NORTHERN TRUST CORP
Form 10-Q
October 28, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

OR

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

For the transition period from to

Commission File No. 0-5965

NORTHERN TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-2723087**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

50 South LaSalle Street

Chicago, Illinois	**60603**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (312) 630-6000

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

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

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

Large accelerated filer	x	**Accelerated filer**	¨
Non-accelerated filer	¨	**Smaller reporting company**	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ x

240,996,807 Shares - $1.66 2/3 Par Value

(Shares of Common Stock Outstanding on September 30, 2011)

PART I FINANCIAL INFORMATION

Item 1. Financial Statements
CONSOLIDATED BALANCE SHEET **NORTHERN TRUST CORPORATION**

($ In Millions Except Share Information)	September 30 2011 (Unaudited)	December 31 2010
Assets		
Cash and Due from Banks	**$ 4,336.6**	$ 2,818.0
Federal Funds Sold and Securities Purchased under Agreements to Resell	**221.8**	160.1
Interest-Bearing Deposits with Banks	**18,944.2**	15,351.3
Federal Reserve Deposits and Other Interest-Bearing	**6,498.2**	10,924.6
Securities		
Available for Sale	**28,439.3**	19,901.9
Held to Maturity (Fair value of $847.2 and $941.8)	**829.2**	922.2
Trading Account	**6.3**	6.8
Total Securities	**29,274.8**	20,830.9
Loans and Leases		
Commercial	**12,219.3**	11,613.4
Personal	**16,472.1**	16,518.6
Total Loans and Leases (Net of unearned income of $417.3 and $456.8)	**28,691.4**	28,132.0
Allowance for Credit Losses Assigned to Loans and Leases	**(298.3)**	(319.6)
Buildings and Equipment	**492.1**	504.5
Client Security Settlement Receivables	**948.2**	701.3
Goodwill	**534.1**	400.9
Other Assets	**6,455.1**	4,339.9
Total Assets	**$ 96,098.2**	$ 83,843.9
Liabilities		
Deposits		
Demand and Other Noninterest-Bearing	**$ 19,487.6**	$ 7,658.9
Savings and Money Market	**14,538.6**	14,208.7
Savings Certificates and Other Time	**3,529.4**	3,913.0
Non U.S. Offices Noninterest-Bearing	**3,374.8**	2,942.7
Interest-Bearing	**37,583.6**	35,472.4
Total Deposits	**78,514.0**	64,195.7
Federal Funds Purchased	**737.8**	3,691.7
Securities Sold Under Agreements to Repurchase	**339.3**	954.4
Other Borrowings	**817.6**	347.7
Senior Notes	**2,133.5**	1,896.1
Long-Term Debt	**2,137.3**	2,729.3
Floating Rate Capital Debt	**276.9**	276.9
Other Liabilities	**3,989.0**	2,921.8
Total Liabilities	**88,945.4**	77,013.6
Stockholders Equity		
Common Stock, $1.66 2/3 Par Value; Authorized 560,000,000 shares; Outstanding shares of 240,996,807 and 242,268,903	**408.6**	408.6

Additional Paid-In Capital	**962.9**	920.0
Retained Earnings	**6,240.3**	5,972.1
Accumulated Other Comprehensive Loss	**(232.5)**	(305.3)
Treasury Stock (4,174,717 and 2,902,621 shares, at cost)	**(226.5)**	(165.1)
Total Stockholders Equity	**7,152.8**	6,830.3
Total Liabilities and Stockholders Equity	**$ 96,098.2**	$ 83,843.9

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) **NORTHERN TRUST CORPORATION**

($ In Millions Except Per Share Information)	Three Months Ended September 30 2011	2010	Nine Months Ended September 30 2011	2010
Noninterest Income				
Trust, Investment and Other Servicing Fees	**$ 555.3**	$ 518.7	**$ 1,628.0**	$ 1,577.3
Foreign Exchange Trading Income	**87.2**	88.9	**252.8**	284.0
Treasury Management Fees	**17.8**	19.3	**55.1**	59.3
Security Commissions and Trading Income	**13.9**	14.9	**44.8**	43.5
Other Operating Income	**42.5**	27.7	**120.4**	104.1
Investment Security Gains (Losses), net (1)	**(2.0)**	(13.5)	**(24.1)**	(13.3)
Total Noninterest Income	**714.7**	656.0	**2,077.0**	2,054.9
Net Interest Income				
Interest Income	**347.1**	330.2	**1,053.8**	962.4
Interest Expense	**90.3**	96.7	**316.5**	265.7
Net Interest Income	**256.8**	233.5	**737.3**	696.7
Provision for Credit Losses	**17.5**	30.0	**42.5**	120.0
Net Interest Income after Provision for Credit Losses	**239.3**	203.5	**694.8**	576.7
Noninterest Expense				
Compensation	**311.1**	273.3	**925.3**	826.2
Employee Benefits	**66.7**	60.0	**188.7**	181.9
Outside Services	**139.7**	110.7	**398.6**	330.9
Equipment and Software	**76.3**	72.6	**232.8**	209.0
Occupancy	**45.4**	42.6	**131.3**	127.2
Visa Indemnification Benefit			**(10.1)**	(12.7)
Other Operating Expense	**62.0**	62.9	**192.9**	193.7
Total Noninterest Expense	**701.2**	622.1	**2,059.5**	1,856.2
Income before Income Taxes	**252.8**	237.4	**712.3**	775.4
Provision for Income Taxes	**82.4**	81.8	**238.9**	263.0
Net Income	**$ 170.4**	$ 155.6	**$ 473.4**	$ 512.4
Net Income Applicable to Common Stock	**$ 170.4**	$ 155.6	**$ 473.4**	$ 512.4
Per Common Share				
Net Income Basic	**$ .70**	$ .64	**$ 1.94**	$ 2.10
Diluted	**.70**	.64	**1.93**	2.10
Average Number of Common Shares Outstanding Basic	**240,991,491**	242,124,461	**241,529,793**	241,966,279
Diluted	**241,193,993**	242,158,427	**242,018,750**	242,421,661

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) **NORTHERN TRUST CORPORATION**

(In Millions)	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010
Net Income	**$ 170.4**	$ 155.6	**$ 473.4**	$ 512.4
Other Comprehensive Income (Loss) (Net of Tax and Reclassifications)				
Net Unrealized Gains on Securities Available for Sale	**21.4**	14.1	**55.2**	34.5
Net Unrealized Gains (Losses) on Cash Flow Hedges	**(16.6)**	31.8	**(9.6)**	42.2
Foreign Currency Translation Adjustments	**1.2**	.5	**10.6**	3.5
Pension and Other Postretirement Benefit Adjustments	**4.8**	2.8	**16.6**	15.3
Other Comprehensive Income	**10.8**	49.2	**72.8**	95.5
Comprehensive Income	**$ 181.2**	$ 204.8	**$ 546.2**	$ 607.9

(1) Changes in Other-Than-Temporary-Impairment (OTTI) Losses	**$ .5**	$ 7.3	**$ (1.1)**	$ 6.6
Noncredit-related OTTI Losses Recorded in/(Reclassified from) OCI	**(1.8)**	(21.3)	**(22.2)**	(20.7)
Other Security Gains (Losses), net	**(.7)**	.5	**(.8)**	.8
Investment Security Gains (Losses), net	**$ (2.0)**	$ (13.5)	**$ (24.1)**	$ (13.3)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

NORTHERN TRUST CORPORATION

(In Millions)	Nine Months Ended September 30 2011	2010
Common Stock		
Balance at January 1 and September 30	**$ 408.6**	$ 408.6
Additional Paid-in Capital		
Balance at January 1	**920.0**	888.3
Treasury Stock Transactions Stock Options and Awards	**(11.9)**	(19.4)
Stock Options and Awards Amortization	**55.4**	41.7
Stock Options and Awards Tax Benefits	**(.6)**	1.1
Balance at September 30	**962.9**	911.7
Retained Earnings		
Balance at January 1	**5,972.1**	5,576.0
Net Income	**473.4**	512.4
Dividends Declared Common Stock	**(205.2)**	(204.6)
Balance at September 30	**6,240.3**	5,883.8
Accumulated Other Comprehensive Income (Loss)		
Balance at January 1	**(305.3)**	(361.6)
Net Unrealized Gains on Securities Available for Sale	**55.2**	34.5
Net Unrealized Gains (Losses) on Cash Flow Hedges	**(9.6)**	42.2
Foreign Currency Translation Adjustments	**10.6**	3.5
Pension and Other Postretirement Benefit Adjustments	**16.6**	15.3
Balance at September 30	**(232.5)**	(266.1)
Treasury Stock		
Balance at January 1	**(165.1)**	(199.2)
Stock Options and Awards	**16.7**	35.7
Stock Purchased	**(78.1)**	(5.8)
Balance at September 30	**(226.5)**	(169.3)
Total Stockholders Equity at September 30	**$ 7,152.8**	$ 6,768.7

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) **NORTHERN TRUST CORPORATION**

(In Millions)	Nine Months Ended September 30 2011	2010
Cash Flows from Operating Activities:		
Net Income	**$ 473.4**	$ 512.4
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Investment Security Losses, net	**24.1**	13.3
Amortization and Accretion of Securities and Unearned Income	**(19.2)**	(40.9)
Provision for Credit Losses	**42.5**	120.0
Depreciation on Buildings and Equipment	**67.7**	70.3
Amortization of Computer Software	**117.4**	101.2
Amortization of Intangibles	**11.5**	11.0
Qualified Pension Plan Contribution	**(10.6)**	(20.0)
Visa Indemnification Benefit	**(10.1)**	(12.7)
(Increase) Decrease in Receivables	**104.5**	(115.8)
Increase (Decrease) in Interest Payable	**1.6**	(6.0)
Net Change in Derivative Fair Value, Including Required Collateral	**(1,204.2)**	328.8
Other Operating Activities, net	**264.4**	(42.2)
Net Cash Provided by (Used In) Operating Activities	**(137.0)**	919.4
Cash Flows from Investing Activities:		
Net Increase in Federal Funds Sold and Securities Purchased under Agreements to Resell	**(61.6)**	(178.7)
Net Increase in Interest-Bearing Deposits with Banks	**(3,592.8)**	(3,195.3)
Net Decrease in Federal Reserve Deposits and Other Interest-Bearing Assets	**4,438.0**	8,633.0
Purchases of Securities Held to Maturity	**(101.5)**	(382.4)
Proceeds from Maturity and Redemption of Securities Held to Maturity	**195.9**	377.2
Purchases of Securities Available for Sale	**(24,888.1)**	(11,429.2)
Proceeds from Sale, Maturity and Redemption of Securities Available for Sale	**16,484.0**	8,774.0
Net Increase in Loans and Leases	**(634.9)**	(166.6)
Purchases of Buildings and Equipment, net	**(55.1)**	(58.6)
Purchases and Development of Computer Software	**(219.8)**	(152.7)
Net (Increase) Decrease in Client Security Settlement Receivables	**(246.9)**	90.5
Decrease in Cash Due to Acquisitions, net of Cash Acquired	**(172.6)**	
Other Investing Activities, net	**(60.9)**	(6.8)
Net Cash Provided by (Used in) Investing Activities	**(8,916.3)**	2,304.4
Cash Flows from Financing Activities:		
Net Increase in Deposits	**14,318.3**	164.6
Net Decrease in Federal Funds Purchased	**(2,953.9)**	(1,844.6)
Net Decrease in Securities Sold under Agreements to Repurchase	**(615.1)**	(332.1)
Net Increase (Decrease) in Short-Term Other Borrowings	**522.3**	(503.9)
Proceeds from Term Federal Funds Purchased	**7,959.9**	17,208.3
Repayments of Term Federal Funds Purchased	**(7,979.0)**	(16,581.3)
Proceeds from Senior Notes and Long-Term Debt	**500.0**	642.7
Repayments of Senior Notes and Long-Term Debt	**(879.8)**	(917.6)
Treasury Stock Purchased	**(77.7)**	(6.0)
Net Proceeds from Stock Options	**58.7**	57.1
Cash Dividends Paid on Common Stock	**(205.5)**	(204.6)
Other Financing Activities, net		1.1
Net Cash Provided by (Used in) Financing Activities	**10,648.2**	(2,316.3)
Effect of Foreign Currency Exchange Rates on Cash	**(76.3)**	90.2

Increase in Cash and Due from Banks	**1,518.6**	997.7
Cash and Due from Banks at Beginning of Year	**2,818.0**	2,491.8
Cash and Due from Banks at End of Period	**$ 4,336.6**	$ 3,489.5
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	**$ 314.9**	$ 271.7
Income Taxes Paid	**123.6**	136.7
Transfers from Loans to OREO	**57.5**	24.5

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation The consolidated financial statements include the accounts of Northern Trust Corporation (Corporation) and its subsidiaries (collectively, Northern Trust). Significant intercompany balances and transactions have been eliminated. The consolidated financial statements, as of and for the periods ended September 30, 2011 and 2010, have not been audited by the Corporation s independent registered public accounting firm. In the opinion of management, all accounting entries and adjustments, including normal recurring accruals, necessary for a fair presentation of the financial position and the results of operations for the interim periods have been made. Certain prior period balances have been reclassified consistent with the current period s presentations. For a description of Northern Trust s significant accounting policies, refer to Note 1 of the Notes to Consolidated Financial Statements in the 2010 Annual Report to Shareholders.

2. Recent Accounting Pronouncements In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, Testing Goodwill for Impairment . The ASU provides the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative analysis indicate it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step impairment test, which is required under current U.S. GAAP, would not be necessary. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this ASU by Northern Trust, effective January 1, 2012, is not expected to have an impact on Northern Trust s consolidated financial position or results of operations.

3. Fair Value Measurements **Fair Value Hierarchy.** The following describes the hierarchy of valuation inputs (Levels 1, 2, and 3) used to measure fair value and the primary valuation methodologies used by Northern Trust for financial instruments measured at fair value on a recurring basis. Observable inputs reflect market data obtained from sources independent of the reporting entity; unobservable inputs reflect the entity s own assumptions about how market participants would value an asset or liability based on the best information available. GAAP requires an entity measuring fair value to maximize the use of observable inputs and minimize the use of unobservable inputs and establishes a fair value hierarchy of inputs. Financial instruments are categorized within the hierarchy based on the lowest level input that is significant to their valuation.

Level 1 Quoted, active market prices for identical assets or liabilities.

Northern Trust s Level 1 assets and liabilities include available for sale investments in U.S. treasury securities and U.S. treasury securities held to fund employee benefit and deferred compensation obligations.

Level 2 Observable inputs other than Level 1 prices, such as quoted active market prices for similar assets or liabilities, quoted prices for identical or similar assets in inactive markets, and model-derived valuations in which all significant inputs are observable in active markets.

Notes to Consolidated Financial Statements (continued)

Northern Trust s Level 2 assets include available for sale and trading account securities. Their fair values are determined by external pricing vendors, or in limited cases internally, using widely accepted income-based (discounted cash flow) models that incorporate observable current market yield curves and assumptions regarding anticipated prepayments and defaults.

Level 2 assets and liabilities also include derivative contracts which are valued using widely accepted income-based models that incorporate inputs readily observable in actively quoted markets and reflect the contractual terms of the contracts. Observable inputs include foreign exchange rates and interest rates for foreign exchange contracts; credit spreads, default probabilities, and recovery rates for credit default swap contracts; interest rates for interest rate swap contracts and forward contracts; and interest rates and volatility inputs for interest rate option contracts. Northern Trust evaluates the impact of counterparty credit risk and its own credit risk on the valuation of its derivative instruments. Factors considered include the likelihood of default by Northern Trust and its counterparties, the remaining maturities of the instruments, net exposures after giving effect to master netting agreements, available collateral, and other credit enhancements in determining the appropriate fair value of derivative instruments. The resulting valuation adjustments have not been considered material. Level 2 other assets represent investments in mutual and collective trust funds held to fund employee benefit and deferred compensation obligations. These investments are valued at the funds net asset values based on a market approach.

Level 3 Valuation techniques in which one or more significant inputs are unobservable in the marketplace.

Northern Trust s Level 3 assets consist of auction rate securities purchased from Northern Trust clients. To estimate their fair value, Northern Trust developed an internal income-based model. The lack of activity in the auction rate security market has resulted in a lack of observable market inputs to incorporate within the model. Therefore, significant inputs to the model include Northern Trust s own assumptions about future cash flows and appropriate discount rates, both adjusted for credit and liquidity factors. In developing these assumptions, Northern Trust incorporated the contractual terms of the securities, the types of collateral, any credit enhancements available, and relevant market data, where available. Level 3 liabilities include financial guarantees relating to standby letters of credit, a net estimated liability for certain indemnification obligations related to litigation involving Visa Inc. (Visa), and acquisition related contingent consideration liabilities. Northern Trust s recorded liability for standby letters of credit, reflecting the obligation it has undertaken, is measured as the amount of unamortized fees on these instruments. The fair value of the net estimated liability for Visa related indemnifications is based on a market approach, but requires management to exercise significant judgment given the limited number of market transactions involving identical or comparable liabilities. The fair value of contingent consideration liabilities is determined using an income-based (discounted cash flow) model that incorporates Northern Trust s own assumptions about future cash flows and appropriate discount rates.

Notes to Consolidated Financial Statements (continued)

Northern Trust believes its valuation methods for its assets and liabilities carried at fair value are appropriate; however, the use of different methodologies or assumptions, particularly as applied to Level 3 assets and liabilities, could have a material effect on the computation of their estimated fair values.

The following presents assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, segregated by fair value hierarchy level.

(In Millions)	Level 1	Level 2	Level 3	Netting *	Assets/Liabilities at Fair Value
September 30, 2011					
Securities					
Available for Sale					
U.S. Government	**$ 2,020.9**	**$**	**$**	**$**	**$ 2,020.9**
Obligations of States and Political Subdivisions		**18.4**			**18.4**
Government Sponsored Agency		**16,120.7**			**16,120.7**
Corporate Debt		**2,848.6**			**2,848.6**
Non-U.S. Government		**204.3**			**204.3**
Residential Mortgage-Backed		**183.4**			**183.4**
Other Asset-Backed		**1,637.5**			**1,637.5**
Certificates of Deposit		**3,544.5**			**3,544.5**
Auction Rate			**189.6**		**189.6**
Other		**1,671.4**			**1,671.4**
Total	**2,020.9**	**26,228.8**	**189.6**		**28,439.3**
Trading Account		**6.3**			**6.3**
Total	**2,020.9**	**26,235.1**	**189.6**		**28,445.6**
Other Assets					
Derivatives					
Foreign Exchange Contracts		**5,226.6**			**5,226.6**
Interest Rate Swaps		**348.0**			**348.0**
Interest Rate Options					
Credit Default Swaps					
Forward Contracts					
Total		**5,574.6**		**(2,118.1)**	**3,456.5**
All Other	**75.7**	**38.9**			**114.6**
Total	**75.7**	**5,613.5**		**(2,118.1)**	**3,571.1**
Total Assets at Fair Value	**$ 2,096.6**	**$ 31,848.6**	**$ 189.6**	**$ (2,118.1)**	**$ 32,016.7**
Other Liabilities					
Derivatives					
Foreign Exchange Contracts	**$**	**$ 5,216.8**	**$**	**$**	**$ 5,216.8**
Interest Rate Swaps		**232.3**			**232.3**
Interest Rate Options					
Credit Default Swaps		**.4**			**.4**

Forward Contracts					
Total		**5,449.5**		**(3,619.3)**	**1,830.2**
All Other			**102.2**		**102.2**
Total Liabilities at Fair Value	**$**	**$ 5,449.5**	**$ 102.2**	**$ (3,619.3)**	**$ 1,932.4**

* *Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting agreements exist between Northern Trust and the counterparty. As of September 30, 2011, derivative assets and liabilities shown above also include reductions of $62.9 million and $1,564.1 million, respectively, as a result of cash collateral received from and deposited with derivative counterparties.*

Notes to Consolidated Financial Statements (continued)

(In Millions)	Level 1	Level 2	Level 3	Netting *	Assets/Liabilities at Fair Value
December 31, 2010					
Securities					
Available for Sale					
U.S. Government	$ 658.4	$	$	$	$ 658.4
Obligations of States and Political Subdivisions		36.3			36.3
Government Sponsored Agency		11,970.7			11,970.7
Corporate Debt		2,554.0			2,554.0
Non-U.S. Government		440.6			440.6
Residential Mortgage-Backed		254.6			254.6
Other Asset-Backed		1,605.7			1,605.7
Certificates of Deposit		1,402.5			1,402.5
Auction Rate			367.8		367.8
Other		611.3			611.3
Total	658.4	18,875.7	367.8		19,901.9
Trading Account		6.8			6.8
Total	658.4	18,882.5	367.8		19,908.7
Other Assets					
Derivatives					
Foreign Exchange Contracts		5,792.8			5,792.8
Interest Rate Swaps		285.8			285.8
Interest Rate Options		.1			.1
Credit Default Swaps					
Forward Contracts		.5			.5
Total		6,079.2		(4,449.9)	1,629.3
All Other	65.9	37.4			103.3
Total	65.9	6,116.6		(4,449.9)	1,732.6
Total Assets at Fair Value	$ 724.3	$ 24,999.1	$ 367.8	$ (4,449.9)	$ 21,641.3
Other Liabilities					
Derivatives					
Foreign Exchange Contracts	$	$ 5,781.3	$	$	$ 5,781.3
Interest Rate Swaps		163.7			163.7
Interest Rate Options		.1			.1
Credit Default Swaps		2.8			2.8
Forward Contracts		.2			.2
Total		5,948.1		(4,770.9)	1,177.2
All Other			58.6		58.6
Total Liabilities at Fair Value	$	$ 5,948.1	$ 58.6	$ (4,770.9)	$ 1,235.8

* *Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting agreements exist between Northern Trust and the counterparty. As of December 31, 2010, derivative assets and liabilities shown above also include reductions of $2,631.7 million and $2,952.7 million, respectively, as a result of cash collateral received from and deposited with derivative counterparties.*

Notes to Consolidated Financial Statements (continued)

The following presents the changes in Level 3 assets for the three and nine months ended September 30, 2011 and 2010.

(In Millions)	Auction Rate Securities 2011	2010
Three Months Ended September 30		
Fair Value at July 1	**$ 205.1**	$ 384.9
Total Realized and Unrealized		
(Gains) Losses Included in Earnings	**(.6)**	(.3)
Gains (Losses) Included in Other Comprehensive Income	**(5.2)**	(1.5)
Purchases, Issuances, Sales, and Settlements		
Sales		
Settlements	**(9.7)**	(3.1)
Fair Value at September 30	**$ 189.6**	$ 380.0

	2011	2010
Nine Months Ended September 30		
Fair Value at January 1	**$ 367.8**	$ 427.7
Total Realized and Unrealized		
(Gains) Losses Included in Earnings	**(10.2)**	(2.9)
Gains (Losses) Included in Other Comprehensive Income	**(15.8)**	(7.4)
Purchases, Issuances, Sales, and Settlements		
Sales	**(1.5)**	(.3)
Settlements	**(150.7)**	(37.1)
Fair Value at September 30	**$ 189.6**	$ 380.0

Northern Trust purchased certain illiquid auction rate securities from clients in 2008 which were recorded at their purchase date fair values and designated as available for sale securities. Subsequent to their purchase, the securities are reported at fair value and unrealized gains and losses are credited or charged, net of the tax effect, to accumulated other comprehensive income (AOCI). As of September 30, 2011 and December 31, 2010, the net unrealized loss related to these securities was $5.0 million ($3.1 million net of tax) and $10.8 million ($6.8 million net of tax), respectively. Realized gains for the three month period ended September 30, 2011 of $.6 million represent redemptions by issuers. Realized gains for the nine month period ended September 30, 2011 of $10.2 million include $10.1 million from redemptions by issuers and $.1 million from sales of securities. Realized gains for the three and nine month period ended September 30, 2010 of $.3 million and $2.9 million, respectively, represent redemptions by issuers. Gains on redemptions and sales are included in interest income and investment security gains (losses), net, respectively, within the consolidated statement of income.

Notes to Consolidated Financial Statements (continued)

The following presents the changes in Level 3 liabilities for the three and nine months ended September 30, 2011 and 2010.

	Other Liabilities *	
(In Millions)	2011	2010
Three Months Ended September 30		
Fair Value at July 1	**$ 55.2**	$ 81.0
Total Realized and Unrealized (Gains) Losses		
Included in Earnings	**1.4**	(1.7)
Included in Other Comprehensive Income		
Purchases, Issuances, Sales, and Settlements		
Issuances	**45.7**	1.8
Settlements	**(.1)**	(.1)
Fair Value at September 30	**$ 102.2**	$ 81.0
Nine Months Ended September 30		
Fair Value at January 1	**$ 58.6**	$ 94.4
Total Realized and Unrealized (Gains) Losses		
Included in Earnings	**2.7**	(2.4)
Included in Other Comprehensive Income		
Purchases, Issuances, Sales, and Settlements		
Issuances	**53.2**	3.1
Settlements	**(12.3)**	(14.1)
Fair Value at September 30	**$ 102.2**	$ 81.0
Unrealized (Gains) Losses Included in Earnings Related to Financial Instruments Held at September 30		

* *Balances relate to standby letters of credit, contingent consideration liabilities, and the net estimated liability for Visa related indemnifications.*

All realized and unrealized gains and losses related to Level 3 liabilities are included in other operating income or other operating expense with the exception of those related to the Visa indemnification liability, which have been presented separately in the consolidated statement of income.

Carrying values of assets and liabilities that are not measured at fair value on a recurring basis may be adjusted to fair value in periods subsequent to their initial recognition, for example, to record an impairment of an asset. GAAP requires entities to separately disclose these subsequent fair value measurements and to classify them under the fair value hierarchy.

Notes to Consolidated Financial Statements (continued)

The following provides information regarding those assets measured at fair value on a nonrecurring basis at September 30, 2011 and 2010, segregated by fair value hierarchy level.

(In Millions)	Level 1	Level 2	Level 3	Total Fair Value
September 30, 2011				
Loans (1)	**$**	**$**	**$ 46.6**	**$ 46.6**
Other Real Estate Owned (2)			**4.0**	**4.0**
Total Assets at Fair Value	**$**	**$**	**$ 50.6**	**$ 50.6**
September 30, 2010				
Loans (1)	$	$	$ 74.6	$ 74.6
Other Real Estate Owned (2)			7.4	7.4
Total Assets at Fair Value	$	$	$ 82.0	$ 82.0

(1) Northern Trust provided an additional $3.0 million and $1.7 million of specific reserves to reduce the fair value of these loans during the three months ended September 30, 2011 and 2010, respectively. During the nine months ended September 30, 2011 and 2010, these loans were reduced by $10.5 million and $16.1 million, respectively.

(2) Northern Trust charged $1.7 million and $2.6 million through other operating expenses during the three months ended September 30, 2011 and 2010 respectively to reduce the fair values of these Other Real Estate Owned (OREO) properties. During the nine months ended September 30 2011 and 2010, the fair values of these OREO properties were reduced by $1.8 million and $3.8 million, respectively.

The fair values of loan collateral and OREO properties were estimated using a market approach typically supported by third party appraisals, and were subject to adjustments to reflect management s judgment as to their realizable value.

Fair Value of Financial Instruments. GAAP requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate fair value. It excludes from this requirement nonfinancial assets and liabilities, as well as a wide range of franchise, relationship, and intangible values that add value to Northern Trust. Accordingly, the required fair value disclosures provide only a partial estimate of the fair value of Northern Trust. Financial instruments recorded at fair value on Northern Trust s consolidated balance sheet are discussed above. The following methods and assumptions were used in estimating the fair values of financial instruments that are not carried at fair value.

Held to Maturity Securities. The fair values of held to maturity securities were modeled by external pricing vendors or, in limited cases, modeled internally, using widely accepted models which are based on an income approach that incorporates current market yield curves and assumptions regarding anticipated prepayments and defaults.

Loans (Excluding Lease Receivables). The fair value of the loan portfolio was estimated using a discounted cash flow methodology based on current market rates offered by Northern Trust as of the date of the consolidated financial statements. The fair values of all loans were adjusted to reflect current assessments of loan collectibility.

Federal Reserve and Federal Home Loan Bank Stock. The fair values of Federal Reserve and Federal Home Loan Bank stock are equal to their carrying values which represent redemption value.

Affordable Housing Investments. Affordable housing investments are valued at cost, which approximates fair value.

Notes to Consolidated Financial Statements (continued)

Savings Certificates, Other Time, and Non-U.S. Offices Interest-Bearing Deposits. The fair values of instruments with stated maturities were estimated using an income approach (discounted cash flow) that incorporates market interest rates. Due to their short maturity, the fair value of instruments without stated maturities approximated their fair values.

Senior Notes, Subordinated Debt, Federal Home Loan Bank Borrowings, and Floating Rate Capital Debt. Fair values were determined using a market approach based on quoted market prices, when available. If quoted market prices were not available, fair values were based on quoted market prices for comparable instruments.

Loan Commitments. The fair values of loan commitments represent the amount of unamortized fees on these instruments.

Financial Instruments Valued at Carrying Value. Due to their short maturity, the carrying values of certain financial instruments approximated their fair values. These financial instruments include cash and due from banks; federal funds sold and securities purchased under agreements to resell, interest-bearing deposits with banks, and federal reserve deposits and other interest-bearing assets; client security settlement receivables; federal funds purchased; securities sold under agreements to repurchase; and other borrowings (includes term federal funds purchased, and other short-term borrowings). As required by GAAP, the fair values required to be disclosed for demand, noninterest-bearing, savings, and money market deposits must equal the amounts disclosed in the consolidated balance sheet, even though such deposits are typically priced at a premium in banking industry consolidations.

Notes to Consolidated Financial Statements (continued)

The following table summarizes the fair values of financial instruments.

	September 30, 2011		December 31, 2010	
(In Millions)	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash and Due from Banks	**$ 4,336.6**	**$ 4,336.6**	$ 2,818.0	$ 2,818.0
Federal Funds Sold and Resell Agreements	**221.8**	**221.8**	160.1	160.1
Interest-Bearing Deposits with Banks	**18,944.2**	**18,944.2**	15,351.3	15,351.3
Federal Reserve Deposits and Other Interest-Bearing	**6,498.2**	**6,498.2**	10,924.6	10,924.6
Securities				
Available for Sale	**28,439.3**	**28,439.3**	19,901.9	19,901.9
Held to Maturity	**829.2**	**847.2**	922.2	941.8
Trading Account	**6.3**	**6.3**	6.8	6.8
Loans (excluding Leases)				
Held for Investment	**27,369.6**	**27,603.0**	26,747.8	26,814.2
Held for Sale	**10.0**	**10.0**	2.2	2.2
Client Security Settlement Receivables	**948.2**	**948.2**	701.3	701.3
Other Assets				
Federal Reserve and Federal Home Loan Bank Stock	**185.3**	**185.3**	185.5	185.5
Affordable Housing Investments	**252.3**	**252.3**	265.4	265.4
Liabilities				
Deposits				
Demand, Noninterest-Bearing, and Savings and Money Market	**$ 37,401.0**	**$ 37,401.0**	$ 24,810.3	$ 24,810.3
Savings Certificates, Other Time and Non U. S. Offices Interest-Bearing	**41,113.0**	**41,126.0**	39,385.4	39,402.1
Federal Funds Purchased	**737.8**	**737.8**	3,691.7	3,691.7
Securities Sold under Agreements to Repurchase	**339.3**	**339.3**	954.4	954.4
Other Borrowings	**817.6**	**817.6**	347.7	347.7
Senior Notes	**2,133.5**	**2,196.1**	1,896.1	1,936.5
Long Term Debt (excluding Leases)				
Subordinated Debt	**1,036.6**	**1,038.9**	1,148.7	1,177.2
Federal Home Loan Bank Borrowings	**1,055.0**	**1,101.9**	1,532.5	1,613.5
Floating Rate Capital Debt	**276.9**	**229.9**	276.9	223.2
Financial Guarantees	**102.2**	**102.2**	58.6	58.6
Loan Commitments	**32.8**	**32.8**	32.4	32.4
Derivative Instruments				
Asset/Liability Management				
Foreign Exchange Contracts				
Assets	**$ 23.7**	**$ 23.7**	$ 44.9	$ 44.9
Liabilities	**26.8**	**26.8**	51.4	51.4
Interest Rate Swaps				
Assets	**154.4**	**154.4**	134.6	134.6
Liabilities	**42.8**	**42.8**	15.3	15.3
Credit Default Swaps				
Assets				
Liabilities	**.4**	**.4**	2.8	2.8
Forward Contracts				
Assets			.5	.5
Liabilities			.2	.2
Client-Related and Trading				
Foreign Exchange Contracts				
Assets	**5,202.9**	**5,202.9**	5,747.9	5,747.9
Liabilities	**5,190.0**	**5,190.0**	5,729.9	5,729.9
Interest Rate Swaps				

Assets	**193.6**	**193.6**	151.2	151.2
Liabilities	**189.5**	**189.5**	148.4	148.4
Interest Rate Options				
Assets			.1	.1
Liabilities			.1	.1

Notes to Consolidated Financial Statements (continued)

4. Securities The following tables provide the amortized cost and fair values of securities at September 30, 2011 and December 31, 2010.

	000000	000000	000000	000000
		September 30, 2011		
Securities Available for Sale	Amortized	Gross Unrealized		Fair
(In Millions)	Cost	Gains	Losses	Value
U.S. Government	$ 1,967.4	$ 53.5	$	$ 2,020.9
Obligations of States and Political Subdivisions	17.5	.9		18.4
Government Sponsored Agency	16,055.4	78.7	13.4	16,120.7
Corporate Debt	2,840.8	10.2	2.4	2,848.6
Non-U.S. Government Debt	204.3			204.3
Residential Mortgage-Backed	215.8		32.4	183.4
Other Asset-Backed	1,638.3	1.7	2.5	1,637.5
Certificates of Deposit	3,545.2		.7	3,544.5
Auction Rate	194.6	4.8	9.8	189.6
Other	1,653.5	18.5	.6	1,671.4
Total	$ 28,332.8	$ 168.3	$ 61.8	$ 28,439.3

	0000000	0000000	0000000	0000000
		September 30, 2011		
Securities Held to Maturity	Amortized	Gross Unrealized		Fair
(In Millions)	Cost	Gains	Losses	Value
Obligations of States and Political Subdivisions	$ 553.1	$ 25.3	$ .1	$ 578.3
Government Sponsored Agency	163.9	4.9		168.8
Other	112.2		12.1	100.1
Total	$ 829.2	$ 30.2	$ 12.2	$ 847.2

	00000000	00000000	00000000	00000000
		December 31, 2010		
Securities Available for Sale	Amortized	Gross Unrealized		Fair
(In Millions)	Cost	Gains	Losses	Value
U.S. Government	$ 667.2	$ 1.0	$ 9.8	$ 658.4
Obligations of States and Political Subdivisions	35.4	.9		36.3
Government Sponsored Agency	11,937.0	47.0	13.3	11,970.7
Corporate Debt	2,547.7	7.8	1.5	2,554.0
Non-U.S. Government Debt	440.6			440.6
Residential Mortgage-Backed	308.0	.9	54.3	254.6
Other Asset-Backed	1,606.5	1.5	2.3	1,605.7
Certificates of Deposit	1,402.5			1,402.5
Auction Rate	357.0	14.2	3.4	367.8
Other	610.8	4.2	3.7	611.3
Total	$ 19,912.7	$ 77.5	$ 88.3	$ 19,901.9

	0000000	0000000	0000000	0000000
	December 31, 2010			
Securities Held to Maturity	Amortized	Gross Unrealized		Fair
(In Millions)	Cost	Gains	Losses	Value
Obligations of States and Political Subdivisions	$ 635.0	$ 26.2	$ .4	$ 660.8
Government Sponsored Agency	169.3	4.6	.2	173.7
Other	117.9		10.6	107.3
Total	$ 922.2	$ 30.8	$ 11.2	$ 941.8

Notes to Consolidated Financial Statements (continued)

The following table provides the remaining maturity of securities as of September 30, 2011.

(In Millions)	Amortized Cost	Fair Value
Available for Sale		
Due in One Year or Less	**$ 11,153.3**	**$ 11,155.2**
Due After One Year Through Five Years	**15,578.1**	**15,670.4**
Due After Five Years Through Ten Years	**851.7**	**858.7**
Due After Ten Years	**749.7**	**755.0**
Total	**28,332.8**	**28,439.3**
Held to Maturity		
Due in One Year or Less	**141.6**	**142.2**
Due After One Year Through Five Years	**284.9**	**292.9**
Due After Five Years Through Ten Years	**240.7**	**250.8**
Due After Ten Years	**162.0**	**161.3**
Total	**$ 829.2**	**$ 847.2**

Note: Mortgage-backed and asset-backed securities are included in the above table taking into account anticipated future prepayments.

Investment Security Gains and Losses. Net investment security losses totaling $2.0 million and $24.1 million were recognized for the three and nine months ended September 30, 2011, respectively, and losses totaling $13.5 million and $13.3 million were recognized for the three and nine months ended September 30, 2010, respectively. Included in the net losses were other-than-temporary impairment (OTTI) losses that totaled $1.3 million and $23.3 million for the three and nine months ended September 30, 2011, respectively, and $14.0 million and $14.1 million for the three and nine months ended September 30, 2010, respectively. There were $.7 million and $.8 million other realized net security losses for the three and nine months ended September 30, 2011, respectively, and $.5 million and $.8 million of other realized security gains for the three and nine months ended September 30, 2010, respectively.

Securities with Unrealized Losses. The following tables provide information regarding securities that have been in a continuous unrealized loss position for less than 12 months and for 12 months or longer as of September 30, 2011 and December 31, 2010.

Securities with Unrealized Losses as of September 30, 2011	Less than 12 Months		12 Months or Longer		Total	
(In Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of States and Political Subdivisions	**$ 1.0**	**$**	**$ 3.1**	**$ .1**	**$ 4.1**	**$ .1**
Government Sponsored Agency	**5,335.3**	**11.4**	**414.1**	**2.0**	**5,749.4**	**13.4**
Corporate Debt	**408.8**	**1.3**	**99.2**	**1.1**	**508.0**	**2.4**
Residential Mortgage-Backed	**5.6**	**.2**	**177.4**	**32.2**	**183.0**	**32.4**
Other Asset-Backed	**687.8**	**2.2**	**87.4**	**.3**	**775.2**	**2.5**
Certificates of Deposit	**2,034.2**	**.7**			**2,034.2**	**.7**
Auction Rate	**63.2**	**4.9**	**53.9**	**4.9**	**117.1**	**9.8**
Other	**260.6**	**2.0**	**44.8**	**10.7**	**305.4**	**12.7**
Total	**$ 8,796.5**	**$ 22.7**	**$ 879.9**	**$ 51.3**	**$ 9,676.4**	**$ 74.0**

Notes to Consolidated Financial Statements (continued)

Securities with Unrealized Losses

as of December 31, 2010	Less than 12 Months		12 Months or Longer		Total	
(In Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government	$ 492.9	$ 9.8	$	$	$ 492.9	$ 9.8
Obligations of States and Political Subdivisions	3.0		3.2	.4	6.2	.4
Government Sponsored Agency	980.7	11.0	328.7	2.5	1,309.4	13.5
Corporate Debt	930.6	1.1	475.2	.4	1,405.8	1.5
Residential Mortgage-Backed			248.8	54.3	248.8	54.3
Other Asset-Backed	513.5	2.2	27.0	.1	540.5	2.3
Auction Rate	77.6	3.3	.7	.1	78.3	3.4
Other	482.2	6.8	36.5	7.5	518.7	14.3
Total	$ 3,480.5	$ 34.2	$ 1,120.1	$ 65.3	$ 4,600.6	$ 99.5

As of September 30, 2011, 341 securities with a combined fair value of $9.7 billion were in an unrealized loss position, with their unrealized losses totaling $74.0 million. Unrealized losses on residential mortgage-backed securities totaling $32.4 million reflect the impact of credit and liquidity spreads on the valuations of 25 residential mortgage-backed securities, with $32.2 million having been in an unrealized loss position for more than 12 months. Residential mortgage-backed securities rated below double-A at September 30, 2011 represented 81% of the total fair value of residential mortgage-backed securities, were comprised primarily of sub-prime and Alt-A securities, and had a total amortized cost and fair value of $179.7 million and $149.2 million, respectively. Securities classified as other asset-backed at September 30, 2011 were predominantly floating rate with average lives less than 5 years, and 100% were rated triple-A.

Unrealized losses of $13.4 million related to government sponsored agency securities are primarily attributable to changes in market rates since their purchase. The majority of the $12.7 million of unrealized losses in securities classified as other at September 30, 2011 relate to securities which Northern Trust purchases for compliance with the Community Reinvestment Act (CRA). Unrealized losses on these CRA related other securities are attributable to their purchase at below market rates for the purpose of supporting institutions and programs that benefit low to moderate income communities within Northern Trust s market area. Unrealized losses of $9.8 million related to auction rate securities primarily reflect reduced market liquidity as a majority of auctions continue to fail preventing holders from liquidating their investments at par. Unrealized losses of $2.4 million within corporate debt securities primarily reflect widened credit spreads; 74% of the corporate debt portfolio is backed by guarantees provided by U.S. and non-U.S. governmental entities. The remaining unrealized losses on Northern Trust s securities portfolio as of September 30, 2011 are attributable to changes in overall market interest rates, increased credit spreads, or reduced market liquidity.

Notes to Consolidated Financial Statements (continued)

Security impairment reviews are conducted quarterly to identify and evaluate securities that have indications of possible OTTI. A determination as to whether a security s decline in market value is other-than-temporary takes into consideration numerous factors and the relative significance of any single factor can vary by security. Factors Northern Trust considers in determining whether impairment is other-than-temporary include, but are not limited to, the length of time which the security has been impaired; the severity of the impairment; the cause of the impairment and the financial condition and near-term prospects of the issuer; activity in the market of the issuer which may indicate adverse credit conditions; Northern Trust s intent regarding the sale of the security as of the balance sheet date; and the likelihood that it will not be required to sell the security for a period of time sufficient to allow for the recovery of the security s amortized cost basis. For each security meeting the requirements of Northern Trust s internal screening process, an extensive review is conducted to determine if OTTI has occurred.

While all securities are considered, the following describes Northern Trust s process for identifying credit impairment within non-agency residential mortgage-backed securities, the security type for which Northern Trust has previously recognized OTTI. To determine if an unrealized loss on a non-agency residential mortgage-backed security is other-than-temporary, economic models are used to perform cash flow analyses by developing multiple scenarios in order to create reasonable forecasts of the security s future performance using available data including servicers loan charge off patterns, prepayment speeds, annualized default rates, each security s current delinquency pipeline, the delinquency pipeline s growth rate, the roll rate from delinquency to default, loan loss severities and historical performance of like collateral, along with Northern Trust s outlook for the housing market and the overall economy. If the present value of future cash flows projected as a result of this analysis is less than the current amortized cost of the security, a credit related OTTI loss is recorded to earnings equal to the difference between the two amounts.

Expected losses on non-agency residential mortgage-backed securities are influenced by a number of factors, including but not limited to, U.S. economic and housing market performance, security credit enhancement level, insurance coverage, year of origination, and type of collateral. The factors used in developing the expected loss on non-agency residential mortgage-backed securities vary by year of origination and type of collateral. As of September 30, 2011, the expected losses on subprime, Alt-A, prime and 2nd lien portfolios were developed using default roll rates, determined primarily by the stage of delinquency of the underlying instrument, that generally assumed ultimate default rates approximating 5% to 30% for current loans; 30% for loans 30 to 60 days delinquent; 80% for loans 60 to 90 days delinquent; 90% for loans delinquent greater than 90 days; and 100% for OREO properties and loans that are in foreclosure. September 30, 2011 amortized cost, weighted average ultimate default rates, and loss severity rates for the non-agency residential mortgage-backed securities portfolio, by security type, are provided in the following table.

Notes to Consolidated Financial Statements (continued)

(In Millions)	September 30, 2011				
			Loss Severity Rates		
Security Type	Amortized Cost	Weighted Average Ultimate Default Rates	Low	High	Weighted Average
Prime	**$ 24.4**	**16.1%**	**39.4%**	**66.0%**	**51.8%**
Alt-A	**35.4**	**41.9**	**57.9**	**71.7**	**68.5**
Subprime	**120.4**	**51.1**	**68.8**	**86.0**	**74.4**
2nd Lien	**35.6**	**33.1**	**98.8**	**100.0**	**99.5**
Total Non-Agency Residential Mortgage-Backed Securities	**$ 215.8**	**42.4%**	**39.4%**	**100.0%**	**75.0%**

During the three and nine months ended September 30, 2011, performance metrics specific to subprime and Alt-A loans remained weak resulting in the recognition of OTTI losses of $1.3 million and $23.3 million, respectively, in connection with residential mortgage-backed securities. OTTI losses totaled $14.0 million and $14.1 million for the three and nine months ended September 30, 2010, respectively.

Credit Losses on Debt Securities. The table below provides information regarding total other-than-temporarily impaired securities, including noncredit-related amounts recognized in other comprehensive income and net impairment losses recognized in earnings, for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Millions)	2011	2010	2011	2010
Changes in OTTI Losses*	**$ .5**	$ 7.3	**$ (1.1)**	$ 6.6
Noncredit-related Losses Recorded in / (Reclassified from) OCI**	**(1.8)**	(21.3)	**(22.2)**	(20.7)
Net Impairment Losses Recognized in Earnings	**$ (1.3)**	$ (14.0)	**$ (23.3)**	$ (14.1)

* *For initial other-than-temporary impairments in the respective period, the balance includes the excess of the amortized cost over the fair value of the impaired securities. For subsequent impairments of the same security, the balance includes any additional changes in fair value of the security subsequent to its most recently recorded OTTI.*

** *For initial other-than-temporary impairments in the respective period, the balance includes the portion of the excess of amortized cost over the fair value of the impaired securities that was recorded in OCI. For subsequent impairments of the same security, the balance includes additional changes in OCI for that security subsequent to its most recently recorded OTTI.*

Provided in the table below are the cumulative credit-related losses recognized in earnings on debt securities other-than-temporarily impaired.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Millions)	2011	2010	2011	2010
Cumulative Credit-Related Losses on Securities Held Beginning of Period	**$ 116.2**	$ 73.1	**$ 94.2**	$ 73.0
Plus: Losses on Newly Identified Impairements		.1	**1.5**	.1
Additional Losses on Previously Identified Impairements	**1.3**	13.9	**21.8**	14.0
Less: Losses on Securities Sold During the Period	**(49.3)**		**(49.3)**	
Cumulative Credit-Related Losses on Securities Held End of Period	**$ 68.2**	$ 87.1	**$ 68.2**	$ 87.1

Notes to Consolidated Financial Statements (continued)

The table below provides information regarding debt securities held as of September 30, 2011 and December 31, 2010, for which an OTTI loss had been recognized in the current period or previously.

(In Millions)	September 30, 2011	December 31, 2010
Fair Value	**$ 77.9**	$ 79.9
Amortized Cost Basis	**99.9**	113.3
Noncredit-related Losses Recognized in OCI	**(22.0)**	(33.4)
Tax Effect	**8.1**	12.2
Amount Recorded in OCI	**$ (13.9)**	$ (21.2)

5. Loans and Leases Amounts outstanding for loans and leases, by segment and class, are shown below.

(In Millions)	September 30, 2011	December 31, 2010
Commercial		
Commercial and Institutional	**$ 6,458.0**	$ 5,914.5
Commercial Real Estate	**2,958.2**	3,242.4
Lease Financing, net	**1,014.1**	1,063.7
Non-U.S.	**1,315.2**	1,046.2
Other	**473.8**	346.6
Total Commercial	**12,219.3**	11,613.4
Personal		
Residential Real Estate	**10,772.4**	10,854.9
Private Client	**5,427.7**	5,423.7
Other	**272.0**	240.0
Total Personal	**16,472.1**	16,518.6
Total Loans and Leases	**28,691.4**	28,132.0
Allowance for Credit Losses Assigned to Loans and Leases	**(298.3)**	(319.6)
Net Loans and Leases	**$ 28,393.1**	$ 27,812.4

Included within the non-U.S., commercial-other, and personal-other classes are short duration advances primarily related to the processing of custodied client investments that totaled $1.9 billion and $1.4 billion at September 30, 2011 and December 31, 2010, respectively. Loans classified as held for sale totaled $10.0 million at September 30, 2011 and $2.2 million at December 31, 2010.

Credit Quality Indicators. Credit quality indicators are statistics, measurements or other metrics that provide information regarding the relative credit risk of loans and leases. Northern Trust utilizes a variety of credit quality indicators to assess the credit risk of loans and leases at the segment, class, and individual credit exposure levels.

As part of its credit process, Northern Trust utilizes an internal borrower risk rating system to support identification, approval, and monitoring of credit risk. Borrower risk ratings are used in credit underwriting, management reporting, and the calculation of credit loss allowances and economic capital.

Notes to Consolidated Financial Statements (continued)

Risk ratings are used for ranking the credit risk of borrowers and the probability of their default. Each borrower is rated using one of a number of ratings models, which consider both quantitative and qualitative factors. The ratings models vary among classes of loans and leases in order to capture the unique risk characteristics inherent within each particular type of credit exposure. Provided below are the more significant performance indicator attributes considered within Northern Trust s borrower rating models, by loan and lease class.

Commercial and Institutional: leverage, profit margin, liquidity, return on assets, asset size, and capital levels;

Commercial Real Estate: debt service coverage and leasing status for income-producing properties; loan-to-value and loan-to-cost ratios, leasing status, and guarantor support for loans associated with construction and development properties;

Lease Financing and Commercial-Other: leverage and profit margin levels;

Non-U.S.: entity type, liquidity, size, and leverage;

Residential Real Estate: payment history and cash flow-to-debt and net worth ratios;

Private Client: cash flow-to-debt and net worth ratios, leverage, and profit margin levels; and

Personal-Other: cash flow-to-debt and net worth ratios.

While the criteria vary by model, the objective is for the borrower ratings to be consistent in both the measurement and ranking of risk. Each model is calibrated to a master rating scale to support this consistency. Ratings for borrowers not in default range from 1 for the strongest credits to 7 for the weakest non-defaulted credits. Ratings of 8 or 9 are used for defaulted borrowers. Borrower risk ratings are monitored and are revised when events or circumstances indicate a change is required. Risk ratings are validated at least annually.

Loan and lease segment and class balances as of September 30, 2011 and December 31, 2010 are provided below, segregated by borrower ratings into below average risk, average risk, and watch list categories.

	September 30, 2011				December 31, 2010			
(In Millions)	Below Average Risk	Average Risk	Watch List	Total	Below Average Risk	Average Risk	Watch List	Total
Commercial								
Commercial and Institutional	**$ 3,273.0**	**$ 2,974.6**	**$ 210.4**	**$ 6,458.0**	$ 2,821.5	$ 2,849.8	$ 243.2	$ 5,914.5
Commercial Real Estate	**1,291.6**	**1,362.8**	**303.8**	**2,958.2**	1,232.8	1,594.3	415.3	3,242.4
Lease Financing, net	**536.6**	**464.1**	**13.4**	**1,014.1**	571.6	473.0	19.1	1,063.7
Non-U.S.	**612.5**	**687.3**	**15.4**	**1,315.2**	430.0	596.5	19.7	1,046.2
Other	**400.4**	**73.4**		**473.8**	209.5	137.1		346.6
Total Commercial	**6,114.1**	**5,562.2**	**543.0**	**12,219.3**	5,265.4	5,650.7	697.3	11,613.4
Personal								
Residential Real Estate	**2,739.1**	**7,631.8**	**401.5**	**10,772.4**	2,896.0	7,586.9	372.0	10,854.9
Private Client	**3,059.1**	**2,335.4**	**33.2**	**5,427.7**	3,326.5	2,064.1	33.1	5,423.7

Other	**120.1**	**151.9**		**272.0**	78.1	161.9		240.0
Total Personal	**5,918.3**	**10,119.1**	**434.7**	**16,472.1**	6,300.6	9,812.9	405.1	16,518.6
Total Loans and Leases	**$ 12,032.4**	**$ 15,681.3**	**$ 977.7**	**$ 28,691.4**	$ 11,566.0	$ 15,463.6	$ 1,102.4	$ 28,132.0

Notes to Consolidated Financial Statements (continued)

Borrowers designated as below average risk represent exposures with borrower ratings from 1 3 . These credits are expected to exhibit minimal to modest probabilities of default and are characterized by borrowers having the strongest financial qualities, including above average financial flexibility, cash flows and capital levels. Borrowers assigned these ratings are anticipated to experience very little to moderate financial pressure in adverse down cycle scenarios.

Borrowers designated as average risk represent exposures with borrower ratings of 4 and 5 . These credits are expected to exhibit moderate to acceptable probabilities of default and are characterized by borrowers with less financial flexibility than those in the below average risk category. Cash flows and capital levels are generally sufficient to allow for borrowers to meet current requirements, but have reduced cushion in adverse down cycle scenarios.

Borrowers designated as watch list represent exposures with elevated credit risk profiles that are monitored through internal watch lists, and consist of credits with borrower ratings of 6 9 . These credits, which include all nonperforming credits, are expected to exhibit minimally acceptable probabilities of default, elevated risk of default or are currently in default. Borrowers associated with these risk profiles that are not currently in default have limited financial flexibility. Cash flows and capital levels range from acceptable to potentially insufficient to meet current requirements, particularly in adverse down cycle scenarios.

Recognition of Income. Interest income on loans is recorded on an accrual basis unless, in the opinion of management, there is a question as to the ability of the debtor to meet the terms of the loan agreement, or interest or principal is more than 90 days contractually past due and the loan is not well-secured and in the process of collection. At the time a loan is determined to be nonperforming, interest accrued but not collected is reversed against interest income of the current period and the loan is classified as nonperforming. Interest collected on nonperforming loans is applied to principal unless, in the opinion of management, collectability of principal is not in doubt. Management s assessment of the indicators of loan and lease collectability, and its policies relative to the recognition of interest income, including the suspension and subsequent resumption of income recognition, do not meaningfully vary between loan and lease classes.

Nonperforming loans are returned to performing status when factors indicating doubtful collectability no longer exist. Factors considered in returning a loan to performing status are consistent across all classes of loans and leases and, in accordance with regulatory guidance, relate primarily to expected payment performance. Loans are eligible to be returned to performing status when one of the following conditions are met: (i) no principal and interest is due and unpaid and repayment of the remaining contractual principal and interest is expected; (ii) there has been a sustained period of repayment performance (generally a minimum of six months) by the borrower in accordance with the contractual terms, and Northern Trust is reasonably assured of repayment within a reasonable period of time and repayment of the remaining contractual principal and interest is expected; or (iii) the loan has otherwise become well-secured (possessing realizable value sufficient to

Notes to Consolidated Financial Statements (continued)

discharge the debt, including accrued interest, in full) and is in the process of collection (through action reasonably expected to result in debt repayment or restoration to a current status in the near future). Additionally, a loan that has been formally restructured so as to be reasonably assured of repayment and performance according to its modified terms may be returned to accrual status, provided there was a well-documented credit evaluation of the borrower s financial condition and prospects of repayment under the revised terms and there has been a sustained period of repayment performance (generally a minimum of six months) under the revised terms.

Past due status is based on how long after the contractual due date a principal or interest payment is received. For disclosure purposes, loans that are 29 days past due or less are reported as current. The following tables provide balances and delinquency status of performing and nonperforming loans and leases by segment and class, as well as the total other real estate owned and nonperforming asset balances, as of September 30, 2011 and December 31, 2010.

September 30, 2011 (In Millions)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Current	Total Performing	Nonperforming	Total Loans and Leases
Commercial							
Commercial and Institutional	**$ 8.0**	**$ 18.4**	**$ 1.6**	**$ 6,394.5**	**$ 6,422.5**	**$ 35.5**	**$ 6,458.0**
Commercial Real Estate	**6.3**	**7.4**	**5.3**	**2,855.2**	**2,874.2**	**84.0**	**2,958.2**
Lease Financing, net				**1,014.1**	**1,014.1**		**1,014.1**
Non-U.S.				**1,315.2**	**1,315.2**		**1,315.2**
Other				**473.8**	**473.8**		**473.8**
Total Commercial	**$ 14.3**	**$ 25.8**	**$ 6.9**	**$ 12,052.8**	**$ 12,099.8**	**$ 119.5**	**$ 12,219.3**
Personal							
Residential Real Estate	**$ 16.2**	**$ 31.8**	**$ 4.7**	**$ 10,537.8**	**$ 10,590.5**	**$ 181.9**	**$ 10,772.4**
Private Client	**16.5**	**10.9**	**.8**	**5,393.4**	**5,421.6**	**6.1**	**5,427.7**
Other				**272.0**	**272.0**		**272.0**
Total Personal	**32.7**	**42.7**	**5.5**	**16,203.2**	**16,284.1**	**188.0**	**16,472.1**
Total Loans and Leases	**$ 47.0**	**$ 68.5**	**$ 12.4**	**$ 28,256.0**	**$ 28,383.9**	**$ 307.5**	**$ 28,691.4**
					Total Other Real Estate Owned	**30.4**	
					Total Nonperforming Assets	**$ 337.9**	

December 31, 2010 (In Millions)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Current	Total Performing	Nonperforming	Total Loans and Leases
Commercial							
Commercial and Institutional	$ 16.3	$ 8.2	$ .8	$ 5,831.2	$ 5,856.5	$ 58.0	$ 5,914.5
Commercial Real Estate	24.2	15.7	9.4	3,076.7	3,126.0	116.4	3,242.4
Lease Financing, net				1,063.7	1,063.7		1,063.7
Non-U.S.				1,046.2	1,046.2		1,046.2
Other				346.6	346.6		346.6
Total Commercial	40.5	23.9	10.2	11,364.4	11,439.0	174.4	11,613.4

Personal							
Residential Real Estate	76.1	17.2	.9	10,607.4	10,701.6	153.3	10,854.9
Private Client	35.7	13.0	1.9	5,367.8	5,418.4	5.3	5,423.7
Other				240.0	240.0		240.0
Total Personal	111.8	30.2	2.8	16,215.2	16,360.0	158.6	16,518.6
Total Loans and Leases	$ 152.3	$ 54.1	$ 13.0	$ 27,579.6	$ 27,799.0	$ 333.0	$ 28,132.0
					Total Other Real Estate Owned	45.5	
					Total Nonperforming Assets	$ 378.5	

Notes to Consolidated Financial Statements (continued)

Impaired Loans. A loan is considered to be impaired when, based on current information and events, management determines that it is probable that Northern Trust will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan is also considered to be impaired if its terms have been modified as a concession resulting from the debtor s financial difficulties, referred to as a troubled debt restructuring (TDR) and discussed in further detail below. Impaired loans are measured based upon the loan s market price, the present value of expected future cash flows, discounted at the loan s effective interest rate, or the fair value of the collateral if the loan is collateral dependent. If the loan valuation is less than the recorded value of the loan, based on the certainty of loss, either a specific reserve is established or a charge-off is recorded for the difference. Smaller balance (individually less than $250,000) homogeneous loans are collectively evaluated for impairment and excluded from impaired loan disclosures as allowed under applicable accounting standards. Northern Trust s accounting policies for impaired loans is consistent across all classes of loans and leases.

Impaired loans are identified through ongoing credit management and risk rating processes, including the formal review of past due and watch list credits. Payment performance and delinquency status are critical factors in identifying impairment for all loans and leases, particularly those within the residential real estate, private client and personal-other classes. Other factors considered in identifying impairment of loans and leases within the commercial and institutional, non-U.S., lease financing, and commercial-other classes relate to the borrower s ability to perform under the terms of the obligation as measured through the assessment of future cash flows, including consideration of collateral value, market value, and other factors.

Notes to Consolidated Financial Statements (continued)

The following tables provide information related to impaired loans by segment and class.

	As of September 30, 2011			Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
(In Millions)	Recorded Investment	Unpaid Principal Balance	Specific Reserve	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With No Related Specific Reserve							
Commercial and Institutional	**$ 21.5**	**$ 27.2**		**$ 20.1**	**$**	**$ 21.0**	**$**
Commercial Real Estate	**41.9**	**53.7**		**34.2**	**.3**	**34.5**	**.4**
Residential Real Estate	**138.8**	**178.3**		**107.9**	**.5**	**123.2**	**1.6**
Private Client	**5.3**	**5.6**		**3.2**		**3.5**	
With a Related Specific Reserve							
Commercial and Institutional	**16.0**	**25.0**	**$ 11.9**	**12.7**		**29.1**	
Commercial Real Estate	**52.6**	**68.2**	**17.2**	**45.2**		**71.0**	
Residential Real Estate	**11.1**	**11.6**	**5.2**	**7.5**		**8.3**	
Private Client	**1.7**	**1.7**	**.5**	**1.7**		**2.2**	
Total							
Commercial	**132.0**	**174.1**	**29.1**	**112.2**	**.3**	**155.6**	**.4**
Personal	**156.9**	**197.2**	**5.7**	**120.3**	**.5**	**137.2**	**1.6**
Total	**$ 288.9**	**$ 371.3**	**$ 34.8**	**$ 232.5**	**$ .8**	**$ 292.8**	**$ 2.0**

	As of December 31, 2010		
(In Millions)	Recorded Investment	Unpaid Principal Balance	Specific Reserve
With No Related Specific Reserve			
Commercial and Institutional	$ 17.9	$ 26.1	
Commercial Real Estate	43.7	62.4	
Residential Real Estate	111.9	138.1	
Private Client	3.7	3.9	
With a Related Specific Reserve			
Commercial and Institutional	41.7	47.8	$ 19.8
Commercial Real Estate	77.2	88.9	29.5
Residential Real Estate	5.1	5.1	2.4
Total			
Commercial	180.5	225.2	49.3
Personal	120.7	147.1	2.4
Total	$ 301.2	$ 372.3	$ 51.7

The following table provides average recorded investments in impaired loans and the interest income that would have been recorded on nonperforming loans in accordance with their original terms, for the three and nine months ended September 30, 2011 and 2010.

(In Millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Average Recorded Investment in Impaired Loans *	**$ 232.5**	$ 257.6	**$ 292.8**	$ 233.5
Interest Income That Would Have Been Recorded on Nonperforming Loans in Accordance with Their Original Terms	**3.7**	4.2	**11.8**	11.8

* Average recorded investment in impaired loans is calculated as the average of the month-end impaired loan balances for the period.

Notes to Consolidated Financial Statements (continued)

There were $11.8 million and $16.3 million of unfunded loan commitments and standby letters of credit at September 30, 2011 and December 31, 2010, respectively, issued to borrowers whose loans were classified as nonperforming or impaired.

Troubled Debt Restructurings. As of September 30, 2011 and December 31, 2010, there were $76.2 million and $33.4 million of nonperforming TDRs, respectively, and $35.5 million and $22.9 million of performing TDRs, respectively, included within impaired loans. All TDRs are considered impaired loans in the calendar year of their restructuring. In subsequent years, a TDR may cease being classified as impaired if the loan was modified at a market rate and has performed according to the modified terms for at least six months. A loan that has been modified at a below market rate will return to performing status if it satisfies the six month performance requirement; however, it will remain classified as impaired.

The following table provides, by class, the number of loans and leases modified in troubled debt restructurings during the three and nine month periods ended September 30, 2011, and the recorded investments and unpaid principal balances as of September 30, 2011.

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
($ In Millions)	Number of Loans and Leases	Recorded Investment	Unpaid Principal Balance	Number of Loans and Leases	Recorded Investment	Unpaid Principal Balance
Commercial						
Commercial and Institutional	**2**	**$ 5.4**	**$ 6.4**	**5**	**$ 8.6**	**$ 10.1**
Commercial Real Estate	**6**	**10.6**	**12.3**	**14**	**39.4**	**46.0**
Total Commercial	**8**	**16.0**	**18.7**	**19**	**48.0**	**56.1**
Personal						
Residential Real Estate	**25**	**7.1**	**9.1**	**113**	**22.0**	**27.9**
Private Client				**1**		
Total Personal	**25**	**7.1**	**9.1**	**114**	**22.0**	**27.9**
Total Loans and Leases	**33**	**$ 23.1**	**$ 27.8**	**133**	**$ 70.0**	**$ 84.0**

Note: Period end balances reflect all paydowns and charge-offs during the period.

TDR modifications primarily involve interest rate concessions, extensions of term, deferrals of principal, and other modifications. Other modifications typically reflect other nonstandard terms which Northern Trust would not offer in non-troubled situations. During the three and nine-month periods ended September 30, 2011, TDR modifications of loans within the commercial and institutional class were primarily interest rate concessions, deferrals of principal and other modifications; modifications of commercial real estate loans were primarily deferrals of principal, extensions of term and other modifications; and modifications of residential real estate loans were primarily interest rate concessions and deferrals of principal.

Notes to Consolidated Financial Statements (continued)

The following table provides the number of loans and leases modified in troubled debt restructurings during the previous 12 months which subsequently became nonperforming during the three and nine month periods ended September 30, 2011, as well as the recorded investments and unpaid principal balances as of September 30, 2011.

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
($ In Millions)	Number of Loans and Leases	Recorded Investment	Unpaid Principal Balance	Number of Loans and Leases	Recorded Investment	Unpaid Principal Balance
Commercial						
Commercial and Institutional	**1**	**$ .2**	**$ .6**	**1**	**$ .2**	**$ .6**
Total Commercial	**1**	**.2**	**.6**	**1**	**.2**	**.6**
Personal						
Residential Real Estate	**1**	**.1**	**.1**	**7**	**2.0**	**2.5**
Total Personal	**1**	**.1**	**.1**	**7**	**2.0**	**2.5**
Total Loans and Leases	**2**	**$ .3**	**$ .7**	**8**	**$ 2.2**	**$ 3.1**

Note: Period end balances reflect all paydowns and charge-offs during the period.

All loans and leases modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for credit losses.

6. Allowance for Credit Losses The allowance for credit losses, which represents management s estimate of probable losses related to specific borrower relationships and inherent in the various loan and lease portfolios, unfunded commitments, and standby letters of credit, is determined by management through a disciplined credit review process. Northern Trust s accounting policies related to the estimation of the allowance for credit losses and the charging off of loans, leases and other extensions of credit deemed uncollectible are consistent across both loan and lease segments.

Northern Trust s Loan Loss Allowance Committee assesses a common set of qualitative factors in establishing the inherent portion of the allowance for credit losses for the commercial and personal loan segments. The risk characteristics underlying these qualitative factors, and management s assessments as to the relative importance of a qualitative factor, can vary between loan segments and between classes within loan segments. Factors evaluated include those related to external matters, such as economic conditions and changes in collateral value, and those related to internal matters, such as changes in asset quality metrics and loan review activities. In addition to the factors noted above, risk characteristics such as portfolio delinquencies, percentage of portfolio on the watch list and on nonperforming status, and average borrower ratings are assessed in the determination of the inherent reserve. Loan-to-value levels are considered for collateral-secured loans and leases in both the personal and commercial segments. Borrower debt service coverage is evaluated in the personal segment, and cash flow coverage is analyzed in the commercial segment. Similar risk characteristics by type of exposure are analyzed when determining the allowance for unfunded commitments and standby letters of credit. These qualitative factors, together with historical loss rates, serve as the basis for the allowance for credit losses.

Notes to Consolidated Financial Statements (continued)

Loans, leases and other extensions of credit deemed uncollectible are charged to the allowance for credit losses. Subsequent recoveries, if any, are credited to the allowance. Determinations as to whether an uncollectible loan is charged-off or a specific reserve is established are based on management s assessment as to the level of certainty regarding the amount of loss.

The following tables provide information regarding the changes in the allowance for credit losses by segment during the three and nine month periods ended September 30, 2011 and 2010.

	Three Months Ended September 30,					
	2011			2010		
(In Millions)	Commercial	Personal	Total	Commercial	Personal	Total
Balance at Beginning of Period	**$ 239.9**	**$ 105.9**	**$ 345.8**	$ 265.3	$ 96.3	$ 361.6
Charge-Offs	**(16.8)**	**(18.1)**	**(34.9)**	(17.5)	(14.3)	(31.8)
Recoveries	**4.4**	**1.9**	**6.3**	.8	.7	1.5
Net Charge-Offs	**(12.4)**	**(16.2)**	**(28.6)**	(16.7)	(13.6)	(30.3)
Provision for Credit Losses	**(6.4)**	**23.9**	**17.5**	12.6	17.4	30.0
Effect of Foreign Exchange Rates	**(.1)**		**(.1)**	.1		.1
Balance at End of Period	**$ 221.0**	**$ 113.6**	**$ 334.6**	$ 261.3	$ 100.1	$ 361.4

	Nine Months Ended September 30,					
	2011			2010		
(In Millions)	Commercial	Personal	Total	Commercial	Personal	Total
Balance at Beginning of Period	**$ 256.7**	**$ 100.6**	**$ 357.3**	$ 252.2	$ 88.4	$ 340.6
Charge-Offs	**(45.0)**	**(42.5)**	**(87.5)**	(61.7)	(43.1)	(104.8)
Recoveries	**17.5**	**4.8**	**22.3**	2.9	2.7	5.6
Net Charge-Offs	**(27.5)**	**(37.7)**	**(65.2)**	(58.8)	(40.4)	(99.2)
Provision for Credit Losses	**(8.2)**	**50.7**	**42.5**	67.9	52.1	120.0
Effect of Foreign Exchange Rates						
Balance at End of Period	**$ 221.0**	**$ 113.6**	**$ 334.6**	$ 261.3	$ 100.1	$ 361.4

The following tables provide information regarding the balances of the recorded investments in loans and leases and the allowance for credit losses by segment as of September 30, 2011 and December 31, 2010.

	September 30, 2011			December 31, 2010		
(In Millions)	Commercial	Personal	Total	Commercial	Personal	Total
Loans and Leases						
Specifically Evaluated for Impairment	**$ 132.0**	**$ 156.9**	**$ 288.9**	$ 180.5	$ 120.7	$ 301.2
Evaluated for Inherent Impairment	**12,087.3**	**16,315.2**	**28,402.5**	11,432.9	16,397.9	27,830.8
Total Loans and Leases	**12,219.3**	**16,472.1**	**28,691.4**	11,613.4	16,518.6	28,132.0
Allowance for Loans and Leases						
Specifically Evaluated for Impairment	**29.1**	**5.7**	**34.8**	49.3	2.4	51.7
Evaluated for Inherent Impairment	**157.3**	**106.2**	**263.5**	171.4	96.5	267.9

Allowance Assigned to Loans and Leases		**186.4**		**111.9**		**298.3**		220.7		98.9	319.6
Allowance for Unfunded Exposures											
Commitments and Standby Letters of Credit		**34.6**		**1.7**		**36.3**		36.0		1.7	37.7
Total Allowance for Credit Losses	**$**	**221.0**	**$**	**113.6**	**$**	**334.6**	$	256.7	$	100.6	$ 357.3

Notes to Consolidated Financial Statements (continued)

7. Pledged Assets Certain of Northern Trust s subsidiaries, as required or permitted by law, pledge assets to secure public and trust deposits, repurchase agreements, Federal Home Loan Bank borrowings, and for other purposes. At September 30, 2011, $27.4 billion ($16.4 billion of government sponsored agency and other securities, $458.2 million of obligations of states and political subdivisions, and $10.5 billion of loans) were pledged. This compares to $23.9 billion ($12.8 billion of government sponsored agency and other securities, $576.5 million of obligations of states and political subdivisions, and $10.5 billion of loans) at December 31, 2010. Collateral required for these purposes totaled $4.1 billion and $4.5 billion on September 30, 2011 and December 31, 2010, respectively. Included in the total pledged assets at September 30, 2011 and December 31, 2010 were available for sale securities with a total fair value of $.7 billion and $1.1 billion, respectively, which were pledged as collateral for agreements to repurchase securities sold transactions. The secured parties to these transactions have the right to repledge or sell these securities.

Northern Trust is permitted to repledge or sell collateral from agreements to resell securities purchased transactions. The total fair value of accepted collateral as of September 30, 2011 and December 31, 2010 was $205.4 million and $152.1 million, respectively. There was no repledged or sold collateral at September 30, 2011 or December 31, 2010.

Deposits maintained to meet Federal Reserve Bank reserve requirements averaged $467.5 million and $307.5 million for the three and nine months ended September 30, 2011, respectively, and averaged $186.4 million and $257.8 million for the three and nine months ended September 30, 2010, respectively.

8. Goodwill and Other Intangibles Changes in the carrying amount of goodwill by business unit for the three months ended March 31, 2011, June 30, 2011, and September 30, 2011 were as follows:

(In Millions)	Corporate and Institutional Services	Personal Financial Services	Total
Balance at December 31, 2010	**$ 329.5**	**$ 71.4**	**$ 400.9**
Other Changes	**4.8**	**.1**	**4.9**
Balance at March 31, 2011	**334.3**	**71.5**	**405.8**
Goodwill Acquired	**30.0**		**30.0**
Other Changes	**(.9)**		**(.9)**
Balance at June 30, 2011	**$ 363.4**	**$ 71.5**	**$ 434.9**
Goodwill Acquired	**102.1**		**102.1**
Other Changes	**(2.8)**	**(.1)**	**(2.9)**
Balance at September 30, 2011	**$ 462.7**	**$ 71.4**	**$ 534.1**

Note: Amounts include the effect of foreign exchange rates on non-U.S. dollar denominated goodwill.

Notes to Consolidated Financial Statements (continued)

Other intangible assets are included in other assets in the consolidated balance sheet. The gross carrying amount and accumulated amortization of other intangible assets subject to amortization at September 30, 2011 and December 31, 2010 were as follows:

(In Millions)	September 30, 2011	December 31, 2010
Gross Carrying Amount	**$ 252.5**	$ 164.2
Less: Accumulated Amortization	**122.5**	111.0
Net Book Value	**$ 130.0**	$ 53.2

Note: Amounts include the effect of foreign exchange rates on non-U.S. dollar denominated intangible assets.

Other intangible assets consist primarily of the value of acquired client relationships. Amortization expense related to other intangible assets totaled $5.3 million and $3.4 million for the three months ended September 30, 2011 and 2010, respectively, and totaled $11.5 million and $11.0 million for the nine months ended September 30, 2011 and 2010, respectively. Amortization for the remainder of 2011 and for the years 2012, 2013, 2014, and 2015 is estimated to be $5.0 million, $21.0 million, $20.8 million, $20.7 million and $11.8 million, respectively.

On June 1, 2011, Northern Trust completed its acquisition of the fund administration, investment operations outsourcing and custody business of Bank of Ireland Securities Services (BoISS). The purchase price, which is subject to certain performance-related adjustments over a one year period after the acquisition date, totaled $84.4 million and was comprised of $71.0 million of cash and of $13.4 million of contingent consideration. Goodwill and other intangible assets associated with the acquisition totaled $30.0 million and $45.0 million, respectively.

On July 29, 2011, Northern Trust completed its acquisition of Omnium LLC, a hedge fund administrator. The purchase price, which is subject to certain performance-related adjustments over a five year period after the acquisition date, totaled $145.1 million and was comprised of $101.6 million of cash and $43.5 million of contingent consideration. Goodwill and other intangible assets associated with the acquisition totaled $102.1 million and $45.4 million, respectively.

Notes to Consolidated Financial Statements (continued)

9. Business Units The following tables show the earnings contributions of Northern Trust s business units for the three and nine month periods ended September 30, 2011 and 2010.

Three Months Ended September 30, ($ In Millions)	Corporate and Institutional Services 2011	2010	Personal Financial Services 2011	2010	Treasury and Other 2011	2010	Total Consolidated 2011	2010
Noninterest Income								
Trust, Investment and Other Servicing Fees	**$ 310.9**	$ 293.2	**$ 244.4**	$ 225.5	**$**	$	**$ 555.3**	$ 518.7
Other	**125.0**	114.9	**30.7**	33.3	**3.7**	(10.9)	**159.4**	137.3
Net Interest Income (FTE)*	**71.2**	67.2	**157.1**	151.0	**38.3**	24.8	**266.6**	243.0
Revenues*	**507.1**	475.3	**432.2**	409.8	**42.0**	13.9	**981.3**	899.0
Provision for Credit Losses	**(1.9)**	(2.8)	**19.4**	32.8			**17.5**	30.0
Noninterest Expenses	**375.8**	330.6	**300.6**	274.6	**24.8**	16.9	**701.2**	622.1
Income before Income Taxes*	**133.2**	147.5	**112.2**	102.4	**17.2**	(3.0)	**262.6**	246.9
Provision for Income Taxes*	**50.3**	51.9	**44.5**	39.0	**(2.6)**	.4	**92.2**	91.3
Net Income	**$ 82.9**	$ 95.6	**$ 67.7**	$ 63.4	**$ 19.8**	$ (3.4)	**$ 170.4**	155.6
Percentage of Consolidated Net Income	**49%**	61%	**40%**	41%	**11%**	(2)%	**100%**	100%
Average Assets	**$ 49,755.5**	$ 38,701.2	**$ 23,809.5**	$ 23,495.9	**$ 20,464.7**	$ 12,509.6	**$ 94,029.7**	$ 74,706.7

* Stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of $9.8 million for 2011 and $9.5 million for 2010.

Nine Months Ended September 30, ($ In Millions)	Corporate and Institutional Services 2011	2010	Personal Financial Services 2011	2010	Treasury and Other 2011	2010	Total Consolidated 2011	2010
Noninterest Income								
Trust, Investment and Other Servicing Fees	**$ 890.7**	$ 906.5	**$ 737.3**	$ 670.8	**$**	$	**$ 1,628.0**	$ 1,577.3
Other	**373.8**	384.9	**94.9**	100.0	**(19.7)**	(7.3)	**449.0**	477.6
Net Interest Income (FTE)*	**199.1**	207.9	**456.6**	439.3	**112.4**	78.3	**768.1**	725.5
Revenues*	**1,463.6**	1,499.3	**1,288.8**	1,210.1	**92.7**	71.0	**2,845.1**	2,780.4
Provision for Credit Losses	**(18.8)**	(11.3)	**61.3**	131.3			**42.5**	120.0
Noninterest Expenses	**1,096.2**	977.9	**893.3**	814.1	**70.0**	64.2	**2,059.5**	1,856.2
Income before Income Taxes*	**386.2**	532.7	**334.2**	264.7	**22.7**	6.8	**743.1**	804.2
Provision for Income Taxes*	**147.4**	187.7	**132.7**	100.5	**(10.4)**	3.6	**269.7**	291.8

Net Income	**$ 238.8**	$ 345.0	**$ 201.5**	$ 164.2	**$ 33.1**	$ 3.2	**$ 473.4**	512.4
Percentage of Consolidated Net Income	**50%**	67%	**43%**	32%	**7%**	1%	**100%**	100%
Average Assets	**$ 47,079.8**	$ 37,775.9	**$ 23,696.1**	$ 23,527.4	**$ 19,148.3**	$ 13,322.8	**$ 89,924.2**	$ 74,626.1

* Stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of $30.8 million for 2011 and $28.8 million for 2010.

Further discussion of business unit results is provided within the Business Unit Reporting section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Notes to Consolidated Financial Statements (continued)

10. Accumulated Other Comprehensive Income (Loss) The following tables summarize the components of accumulated other comprehensive income (loss) at September 30, 2011 and 2010, and changes during the three and nine month periods then ended.

	Three Months Ended September 30, 2011				Three Months Ended September 30, 2010			
(In Millions)	Beginning Balance (Net of Tax)	Before Tax Amount	Tax Effect	Ending Balance (Net of Tax)	Beginning Balance (Net of Tax)	Before Tax Amount	Tax Effect	Ending Balance (Net of Tax)
Noncredit-Related Unrealized Losses on Securities OTTI	**$ (13.6)**	**$ (.4)**	**$ .1**	**$ (13.9)**	$ (35.1)	$ 18.7	$ (6.9)	$ (23.3)
Other Unrealized Gains (Losses) on Securities Available for Sale, net	**27.6**	**32.5**	**(12.3)**	**47.8**	14.0	(9.9)	3.8	7.9
Reclassification Adjustments	**6.3**	**2.3**	**(.8)**	**7.8**	(.2)	13.5	(5.1)	8.2
Net Unrealized Gains (Losses) on Securities Available for Sale	**20.3**	**34.4**	**(13.0)**	**41.7**	(21.3)	22.3	(8.2)	(7.2)
Unrealized Gains (Losses) on Cash Flow Hedge Designations	**21.3**	**(24.6)**	**9.2**	**5.9**	(17.6)	43.2	(15.9)	9.7
Reclassification Adjustments	**(2.9)**	**(1.9)**	**.7**	**(4.1)**	1.8	7.1	(2.6)	6.3
Net Unrealized Gains (Losses) on Cash Flow Hedge Designations	**18.4**	**(26.5)**	**9.9**	**1.8**	(15.8)	50.3	(18.5)	16.0
Foreign Currency Translation Adjustments	**2.4**	**31.2**	**(30.0)**	**3.6**	14.3	(44.2)	44.7	14.8
Pension and Other Postretirement Benefit Adjustments	**(296.4)**			**(296.4)**	(303.3)			(303.3)
Reclassification Adjustments	**12.0**	**7.6**	**(2.8)**	**16.8**	10.8	6.1	(3.3)	13.6
Total Pension and Other Postretirement Benefit Adjustments	**(284.4)**	**7.6**	**(2.8)**	**(279.6)**	(292.5)	6.1	(3.3)	(289.7)
Accumulated Other Comprehensive Income (Loss)	**$ (243.3)**	**$ 46.7**	**$ (35.9)**	**$ (232.5)**	$ (315.3)	$ 34.5	$ 14.7	$ (266.1)

	Nine Months Ended September 30, 2011				Nine Months Ended September 30, 2010			
(In Millions)	Beginning Balance (Net of Tax)	Before Tax Amount	Tax Effect	Ending Balance (Net of Tax)	Beginning Balance (Net of Tax)	Before Tax Amount	Tax Effect	Ending Balance (Net of Tax)
Noncredit-Related Unrealized Losses on Securities OTTI	**$ (21.2)**	**$ 11.5**	**$ (4.2)**	**$ (13.9)**	$ (42.0)	$ 29.6	$ (10.9)	$ (23.3)
Other Unrealized Gains (Losses) on Securities Available for Sale, net	**7.7**	**64.2**	**(24.1)**	**47.8**	.3	11.9	(4.3)	7.9
Reclassification Adjustments		**12.4**	**(4.6)**	**7.8**		13.1	(4.9)	8.2
Net Unrealized Gains (Losses) on Securities Available for Sale	**(13.5)**	**88.1**	**(32.9)**	**41.7**	(41.7)	54.6	(20.1)	(7.2)
Unrealized Gains (Losses) on Cash Flow Hedge Designations	**11.4**	**(8.8)**	**3.3**	**5.9**	(26.2)	56.9	(21.0)	9.7
Reclassification Adjustments		**(6.5)**	**2.4**	**(4.1)**		9.9	(3.6)	6.3
	11.4	**(15.3)**	**5.7**	**1.8**	(26.2)	66.8	(24.6)	16.0

Net Unrealized Gains (Losses) on Cash Flow Hedge Designations								
Foreign Currency Translation Adjustments	**(7.0)**	**19.7**	**(9.1)**	**3.6**	11.3	19.5	(16.0)	14.8
Pension and Other Postretirement Benefit Adjustments	**(296.2)**	**(.3)**	**.1**	**(296.4)**	(305.0)	2.2	(.5)	(303.3)
Reclassification Adjustments		**22.6**	**(5.8)**	**16.8**		18.7	(5.1)	13.6
Total Pension and Other Postretirement Benefit Adjustments	**(296.2)**	**22.3**	**(5.7)**	**(279.6)**	(305.0)	20.9	(5.6)	(289.7)
Accumulated Other Comprehensive Income (Loss)	**$ (305.3)**	**$ 114.8**	**$ (42.0)**	**$ (232.5)**	$ (361.6)	$ 161.8	$ (66.3)	$ (266.1)

Notes to Consolidated Financial Statements (continued)

11. Net Income Per Common Share Computations The computations of net income per common share are presented in the following table.

(In Millions Except Share Information)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Basic Net Income Per Common Share				
Average Number of Common Shares Outstanding	**240,991,491**	242,124,461	**241,529,793**	241,966,279
Net Income	**$ 170.4**	$ 155.6	**$ 473.4**	$ 512.4
Net Income Applicable to Common Stock	**170.4**	155.6	**473.4**	512.4
Less: Earnings Allocated to Participating Securities	**2.0**	1.3	**5.5**	4.2
Earnings Allocated to Common Shares Outstanding	**$ 168.4**	$ 154.3	**$ 467.9**	$ 508.2
Basic Net Income Per Common Share	**.70**	.64	**1.94**	2.10
Diluted Net Income Per Common Share				
Average Number of Common Shares Outstanding	**240,991,491**	242,124,461	**241,529,793**	241,966,279
Plus Stock Option Dilution	**202,502**	33,966	**488,957**	455,382
Average Common and Potential Common Shares	**241,193,993**	242,158,427	**242,018,750**	242,421,661
Earnings Allocated to Common and Potential Common Shares	**$ 168.4**	$ 154.3	**$ 467.9**	$ 508.2
Diluted Net Income Per Common Share	**.70**	.64	**1.93**	2.10

Note: *Common stock equivalents totaling 15,650,249 and 12,420,777 for the three and nine months ended September 30, 2011, respectively, and 6,860,298 and 7,958,582 for the three and nine months ended September 30, 2010, respectively, were not included in the computation of diluted net income per common share because their inclusion would have been antidilutive.*

12. Net Interest Income The components of net interest income were as follows:

(In Millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest Income				
Loans and Leases	**$ 229.8**	$ 231.9	**$ 719.5**	$ 687.0
Securities Taxable	**54.8**	47.7	**160.4**	142.5
Non-Taxable	**6.1**	7.3	**19.1**	22.1
Interest-Bearing Deposits with Banks	**49.2**	40.2	**131.6**	100.8
Federal Reserve Deposits and Other	**7.2**	3.1	**23.2**	10.0
Total Interest Income	**347.1**	330.2	**1,053.8**	962.4

Interest Expense				
Deposits	**50.1**	53.7	**187.0**	135.1
Federal Funds Purchased	**.1**	1.0	**1.8**	3.9
Securities Sold Under Agreements to Repurchase	**.1**	.2	**.6**	.7
Other Borrowings	**1.4**	1.4	**4.3**	4.0
Senior Notes	**16.4**	11.5	**47.6**	34.4
Long-Term Debt	**21.6**	28.1	**73.4**	85.8
Floating Rate Capital Debt	**.6**	.8	**1.8**	1.8
Total Interest Expense	**90.3**	96.7	**316.5**	265.7
Net Interest Income	**$ 256.8**	$ 233.5	**$ 737.3**	$ 696.7

13. Visa Membership In connection with the initial public offering of shares by Visa Inc. in 2007, Northern Trust, in conjunction with other member banks of Visa U.S.A Inc. (Visa U.S.A.), is obligated to share in losses resulting from certain indemnified litigation involving Visa and is also required to recognize, at its estimated fair value in accordance with GAAP, a guarantee liability arising from such litigation that has not yet settled.

Notes to Consolidated Financial Statements (continued)

Northern Trust s net Visa related indemnification liability, included within other liabilities in the consolidated balance sheet, totaled $13.0 million at September 30, 2011 and $23.1 million at December 31, 2010.

Visa has established an escrow account to cover the settlements of, or judgments in, the indemnified litigation. The funding by Visa of its escrow account has resulted in reductions of the future realization of the value of outstanding shares of Visa common stock held by Northern Trust as a member bank of Visa U.S.A. These shares are recorded at their original cost basis of zero and have restrictions as to their sale or transfer. It is expected that additional contributions by Visa to the litigation escrow account will result in additional adjustments to the future realization of the value of the outstanding Visa shares. While the ultimate resolution of outstanding Visa related litigation is highly uncertain and the estimation of any potential losses is highly judgmental, Northern Trust anticipates that the value of its remaining shares of Visa stock will be more than adequate to offset any remaining indemnification liabilities related to Visa litigation.

14. Income Taxes Income tax expense of $82.4 million was recorded in the current quarter, representing an effective tax rate of 32.6%. The prior year quarter provision for income taxes was $81.8 million, representing an effective tax rate of 34.5%. The current quarter s effective tax rate reflects a higher portion of income being generated in jurisdictions with lower tax rates than the U.S.

As part of its audit of federal tax returns filed from 1997-2004, the Internal Revenue Service (IRS) challenged the Corporation s tax position with respect to certain structured leasing transactions and proposed to disallow certain tax deductions and assess related interest and penalties. In September 2009, the Corporation reached a settlement agreement with the IRS with respect to certain of these transactions. The Corporation is in settlement discussions with the IRS Appeals Office regarding the remaining disputed structured leasing transactions. The IRS may continue to disallow deductions relating to the remaining challenged leases and possibly include other lease transactions with similar characteristics as part of its audit of tax returns filed after 2004. The Corporation believes that these transactions are valid leases for U.S. tax purposes and that its tax treatment of these transactions is appropriate based on its interpretation of the tax regulations and legal precedents; a court or other judicial authority, however, could disagree. The Corporation believes it has appropriate reserves to cover its tax liabilities, including liabilities related to structured leasing transactions, and related interest and penalties. Northern Trust has deposits with the IRS to mitigate interest that would become due should the IRS prevail on the remaining tax positions.

There have been no changes to the December 31, 2010 leveraged lease related uncertain tax position balance of $66.7 million. In light of the settlement discussions with the IRS Appeals Office, it is anticipated that the remaining unrecognized tax benefits related to leasing transactions will be settled by early 2012. It is possible that additional changes in the amount of leveraged lease related uncertain tax positions and related cash flows

Notes to Consolidated Financial Statements (continued)

could occur in the next twelve months if Northern Trust terminates some or all of these leases, is not able to resolve this matter with the IRS, or if management becomes aware of new information that would lead it to change its assumptions regarding the timing or amount of any potential payments to the IRS. Management does not believe that future changes, if any, would have a material effect on the consolidated financial position or liquidity of Northern Trust, although they could have a material effect on operating results for a particular period.

15. Pension and Other Postretirement Plans The following tables set forth the net periodic pension and postretirement benefit expense for Northern Trust s U.S. and non-U.S. pension plans, supplemental pension plan, and other postretirement plan for the three and nine months ended September 30, 2011 and 2010.

Net Periodic Pension Expense

U.S. Plan (In Millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Service Cost	**$ 10.7**	$ 9.5	**$ 32.1**	$ 28.5
Interest Cost	**10.2**	9.2	**30.6**	27.6
Expected Return on Plan Assets	**(19.7)**	(18.3)	**(59.1)**	(54.9)
Amortization				
Net Loss	**6.5**	5.0	**19.5**	15.0
Prior Service Cost	**.4**	.4	**1.2**	1.2
Net Periodic Pension Expense	**$ 8.1**	$ 5.8	**$ 24.3**	$ 17.4

Net Periodic Pension Expense

Non U.S. Plans (In Millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Service Cost	**$**	$ .2	**$**	$ 1.8
Interest Cost	**1.6**	1.9	**4.9**	5.2
Expected Return on Plan Assets	**(2.1)**	(2.3)	**(6.2)**	(6.2)
Net Loss Amortization	**.1**	.1	**.1**	.5
Gain on Curtailment of Non-U.S. Plan				(2.2)
Net Periodic Pension Benefit	**$ (.4)**	$ (.1)	**$ (1.2)**	$ (.9)

Net Periodic Pension Expense

Supplemental Plan (In Millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Service Cost	**$ .8**	$ .8	**$ 2.4**	$ 2.4
Interest Cost	**1.1**	1.2	**3.3**	3.6
Amortization				
Net Loss	**1.4**	1.5	**4.2**	4.5
Prior Service Cost	**.1**		**.3**	
Net Periodic Pension Expense	**$ 3.4**	$ 3.5	**$ 10.2**	$ 10.5

Net Periodic Benefit Expense

Other Postretirement Plan	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Millions)	2011	2010	2011	2010
Service Cost	**$ .1**	$ .2	**$ .3**	$ .6
Interest Cost	**.7**	.7	**2.1**	2.1
Amortization				
Net Loss	**.4**	.5	**1.2**	1.5
Prior Service Cost	**(1.3)**	(1.3)	**(3.9)**	(3.9)
Net Periodic Benefit Expense (Benefit)	**$ (.1)**	$ .1	**$ (.3)**	$ .3

Notes to Consolidated Financial Statements (continued)

16. Share-Based Compensation Plans The Amended and Restated Northern Trust Corporation 2002 Stock Plan provides for the grant of nonqualified stock options, incentive stock options, stock appreciation rights, stock awards, stock units, and performance shares. Total compensation expense for share-based payment arrangements and the associated tax impacts were as follows for the periods presented:

(In Millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Stock Options	**$ 6.3**	$ 5.3	**$ 27.8**	$ 22.6
Stock and Stock Unit Awards	**9.4**	6.1	**26.6**	18.3
Total Share-Based Compensation Expense	**15.7**	11.4	**54.4**	40.9
Tax Benefits Recognized	**$ 5.8**	$ 4.2	**$ 20.2**	$ 15.0

17. Variable Interest Entities Variable Interest Entities (VIEs) are defined within GAAP as entities which either have a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. Investors that finance a VIE through debt or equity interests, or other counterparties that provide other forms of support, such as guarantees, subordinated fee arrangements, or certain types of derivative contracts, are variable interest holders in the entity and the variable interest holder, if any, that has both the power to direct the activities that most significantly impact the entity and a variable interest that could potentially be significant to the entity is deemed to be the VIE s primary beneficiary and is required to consolidate the VIE.

Leveraged Leases. In leveraged leasing transactions, Northern Trust acts as lessor of the underlying asset subject to the lease and typically funds 20% of the asset s cost via an equity ownership in a trust with the remaining 80% provided by third party non-recourse debt holders. In such transactions, the trusts, which are VIEs, are created to provide the lessee use of the property with substantially all of the rights and obligations of ownership. The lessee s maintenance and operation of the leased property has a direct effect on the fair value of the underlying property, and the lessee also has the ability to increase the benefits it can receive and limit the losses it can suffer by the manner in which it uses the property. As a result, Northern Trust has determined that it is not the primary beneficiary of these VIEs given it lacks the power to direct the activities that most significantly impact the economic performance of the VIEs.

Northern Trust s maximum exposure to loss as a result of its involvement with the leveraged lease trust VIEs is limited to the carrying amounts of its leveraged lease investments. As of September 30, 2011 and December 31, 2010, the carrying amounts of these investments, which are included in loans and leases in the consolidated balance sheet, were $743.8 million and $782.3 million, respectively. The Corporation s funding requirements relative to the VIEs are limited to its invested capital. Northern Trust has no other liquidity arrangements or obligations to purchase assets of the VIEs that would expose the Corporation to a loss.

Notes to Consolidated Financial Statements (continued)

Tax Credit Structures. Northern Trust invests in affordable housing projects that are designed to generate a return primarily through the realization of tax credits. The affordable housing projects are formed as limited partnerships and LLCs, and Northern Trust typically invests as a limited partner/investor member in the form of equity contributions. The economic performance of the affordable housing projects, which are deemed to be VIEs, is driven by the performance of their underlying investment projects as well as the VIEs ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. Northern Trust has determined that it is not the primary beneficiary of any affordable housing projects as it lacks the power to direct the activities that most significantly impact the economic performance of the underlying project or to affect the VIEs ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. This power is held by the general partners and managing members who exercise full and exclusive control of the operations of the VIEs.

Northern Trust s maximum exposure to loss as a result of its involvement with affordable housing projects is limited to the carrying amounts of its investments, including any unfunded commitments. As of September 30, 2011 and December 31, 2010, the carrying amounts of these investments, which are included in other assets in the consolidated balance sheet, were $252.3 million and $265.4 million, respectively. As of September 30, 2011 and December 31, 2010, liabilities related to unfunded commitments, which are included in other liabilities in the consolidated balance sheet, were $35.7 million and $35.5 million, respectively. Northern Trust s funding requirements are limited to its invested capital and any additional unfunded commitments for future equity contributions. Northern Trust has no other liquidity arrangements or obligations to purchase assets of the affordable housing projects that would expose it to a loss.

Trust Preferred Securities. In 1997, Northern Trust issued Floating Rate Capital Securities, Series A and Series B, through NTC Capital I and NTC Capital II, respectively, statutory business trusts wholly-owned by the Corporation. The sole assets of the trusts are Subordinated Debentures of the Corporation that have the same interest rates and maturity dates as the corresponding distribution rates and redemption dates of the Floating Rate Capital Securities. NTC Capital I and NTC Capital II are considered VIEs; however, as the sole asset of each trust is a receivable from the Corporation and the proceeds to the Corporation from the receivable exceed the Corporation s investment in the VIEs equity shares, the Corporation is not permitted to consolidate the trusts, even though the Corporation owns all of the voting equity shares of the trusts, has fully guaranteed the trusts obligations, and has the right to redeem the preferred securities in certain circumstances. Northern Trust recognizes the subordinated debentures on its consolidated balance sheet as long-term liabilities.

Investment Funds. Northern Trust acts as asset manager for various funds in which clients of Northern Trust are investors. As an asset manager of funds, the Corporation earns a competitively priced fee that is based on assets managed and varies with each fund s investment objective. Based on its analysis, Northern Trust has determined that it is not the primary beneficiary of these VIEs under GAAP.

18. Contingent Liabilities Standby letters of credit obligate Northern Trust to meet certain financial obligations of its clients, if, under the contractual terms of the agreement, the clients are unable to do so. These instruments are primarily issued to support public and private financial commitments, including commercial paper, bond financing, initial margin requirements on futures exchanges, and similar transactions. Certain standby letters of credit have been secured with cash deposits or participated to others and in certain cases Northern Trust is able to recover the amounts paid through recourse against these cash deposits or other participants. Standby letters of credit outstanding were $4.4 billion at September 30, 2011 and $4.3 billion at December 31, 2010. Northern Trust s liability included within the consolidated balance sheet for standby letters of credit, measured as the amount of unamortized fees on these instruments, was $46.7 million at September 30, 2011 and $36.7 million at December 31, 2010.

As part of its securities custody activities and at the direction of its clients, Northern Trust lends securities owned by clients to borrowers who are reviewed by the Northern Trust Senior Credit Committee. In connection with these activities, Northern Trust has issued indemnifications against certain losses resulting from the bankruptcy of borrowers of securities. Borrowers are required to fully collateralize securities received with cash or marketable securities. As securities are loaned, collateral is maintained at a minimum of 100% of the fair value of the securities plus accrued interest. The collateral is revalued on a daily basis. The amount of securities loaned subject to indemnification was $78.1 billion at September 30, 2011 and $74.9 billion at December 31, 2010. Because of the credit quality of the borrowers and the requirement to fully collateralize securities borrowed, management believes that the exposure to credit loss from this activity is not significant and no liability was recorded at September 30, 2011 or December 31, 2010 related to these indemnifications.

As discussed in further detail in Note 13, Northern Trust, as a member bank of Visa U.S.A., and in conjunction with other member banks, is required to recognize, at its estimated fair value in accordance with GAAP, a guarantee liability arising from such litigation that has not yet settled. The estimated fair value of the net Visa indemnification liability, recorded within other liabilities in the consolidated balance sheet, totaled $13.0 million at September 30, 2011 and $23.1 million at December 31, 2010.

Notes to Consolidated Financial Statements (continued)

In the normal course of business, the Corporation and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions, including, but not limited to, actions brought on behalf of various claimants or classes of claimants, regulatory matters, employment matters, and challenges from tax authorities regarding the amount of taxes due. In certain of these actions and proceedings, claims for substantial monetary damages or adjustments to recorded tax liabilities are asserted.

Based on current knowledge, after consultation with legal counsel and after taking into account current accruals, management does not believe that losses, if any, arising from pending litigation or threatened legal actions or regulatory matters will have a material adverse effect on the consolidated financial position or liquidity of the Corporation, although such matters could have a material adverse effect on the Corporation s operating results for a particular period.

Under GAAP, (i) an event is probable if the future event or events are likely to occur ; (ii) an event is reasonably possible if the chance of the future event or events occurring is more than remote but less than likely ; and (iii) an event is remote if the chance of the future event or events occurring is slight . Thus, references to the upper end of the range of reasonably possible loss for cases in which the Corporation is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the Corporation believes the risk of loss is more than remote.

For the reasons set out in this paragraph, the outcome of some matters is inherently difficult to predict and/or the range of loss cannot be reasonably estimated. This may be the case in matters that (i) will be decided by a jury, (ii) are in early stages, (iii) involve uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iv) are subject to appeals or motions, (v) involve significant factual issues to be resolved, including with respect to the amount of damages, or (vi) seek very large damages based on novel and complex damage and liability legal theories. Accordingly, the Corporation cannot reasonably estimate the eventual outcome of these pending matters, the timing of their ultimate resolution, or what the eventual loss, fines or penalties, if any, related to each pending matter will be.

In accordance with applicable accounting guidance, the Corporation records accruals for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Corporation does not record accruals. No material accruals have been recorded for pending litigation or threatened legal actions or regulatory matters.

Notes to Consolidated Financial Statements (continued)

For a limited number of the matters for which a loss is reasonably possible in future periods, whether in excess of an accrued liability or where there is no accrued liability, the Corporation is able to estimate a range of possible loss. As of September 30, 2011, the Corporation has estimated the upper end of the range of reasonably possible losses for these matters to be approximately $31 million in the aggregate. This aggregate amount of reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results will vary significantly from the current estimate.

In certain other pending matters, there may be a range of reasonably possible losses (including reasonably possible losses in excess of amounts accrued) that cannot be reasonably estimated for the reasons described above. The following is a description of the nature of certain of these matters.

As previously disclosed, a number of participants in our securities lending program, which is associated with the Corporation s asset servicing business, have commenced either individual lawsuits or putative class actions in which they claim, among other things, that we failed to exercise prudence in the investment management of the collateral received from the borrowers of the securities, resulting in losses that they seek to recover. The cases assert various contractual, statutory and common law claims, including claims for breach of fiduciary duty under common law and under the Employee Retirement Income Security Act (ERISA). Based on our review of these matters, we believe we operated our securities lending program prudently and appropriately. The Corporation has also been cooperating fully with an SEC investigation related to our securities lending program. At this stage of these proceedings, it is not possible for management to assess the probability of a material adverse outcome or reasonably estimate the amount of any potential loss.

On January 16, 2009, an amended complaint was filed in a putative class action lawsuit currently pending in the United States District Court for the Northern District of Illinois against the Corporation and others. The defendants named in the amended complaint are the Corporation, The Northern Trust Company, the Northern Trust Employee Benefits Administrative Committee and its members, the Northern Trust Employee Benefits Investment Committee and its members, and certain other officers, including the present and former Chief Executive Officers of the Corporation, purportedly on behalf of participants in and beneficiaries of The Northern Trust Company Thrift-Incentive Plan (the Plan) whose individual accounts held shares of Corporation common stock at any time from October 19, 2007 to January 14, 2009. The complaint purports to allege breaches of fiduciary duty in violation of ERISA related to the Corporation s stock being offered as an investment alternative for participants in the Plan and seeks monetary damages in an unspecified amount. On September 14, 2011, the parties filed a stipulation voluntarily dismissing the complaint; that stipulation is without prejudice to the claims of the members of the putative class other than the four named plaintiffs, whose claims were released and discharged.

Notes to Consolidated Financial Statements (continued)

On August 24, 2010, a lawsuit (hereinafter referred to as the Securities Class Action) was filed in federal court in the Northern District of Illinois against the Corporation and three of its present or former officers, including the present and former Chief Executive Officers of the Corporation, on behalf of a purported class of purchasers of Corporation stock during the period from October 17, 2007 to October 20, 2009. The amended complaint alleges that during the purported class period the defendants violated Sections 10(b) and 20(a) of the Exchange Act by allegedly taking insufficient provisions for credit losses with respect to the Corporation s real estate loan portfolio and failing to make sufficient disclosures regarding its securities lending business. Plaintiff seeks compensatory damages in an unspecified amount. At this stage of the suit, it is not possible for management to assess the probability of a material adverse outcome or reasonably estimate the amount of any potential loss.

On September 7, 2010, a shareholder derivative lawsuit, purportedly brought on behalf of the Corporation, was filed in the Circuit Court of Cook County, Illinois against a number of the Corporation s current and former officers and directors. The Corporation is named as a nominal defendant. The complaint asserts that the individual defendants violated their fiduciary duties to the Corporation based upon substantially the same allegations made in the Securities Class Action complaint. Certain individual defendants are also alleged to have sold some of their holdings of Northern Trust Corporation stock while in possession of material nonpublic information. Plaintiff seeks compensatory damages in an unspecified amount from the individual defendants on behalf of the Corporation. The only relief sought against the Corporation is an order requiring the implementation of certain corporate governance procedures.

19. Derivative Financial Instruments Northern Trust is a party to various derivative financial instruments that are used in the normal course of business to meet the needs of its clients; as part of its trading activity for its own account; and as part of its risk management activities. These instruments include foreign exchange contracts, interest rate contracts, and credit default swap contracts.

Northern Trust s primary risks associated with these instruments is the possibility that interest rates, foreign exchange rates, or credit spreads could change in an unanticipated manner, resulting in higher costs or a loss in the underlying value of the instrument. These risks are mitigated by establishing limits, monitoring the level of actual positions taken against such established limits, and monitoring the level of any interest rate sensitivity gaps created by such positions. When establishing position limits, market liquidity and volatility, as well as experience in each market, are taken into account.

The estimated credit risk associated with derivative instruments relates to the failure of the counterparty and the failure of Northern Trust to pay based on the contractual terms of the agreement, and is generally limited to the unrealized fair value gains and losses on these instruments, respectively. The amount of credit risk will increase or decrease during the lives of the instruments as interest rates, foreign exchange rates, or credit spreads

Notes to Consolidated Financial Statements (continued)

fluctuate. This risk is controlled by limiting such activity to an approved list of counterparties and by subjecting such activity to the same credit and quality controls as are followed in lending and investment activities. Credit Support Annex agreements are currently in place with a number of counterparties which mitigate the aforementioned credit risk associated with derivative activity conducted with those counterparties by requiring that significant net unrealized fair value gains be supported by collateral placed with Northern Trust.

All derivative financial instruments, whether designated as hedges or not, are recorded on the consolidated balance sheet at fair value within other assets or other liabilities. As noted in the discussions below, the manner in which changes in the fair value of a derivative is accounted for in the consolidated statement of income depends on whether the contract has been designated as a hedge and qualifies for hedge accounting under GAAP. Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting agreements exist between Northern Trust and the counterparty. Derivative assets and liabilities recorded on the consolidated balance sheet were each reduced by $2.1 billion as of September 30, 2011 and by $1.8 billion as of December 31, 2010, as a result of master netting agreements in place. Derivative assets and liabilities recorded at September 30, 2011 also reflect reductions of $.1 billion and $1.6 billion, respectively, as a result of cash collateral received from and deposited with derivative counterparties. This compares with reductions of derivative assets and liabilities of $2.6 billion and $3.0 billion, respectively, at December 31, 2010. Additional cash collateral received from and deposited with derivative counterparties totaling $2.8 million and $185.2 million, respectively, as of September 30, 2011, and $9.9 million and $.5 million, respectively, as of December 31, 2010, were not offset against derivative assets and liabilities on the consolidated balance sheet as the amounts exceeded the net derivative positions with those counterparties.

Certain master netting agreements Northern Trust enters into with derivative counterparties contain credit risk-related contingent features in which the counterparty has the option to declare Northern Trust in default and accelerate cash settlement of the net derivative liabilities with the counterparty in the event Northern Trust s credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position was $.5 billion and $3.3 billion on September 30, 2011 and December 31, 2010, respectively. Cash collateral amounts deposited with derivative counterparties on those dates included $.4 billion and $2.9 billion, respectively, posted against these liabilities, resulting in a net maximum amount of termination payments that could have been required at September 30, 2011 and December 31, 2010 of $.1 million and $387.1 million, respectively. Accelerated settlement of these liabilities would not have a material effect on the consolidated financial position or liquidity of Northern Trust.

Notes to Consolidated Financial Statements (continued)

Foreign exchange contracts are agreements to exchange specific amounts of currencies at a future date, at a specified rate of exchange. Foreign exchange contracts are entered into primarily to meet the foreign exchange needs of clients. Foreign exchange contracts are also used for trading purposes and risk management. For risk management purposes, Northern Trust uses foreign exchange contracts to reduce its exposure to changes in foreign exchange rates relating to certain forecasted non-functional currency denominated revenue and expenditure transactions, foreign currency denominated assets and liabilities, and net investments in non-U.S. affiliates.

Interest rate contracts include swap, option, and forward contracts. Interest rate swap contracts involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. Northern Trust enters into interest rate swap contracts on behalf of its clients and also utilizes such contracts to reduce or eliminate the exposure to changes in the cash flows or fair value of hedged assets or liabilities due to changes in interest rates. Interest rate option contracts consist of caps, floors, and swaptions, and provide for the transfer or reduction of interest rate risk in exchange for a fee. Northern Trust enters into option contracts primarily as a seller of interest rate protection to clients. Northern Trust receives a fee at the outset of the agreement for the assumption of the risk of an unfavorable change in interest rates. This assumed interest rate risk is then mitigated by entering into an offsetting position with an outside counterparty. Northern Trust may also purchase option contracts for risk management purposes. Northern Trust enters into interest rate forward contracts to lend funds to a potential borrower at a specified interest rate within a specified period of time. These forward contracts are derivative instruments if the loans that will result from the exercise of the commitments will be held for sale.

Credit default swap contracts are agreements to transfer credit default risk from one party to another in exchange for a fee. Northern Trust enters into credit default swaps with outside counterparties where the counterparty agrees to assume the underlying credit exposure of a specific Northern Trust commercial loan or loan commitment.

Client-Related and Trading Derivative Instruments. In excess of 97% of Northern Trust s derivatives outstanding at September 30, 2011 and December 31, 2010, measured on a notional value basis, relate to client-related and trading activities. These activities consist principally of providing foreign exchange services to clients in connection with Northern Trust s global custody business. However, in the normal course of business, Northern Trust also engages in trading of currencies for its own account.

The following table shows the notional amounts of client-related and trading derivative financial instruments. Notional amounts of derivative financial instruments do not represent credit risk, and are not recorded in the consolidated balance sheet. They are used merely to express the volume of this activity. Northern Trust s credit related risk of loss is limited to the positive fair value of the derivative instrument, which is significantly less than the notional amount.

Notes to Consolidated Financial Statements (continued)

	September 30, 2011			December 31, 2010		
	Notional	Fair Value		Notional	Fair Value	
(In Millions)	Value	Asset	Liability	Value	Asset	Liability
Foreign Exchange Contracts	**$ 270,614.5**	**$ 5,202.9**	**$ 5,190.0**	$ 242,007.1	$ 5,747.9	$ 5,729.9
Interest Rate Option Contracts	**100.7**			126.1	.1	.1
Interest Rate Swap Contracts	**4,468.9**	**193.6**	**189.5**	4,301.7	151.2	148.4
Total	**$ 275,184.1**	**$ 5,396.5**	**$ 5,379.5**	$ 246,434.9	$ 5,899.2	$ 5,878.4

Changes in the fair value of client-related and trading derivative instruments are recognized currently in income. The following table shows the location and amount of gains and losses recorded in the consolidated statement of income for the three and nine months ended September 30, 2011 and 2010.

	Location of Derivative Gain/ (Loss) Recognized in Income	Amount of Derivative Gain/(Loss) Recognized in Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
(In Millions)		2011	2010	2011	2010
Foreign Exchange Contracts	Foreign Exchange Trading Income	**$ 87.2**	$ 89.0	**$ 252.8**	$ 284.0
Interest Rate Swap and Option Contracts	Security Commissions and Trading Income	**1.0**	3.0	**3.9**	5.7
Total		**$ 88.2**	$ 92.0	**$ 256.7**	$ 289.7

Risk Management Instruments. Northern Trust uses derivative instruments to hedge its exposure to foreign currency, interest rate, and credit risk. Certain hedging relationships are formally designated and qualify for hedge accounting under GAAP as fair value, cash flow, or net investment hedges. Other derivatives that are entered into for risk management purposes as economic hedges are not formally designated as hedges and, therefore, are accounted for as trading instruments.

In order to qualify for hedge accounting, a formal assessment is performed on a calendar quarter basis to verify that derivatives used in designated hedging transactions continue to be highly effective in offsetting the changes in fair value or cash flows of the hedged item. If a derivative ceases to be highly effective, matures, is sold, or is terminated, or if a hedged forecasted transaction is no longer expected to occur, hedge accounting is terminated and the derivative is treated as if it were a trading instrument.

The following table identifies the types and classifications of derivative instruments designated as hedges and used by Northern Trust to manage risk, their notional and fair values, and the respective risks addressed.

Notes to Consolidated Financial Statements (continued)

(In Millions)	Derivative Instrument	Risk Classification	September 30, 2011 Notional Value	September 30, 2011 Fair Value Asset	September 30, 2011 Fair Value Liability	December 31, 2010 Notional Value	December 31, 2010 Fair Value Asset	December 31, 2010 Fair Value Liability
Fair Value Hedges								
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Rate	**$ 1,682.0**	**$ 2.0**	**$ 42.3**	$ 860.0	$ 4.8	$ 14.9
Senior Notes and Long-Term Subordinated Debt	Interest Rate Swap Contracts	Interest Rate	**1,100.0**	**152.4**	**.4**	1,100.0	129.8	.4
Cash Flow Hedges								
Forecasted Foreign Currency Denominated Transactions	Foreign Exchange Contracts	Foreign Currency	**923.9**	**11.1**	**18.5**	935.3	19.3	15.2
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Rate	**500.0**		**.1**			
Net Investment Hedges								
Net Investments in Non-U.S. Affiliates	Foreign Exchange Contracts	Foreign Currency	**1,452.3**	**3.7**	**3.1**	1,390.1	13.0	18.3
Total			**$ 5,658.2**	**$ 169.2**	**$ 64.4**	$ 4,285.4	$ 166.9	$ 48.8

In addition to the above, Sterling denominated debt, totaling $240.7 million and $241.8 million at September 30, 2011 and December 31, 2010, respectively, was designated as a hedge of the foreign exchange risk associated with the net investment in certain non-U.S. affiliates.

Derivatives are designated as fair value hedges to limit Northern Trust s exposure to changes in the fair value of assets and liabilities due to movements in interest rates. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability attributable to the hedged risk are recorded currently in income. The following table shows the location and amount of derivative gains and losses recorded in the consolidated statement of income related to fair value hedges for the three and nine months ended September 30, 2011 and 2010.

(In Millions)	Derivative Instrument	Location of Derivative Gain/(Loss) Recognized in Income	Amount of Derivative Gain/(Loss) Recognized in Income: Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Month Ended September 30, 2011	Nine Month Ended September 30, 2010
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Income	**$ (27.0)**	$ (10.2)	**$ (53.2)**	$ (21.8)
Senior Notes and Long -Term Subordinated Debt	Interest Rate Swap Contracts	Interest Expense	**39.0**	33.3	**190.4**	104.5
Total			**$ 12.0**	$ 23.1	**$ 137.2**	$ 82.7

Northern Trust applies the shortcut method of accounting, available under GAAP, to substantially all of its fair value hedges, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item as the gain or loss. For fair value hedges that do not qualify for the shortcut method of accounting, Northern Trust utilizes regression analysis, a long-haul method of accounting, in assessing whether the hedging relationships are highly effective at inception and on an ongoing basis. There were $.1 million and $.2 million of changes recorded in the fair values of the hedged items for such long-haul hedges during the three months ended

Notes to Consolidated Financial Statements (continued)

September 30, 2011 and 2010; and $.4 million and $.2 million changes recorded in the fair value during the nine months ended September 30, 2011 and 2010, respectively. There was $.1 million and $.4 million of ineffectiveness recorded during the three and nine months ended September 30, 2011, respectively, and $.1 million ineffectiveness recorded during the three months and nine months ended September 30, 2010 for available for sale investment securities, senior notes, and subordinated debt.

Derivatives are also designated as cash flow hedges in order to minimize the variability in cash flows of earning assets or forecasted transactions caused by movements in interest or foreign exchange rates. The effective portion of changes in the fair value of such derivatives is recognized in AOCI, a component of stockholders equity, and there is no change to the accounting for the hedged item. When the hedged forecasted transaction impacts earnings, balances in AOCI are reclassified to the same income or expense classification as the hedged item. Northern Trust assesses effectiveness using regression analysis for cash flow hedges of available for sale securities. Ineffectiveness is measured using the hypothetical derivative method. For cash flow hedges of forecasted foreign currency denominated revenue and expenditure transactions, Northern Trust closely matches all terms of the hedged item and the hedging derivative at inception and on an ongoing basis which limits hedge ineffectiveness. To the extent all terms are not perfectly matched, effectiveness is assessed using the dollar-offset method and any ineffectiveness is measured using the hypothetical derivative method. There was no ineffectiveness recognized in earnings for cash flow hedges during the three and nine months ended September 30, 2011 and 2010. As of September 30, 2011, twenty-three months is the maximum length of time over which the exposure to variability in future cash flows of forecasted foreign currency denominated transactions is being hedged.

The following table provides cash flow hedge derivative gains and losses recognized in AOCI and the amounts reclassified to earnings during the three and nine months ended September 30, 2011 and 2010.

(In Millions)	Foreign Exchange Contracts (Before Tax)		Interest Rate Swap Contracts (Before Tax)	
Three Months Ended September 30,	2011	2010	2011	2010
Net Gain/(Loss) Recognized in AOCI	**$ (24.8)**	$ 43.2	**$ .2**	$
Net Gain/(Loss) Reclassified from AOCI to Earnings				
Trust, Investment and Other Servicing Fees	**.7**	.4		
Other Operating Income	**(.2)**	(.1)		
Interest Income	**(.2)**	(.1)	**.1**	
Interest Expense				
Compensation	**.6**	.1		
Employee Benefits	**.2**	.1		
Equipment and Software				
Occupancy Expense	**.1**	.2		
Other Operating Expense	**.6**	(1.5)		
Total	**$ 1.8**	$ (.9)	**$ .1**	$

Notes to Consolidated Financial Statements (continued)

(In Millions) **Nine Months Ended September 30,**	Foreign Exchange Contracts (Before Tax) 2011	2010	Interest Rate Swap Contracts (Before Tax) 2011	2010
Net Gain/(Loss) Recognized in AOCI	**$ (9.0)**	$ 56.9	**$ .2**	$
Net Gain/(Loss) Reclassified from AOCI to Earnings				
Trust, Investment and Other Servicing Fees	**1.0**	10.2		
Other Operating Income	**0**	.3		
Interest Income	**(1.0)**	2.0	**.1**	
Interest Expense		.1		
Compensation	**3.0**	(8.4)		
Employee Benefits	**.9**	(2.2)		
Equipment and Software	**.1**	(.1)		
Occupancy Expense	**.5**	(1.1)		
Other Operating Expense	**1.9**	(4.5)		
Total	**$ 6.4**	$ (3.7)	**$ .1**	$

During the three and nine months ended September 30, 2011 there were no transactions discontinued due to the original forecasted transactions no longer being probable of occurring. During the three and nine months ended September 30, 2010, $6.3 million of net foreign exchange contract losses were reclassified into earnings as a result of the discontinuance of cash flow hedges as it was no longer probable that the original forecasted transactions would occur. It is estimated that a net loss of $4.8 million will be reclassified into earnings within the next twelve months relating to cash flow hedges.

Certain foreign exchange contracts and qualifying nonderivative instruments are designated as net investment hedges to minimize Northern Trust s exposure to variability in the foreign currency translation of net investments in non-U.S. branches and subsidiaries. The effective portion of changes in the fair value of the hedging instrument is recognized in AOCI consistent with the related translation gains and losses of the hedged net investment. For net investment hedges, all critical terms of the hedged item and the hedging instrument are matched at inception and on an ongoing basis to eliminate hedge ineffectiveness. As a result, no ineffectiveness was recorded for these hedges during the three and nine months ended September 30, 2011 and 2010. Amounts recorded in AOCI are reclassified to earnings only upon the sale or liquidation of an investment in a non-U.S. branch or subsidiary.

The following table provides net investment hedge gains and losses recognized in AOCI during the three and nine months ended September 30, 2011 and 2010.

	Amount of Hedging Gain/(Loss) Recognized in OCI (Before Tax)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Millions)	2011	2010	2011	2010
Foreign Exchange Contracts	**$ 75.6**	$ (109.1)	**$ (1.9)**	$ 29.6
Sterling Denominated Subordinated Debt	**5.7**	(6.9)	**(2.2)**	3.5
Sterling Denominated Senior Debt		(5.8)		10.5
Total	**$ 81.3**	$ (121.8)	**$ (4.1)**	$ 43.6

Notes to Consolidated Financial Statements (continued)

Derivatives not formally designated as hedges under GAAP are entered into to manage the foreign currency risk of non-U.S. dollar denominated assets and liabilities and the credit risk and interest rate risk of loans and loan commitments. The following table identifies the types and classifications of risk management derivative instruments not formally designated as hedges, their notional and fair values, and the respective risks addressed.

			September 30, 2011			December 31, 2010		
	Derivative	Risk	Notional	Fair Value		Notional	Fair Value	
(In Millions)	Instrument	Classification	Value	Asset	Liability	Value	Asset	Liability
Commercial Loans and Loan Commitments	Credit Default Swap Contracts	Credit	**$ 85.5**	**$**	**$ 0.4**	$ 149.5	$	$ 2.8
Loan Commitments	Forward Contracts	Interest Rate	**1.1**			14.3	.5	.2