of approximately $35 million and $50 million per year, respectively, is payable semi-annually in arrears on June 10 and December 10 of each year.

2017 Notes. In September 2007, the Company issued $700 million in aggregate principal amount of 6.25% senior unsecured and unsubordinated notes maturing on September 15, 2017 (the "2017 Notes"). A portion of the net proceeds of the 2017 Notes was used to fund the initial cash payment for the acquisition of the fund of funds business of Quellos Group, LLC in October 2007 (the "Quellos Transaction") and the remainder was used for general corporate purposes. Interest is payable semi-annually in arrears on March 15 and September 15 of each year, or approximately $44 million per year. The 2017 Notes may be redeemed prior to maturity at any time in whole or in part at the option of the Company at a "make-whole" redemption price.

Contractual Obligations, Commitments and Contingencies

The following table sets forth contractual obligations, commitments and contingencies by year of payment at December 31, 2013:

(in millions)	2014	2015	2016	2017	2018	Thereafter	Total
Contractual obligations and commitments:							
Long-term borrowings[1]:							
Principal	$ 1,000	$ 750	$ —	$ 700	$ —	$ 2,500	$ 4,950
Interest	196	156	151	151	107	218	979
Operating leases	135	127	110	109	106	699	1,286
Purchase obligations	83	77	31	8	—	—	199
Investment commitments	216	—	—	—	—	—	216
Total contractual obligations and commitments	**1,630**	**1,110**	**292**	**968**	**213**	**3,417**	**7,630**
Contingent obligations:							
Contingent distribution obligations	172	172	172	—	—	—	516
Contingent payments related to business acquisitions[2]	4	5	11	8	23	24	75
Total contractual obligations, commitments and contingent obligations[3]	**$ 1,806**	**$ 1,287**	**$ 475**	**$ 976**	**$ 236**	**$ 3,441**	**$ 8,221**

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

(2) The amount of contingent payments reflected for any year represents the expected payment amounts, using foreign currency exchange rates as of December 31, 2013, under the terms of the business acquisition's agreement. The maximum potential payment amount related to Credit Suisse ETF Transaction is approximately $24 million for any year during a seven year period. There is no maximum amount for payments related to the MGPA Transaction. The fair value of the contingent obligations is not significant to the consolidated statement of financial condition and is recorded within other liabilities.

(3) At December 31, 2013, the Company had $372 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, 2013, the Company's obligations primarily reflected standard service contracts for portfolio, market data, office-related services and third-party marketing and promotional services. Purchase obligations are recorded on the Company's financial statements when services are provided and, as such, obligations for services not received are not included in the consolidated statement of financial condition at December 31, 2013.

Investment Commitments. At December 31, 2013, the Company had $216 million of various capital commitments to fund sponsored investment funds, including funds of private equity funds, real estate funds, infrastructure funds, opportunistic funds and distressed credit funds. This amount excludes additional commitments made by consolidated funds of funds to underlying third-party funds as third-party noncontrolling interest holders have the legal obligation to fund the respective commitments of such funds of funds. 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, but which 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.

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

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

Indemnifications. In many of the Company's contracts, including the BGI, Merrill Lynch Investment Managers ("MLIM") and Quellos Transaction agreements, BlackRock agrees to indemnify third parties under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and, therefore, has not been included in the table above or recorded in the consolidated statement of financial condition at December 31, 2013. See further discussion in Note 13, *Commitments and Contingencies*, to the consolidated financial statements beginning on page F-1 of this Form 10-K.

On behalf of certain clients, the Company lends securities to highly rated banks and broker-dealers. In these securities lending transactions, the borrower is required to provide and maintain collateral at or above regulatory minimums. Securities on loan are marked to market daily to determine if the borrower is required to pledge additional collateral. BlackRock has issued certain indemnifications to certain securities lending clients against potential losses resulting from a borrower's failure to fulfill its obligations should the value of the collateral pledged by the borrower at the time of default be insufficient to cover the borrower's obligations under the securities lending agreement. At December 31, 2013, the Company indemnified certain of its clients for their securities lending loan balances of approximately $118.3 billion. The Company held, as agent, cash and securities totaling $124.6 billion as collateral for indemnified securities on loan at December 31, 2013. The fair value of these indemnifications was not material at December 31, 2013. The Company currently expects indemnified balances to continue to increase over time.

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.

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. After such term, the agreement renewed for one automatic three-year extension.

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

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. These arrangements are discussed in more detail in Note 14, *Stock-Based Compensation*, and Note 15, *Employee Benefit Plans*, to the consolidated financial statements beginning on page F-1 of this Form 10-K. Accrued compensation and benefits at December 31, 2013 totaled $1,747 million and included incentive compensation of $1,335 million, deferred compensation of $164 million and other compensation and benefits related obligations of $248 million. Substantially all of the incentive compensation liability was paid in the first quarter of 2014, while the deferred compensation obligations are generally payable over periods up to five years.

Separate Account Liabilities. At December 31, 2013, the Company had $155.1 billion of separate account assets and offsetting liabilities on the consolidated statement of financial condition. The timing of payments of these contractual obligations is inherently uncertain and varies by customer. As such, these liabilities have been excluded from the contractual obligations table above.

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 revenues and expenses 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*, to the consolidated financial statements beginning on page F-1 of this Form 10-K.

Consolidation of Sponsored Investment Funds and Securitization Products. Consolidation of sponsored investment funds and securitization products (collectively "investment products") is determined pursuant to ASC 810, *Consolidation*. The accounting method used by the Company depends upon the influence the Company has over its investee, the investment product. To the extent that BlackRock can exert control over the financial and operating policies of the investment product, which generally exists if there is a 50% or greater voting interest or if partners or members of certain products do not have substantive rights, BlackRock consolidates the investment product.

For investment products in which BlackRock's voting interest is less than 50%, an analysis is performed to determine if the investment product is a VIE or a voting rights entity.

Consolidation of Variable Interest Entities. Certain investment products for which the risks and rewards of ownership are not directly linked to voting interests may be deemed VIEs. BlackRock reviews factors, including the rights of the equity holders and obligations of equity holders to absorb losses or receive expected residual returns, to determine if the investment product is a VIE. BlackRock continuously evaluates such factors as facts and circumstances change. BlackRock is required to consolidate a VIE when it is deemed to be the primary beneficiary ("PB").

Accounting Standards Update ("ASU") 2010-10, *Amendments to Statement 167 for Certain Investment Funds* ("ASU 2010-10") defers the application of Statement of Financial Accounting Standards ("SFAS") No. 167, *Amendments to FASB Interpretation No. 46(R),* for certain investment funds, including money market funds. The PB of a VIE that is an investment fund that meets the conditions of ASU 2010-10 is the enterprise that has a variable interest (or combination of variable interests, including those of related parties) that absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. The PB of a VIE that does not meet the conditions for deferral in ASU 2010-10 is the enterprise that has the power to direct activities of the entity that most significantly impact the entity's economic performance and has the obligation to absorb losses or the right to receive benefits that potentially could be significant to the VIE.

Significant judgment is required in the determination of whether the Company is the PB of a VIE. If the Company is determined to be the PB of a VIE, BlackRock will consolidate the entity. In order to determine whether the Company is the PB of a VIE for entities that meet the conditions of ASU 2010-10, management must make significant estimates and assumptions of projected future cash flows. Assumptions made in such analyses include, but are not limited to, market prices of securities, market interest rates, potential credit defaults on individual securities or default rates on a portfolio of securities, prepayments, realization of gains, liquidity or marketability of certain securities, discount rates and the probability of certain other outcomes.

In the normal course of business, the Company is the manager of various types of sponsored investment vehicles, including collateralized debt obligations ("CDOs") or CLOs that do not meet the conditions of ASU 2010-10 and sponsored investment funds, which may be considered VIEs.

At December 31, 2013, the following balances related to VIEs were included on the consolidated statements of financial condition:

(in millions)	CLOs	Sponsored Private Equity Fund	Total Consolidated VIEs
Assets of consolidated VIEs:			
Cash and cash equivalents	$ 156	$ 5	$ 161
Bank loans, bonds, other investments and other assets	2,309	16	2,325
Liabilities of consolidated VIEs:			
Borrowings	(2,369)	—	(2,369)
Other liabilities	(74)	—	(74)
Appropriated retained earnings	(22)	—	(22)
Noncontrolling interests of consolidated VIEs	—	(21)	(21)
Total BlackRock net interests in consolidated VIEs	$ —	$ —	$ —

CLOs. At December 31, 2013, BlackRock was the manager of over 20 CLOs/CDOs and other securitization entities. BlackRock was determined to be the PB for certain of these CLOs, which required BlackRock to consolidate these VIEs. BlackRock was deemed to be the PB because it has the power to direct the activities of the CLOs that most significantly impact the entities' economic performance and has the right to receive benefits that potentially could be significant to the VIE. The Company recorded appropriated retained earnings for the difference between the assets and liabilities of the CLOs recorded on the consolidated statement of financial condition as the CLO noteholders ultimately will receive the benefits or absorb the losses associated with the CLOs' assets and liabilities. Changes in the fair value of the assets and liabilities of these CLOs have no impact on net income attributable to BlackRock or its cash flows. Excluding outstanding management receivables, the Company has no risk of loss with its involvement with these VIEs.

Sponsored Private Equity Fund of Funds. At December 31, 2013, BlackRock was determined to be the PB of one investment fund of funds and was deemed to absorb the majority of the variability due to its de-facto related-party relationships with other partners in the fund, which limited the ability of the partners to transfer or sell their interests without BlackRock's consent as the general partner of the fund. Changes in the fair value of the assets and liabilities of this VIE recorded on the consolidated statements of financial condition have no impact on net income attributable to BlackRock. Excluding outstanding management fee receivables, the Company has no risk of loss related to its involvement with this VIE.

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

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

At December 31, 2013 and 2012, as a result of consolidation of various investment products deemed to be voting rights entities, including products where BlackRock owns 50% or greater of the voting rights of the product, under the consolidation policies described above, the Company had the following balances on its consolidated statements of financial condition:

(in millions)	December 31, 2013	December 31, 2012
Cash and cash equivalents	$ 114	$ 133
Investments:		
Trading investments	385	123
Other investments	441	401
Other assets	20	25
Other liabilities	(39)	(65)
Noncontrolling interests	(189)	(187)
BlackRock's net interests in consolidated investment funds	$ 732	$ 430

The Company retained the specialized accounting of these investment funds pursuant to ASC 810. VIEs, including a consolidated sponsored investment fund and CLOs, were excluded from the balances above as the balances of these VIEs are reported separately on the consolidated statements of financial condition.

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, 2013, the Company had $736 million and $163 million of equity method investments, including equity method investments held for deferred compensation, reflected within investments and other assets, respectively, and at December 31, 2012, the Company had $604 million and $124 million of equity method investees reflected in investments and other assets, respectively.

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

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

Evaluation of securities 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.

Hierarchy of Fair Value Inputs. The provisions of ASC 820, *Fair Value Measurement* ("ASC 820"), establish a hierarchy that prioritizes inputs to valuation techniques used to measure fair value and require companies to disclose the fair value of their financial instruments according to the fair value hierarchy (i.e., Level 1, 2 and 3 inputs, as defined). The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. See Note 2, *Significant Accounting Policies*, for further description of the Company's assets and liabilities measured at fair value.

Significance of Inputs. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Valuation Techniques. The fair values of certain Level 3 assets and liabilities were determined using various methodologies as appropriate, including NAVs of underlying investments, third-party pricing vendors, broker quotes and market and income approaches. Such quotes and modeled prices are evaluated for reasonableness through various procedures, including due diligence reviews of third-party pricing vendors, variance analyses, consideration of the current market environment and other analytical procedures. BlackRock's $574 million of Level 3 investments, or 27% of total GAAP investments at December 31, 2013, primarily included co-investments in private equity fund of funds and private equity funds, funds of hedge funds as well as alternative hedge funds that invest in distressed credit and mortgage securities and real estate equity products.

As a practical expedient, the Company relies on NAV as the fair value for certain investments. The inputs to value these investments may include BlackRock capital accounts for its partnership interests in various alternative investments, including distressed credit hedge funds, real estate and private equity funds, which may be adjusted by using the returns of certain market indices. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information from third-party sources, including independent appraisals. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that may be used as an input to value these investments.

A significant amount of inputs used to value equity, debt securities and bank loans is sourced from well-recognized third-party pricing vendors. Generally, prices obtained from pricing vendors are categorized as Level 1 inputs for identical securities traded in active markets and as Level 2

for other similar securities if the vendor uses observable inputs in determining the price. Annually, BlackRock's internal valuation committee or other designated groups review both the valuation methodologies, including the general assumptions and methods used to value various asset classes, and operational processes with these vendors. In addition, on a quarterly basis, meetings are held with key vendors to identify any significant changes to the vendors' processes.

In addition, quotes obtained from brokers generally are non-binding and categorized as Level 3 inputs. However, if the Company is able to determine that market participants have transacted for the asset in an orderly manner near the quoted price or if the Company can determine that the inputs used by the broker are observable, the quote is classified as a Level 2 input.

Changes in Valuation. Changes in value on $1,622 million of investments will impact the Company's nonoperating income (expense), $183 million will impact accumulated other comprehensive income, $243 million are held at cost or amortized cost and the remaining $103 million relates to carried interest, which will not impact nonoperating income (expense). At December 31, 2013, changes in fair value of approximately $785 million of such investments within consolidated sponsored investment funds will impact BlackRock's net income (loss) attributable to noncontrolling interests expense on the consolidated statements of income. BlackRock's net exposure to changes in fair value of such consolidated sponsored investment funds was $691 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 that 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, 2013, ranged from 1 to 11 years with a weighted-average remaining estimated useful life of 4.3 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, 2013 indicated that no impairment charge was required. The Company continuously monitors its book value per share as compared with closing prices of its common stock for potential indicators of impairment. At December 31, 2013, the Company's common stock closed at $316.47 which exceeded its book value per share of approximately $156.69 after excluding appropriated retained earnings.

Indefinite-lived and finite-lived intangibles. The Company performs assessments to determine if any intangible assets are potentially 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 its carrying value, BlackRock assesses various significant factors including AUM, revenue basis points, projected AUM growth rates, operating margins, tax rates and discount rates. In addition, the Company considers other factors including:
(i) macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets; (ii) industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics, a change in the market for an entity's services, or regulatory, legal or political developments; and (iii) entity-specific events, such as a change in management or key personnel, overall financial performance and litigation that could affect significant inputs.

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

In addition, management judgment is required to estimate the period over which finite-lived intangible assets will contribute to the Company's cash flows and the pattern in which these assets will be consumed. A change in the remaining useful life of any of these assets, or the reclassification of an indefinite-lived intangible asset to a finite-lived intangible asset, could have a significant impact on the Company's amortization expense, which was $161 million, $157 million and $156 million for 2013, 2012 and 2011, respectively.

In 2013, 2012 and 2011, the Company performed impairment tests, including evaluating various qualitative factors and performing certain quantitative assessments in 2013. The Company determined that no impairment charges were required, the classification of indefinite-lived versus finite-lived intangibles was still appropriate and no changes to the expected lives of the finite-lived intangibles were required. The Company continuously monitors various factors, including AUM, for potential indicators of impairment.

Income Taxes. The Company accounts for income taxes under the asset and liability method prescribed by ASC 740, *Income Taxes* ("ASC 740"). 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, 2013, BlackRock had $467 million of gross unrecognized tax benefits, of which $304 million, if recognized, would affect the effective tax rate.

In accordance with ASC 740, 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, 2013, the Company had deferred tax assets of $4 million and deferred tax liabilities of approximately $5,085 million on the consolidated statement of financial condition. Changes in the calculated 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.

ASC 740 requires the Company to assess 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. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecast of future profitability, the duration of statutory carry back and carry forward periods, the Company's experience with tax attributes expiring unused, and tax planning alternatives.

At December 31, 2013, the Company had recorded a deferred tax asset of $99 million for unrealized investment losses; however, no valuation allowance has been established because the Company expects to hold certain investments which invest in fixed income securities over a period sufficient for them to recover their unrealized losses, and generate future capital gains sufficient to offset the unrealized capital losses. Based on the weight of available evidence, it is more likely than not that the deferred tax asset will be realized. However, changes in circumstance could cause the Company to revalue its deferred tax balances with the resulting change impacting the consolidated statements of income in the period of the change. Such changes may be material to the Company's consolidated financial statements. See Note 21, *Income Taxes*, to the consolidated financial statements beginning on page F-1 of this Form 10-K for further details.

The Company records income taxes based upon its estimated income tax liability or benefit. The Company's actual tax liability or benefit may differ from the estimated income tax liability or benefit. The Company had current income taxes receivables of approximately $89 million and current income taxes payables of $168 million at December 31, 2013.

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 subscriptions or redemptions. 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 — Principle Agent Considerations* ("ASC 605-45"), and records its management fees net of retrocessions. Retrocessions for 2013, 2012 and 2011 were $785 million, $793 million and $928 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. Such revenues are 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 2013, 2012 and 2011, securities lending revenue totaled $447 million, $510 million and $397 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, including carried interest allocations, from certain actively managed investment funds and certain SMAs. These performance fees are earned 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. For the years ended 2013, 2012 and 2011, performance fee revenue totaled $561 million, $463 million and $371 million, respectively. In addition, the Company receives carried interest from certain alternative investments upon exceeding performance thresholds. BlackRock may be required to return all, or part, of such carried interest depending upon future performance of these funds. Therefore, BlackRock records carried interest subject to such clawback provisions in investments or cash to the extent that it is distributed, on its consolidated statements of financial condition. Carried interest is realized and recorded as performance fee revenue upon the earlier of the termination of the investment fund or when the likelihood of clawback is 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, 2013 and 2012, the Company had $108 million and $97 million, respectively, of deferred carried interest recorded in other liabilities on the consolidated statements of financial condition. The ultimate recognition of performance fee revenue, if any, for these products is unknown.

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 2013, 2012 and 2011, *BlackRock Solutions* and advisory revenue totaled $577 million, $518 million and $510 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 the fair value of AUM and since the Company does not record performance revenues until performance thresholds have been exceeded and the likelihood of clawback is mathematically improbable.

RECENT DEVELOPMENTS

Accounting Developments

For accounting pronouncements that the Company adopted during 2013 and for recent accounting pronouncements not yet adopted, see Note 2, *Significant Accounting Policies*, in the consolidated financial statements.

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, 2013, 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, 2013, the Company had outstanding total return swaps and interest rate swaps with an aggregate notional value of approximately $117 million and $71 million, respectively.

At December 31, 2013, approximately $826 million of BlackRock's total investments were maintained in sponsored investment funds deemed to be controlled by BlackRock in accordance with GAAP and, therefore, are consolidated even though BlackRock may not own a majority of such funds. Excluding the impact of the Federal Reserve Bank stock, carried interest, investments made to hedge exposure to certain deferred compensation plans and certain investments that are hedged via the seed capital hedging program, the Company's economic exposure to its investment portfolio is $1,583 million. See *Management's Discussion and Analysis-Balance Sheet Overview-Investments* for further information on the Company's investments.

The "economic" investment exposure of the portfolio is presented below:

Equity Market Price Risk. At December 31, 2013, the Company's net exposure to equity market price risk in its investment portfolio was approximately $828 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 $82.8 million in the carrying value of such investments.

Interest Rate/Credit Spread Risk. At December 31, 2013, the Company was exposed to interest-rate risk and credit spread risk as a result of approximately $755 million of investments in debt securities and sponsored investment products that invest primarily in debt securities. Management considered a hypothetical 100 basis point fluctuation in interest rates or credit spreads and estimates that the impact of such a fluctuation on these investments, in the aggregate, would result in a decrease, or increase, of approximately $12.7 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 $222 million at December 31, 2013. A 10% adverse change in the applicable foreign exchange rates would result in approximately a $22.2 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 foreign exchange risk movements. At December 31, 2013, the Company had outstanding forward foreign currency exchange contracts with an aggregate notional value of approximately $792 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 have been no changes in internal control over financial reporting during the latest fiscal quarter that have materially affected or are reasonably likely to materially affect such internal control over financial reporting.