NORTHERN TRUST CORP
Form 10-Q
July 29, 2009

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 June 30, 2009

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 incorporation or organization)	**(I.R.S. Employer 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 ¨ 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 ¨ No x

241,402,594 Shares - $1.66 2/3 Par Value

(Shares of Common Stock Outstanding on June 30, 2009)

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET **NORTHERN TRUST CORPORATION**

($ In Millions Except Share Information)	June 30 2009 (Unaudited)	December 31 2008	June 30 2008 (Unaudited)
Assets			
Cash and Due from Banks	**$ 2,531.3**	$ 2,648.2	$ 5,651.6
Federal Funds Sold and Securities Purchased under Agreements to Resell	**1,074.8**	169.0	2,921.2
Time Deposits with Banks	**16,054.9**	16,721.0	20,864.0
Federal Reserve Deposits and Other Interest-Bearing	**2,984.0**	9,403.8	21.4
Securities			
Available for Sale	**16,345.6**	14,414.4	10,588.7
Held to Maturity (Fair value - $1,177.2 at June 2009, $1,156.1 at Dec. 2008, and $1,137.8 at June 2008)	**1,164.6**	1,154.1	1,136.3
Trading Account	**4.7**	2.3	11.7
Total Securities	**17,514.9**	15,570.8	11,736.7
Loans and Leases			
Commercial and Other	**18,288.8**	20,374.0	19,013.4
Residential Mortgages	**10,738.3**	10,381.4	9,664.5
Total Loans and Leases (Net of unearned income - $504.6 at June 2009, $539.5 at December 2008, and $571.4 at June 2008)	**29,027.1**	30,755.4	28,677.9
Reserve for Credit Losses Assigned to Loans and Leases	**(297.3)**	(229.1)	(172.5)
Buildings and Equipment	**548.1**	506.6	493.0
Client Security Settlement Receivables	**1,162.8**	709.3	935.4
Goodwill	**405.3**	389.4	425.4
Other Assets	**4,039.3**	5,409.2	3,252.8
Total Assets	**$ 75,045.2**	$ 82,053.6	$ 74,806.9
Liabilities			
Deposits			
Demand and Other Noninterest-Bearing	**$ 8,040.7**	$ 11,823.6	$ 8,506.5
Savings and Money Market	**11,375.6**	9,079.2	7,835.9
Savings Certificates	**2,946.1**	2,606.8	1,997.3
Other Time	**1,142.1**	801.6	573.3
Non U.S. Offices - Noninterest-Bearing	**2,816.9**	2,855.7	5,497.6
- Interest-Bearing	**27,259.2**	35,239.5	35,863.7
Total Deposits	**53,580.6**	62,406.4	60,274.3
Federal Funds Purchased	**5,028.8**	1,783.5	1,061.0
Securities Sold Under Agreements to Repurchase	**700.0**	1,529.1	1,210.2
Other Borrowings	**1,354.9**	736.7	585.1
Senior Notes	**1,554.4**	1,052.6	653.4
Long-Term Debt	**3,133.2**	3,293.4	2,788.7

Floating Rate Capital Debt	**276.7**	276.7	276.6
Other Liabilities	**3,287.9**	4,585.8	2,993.5
Total Liabilities	**68,916.5**	75,664.2	69,842.8
Stockholders Equity			
Preferred Stock - Series B (Net of discount- $74.7)		1,501.3	
Common Stock, $1.66 2/3 Par Value; Authorized 560,000,000 shares; Outstanding 241,402,594 shares at June 2009, 223,263,132 shares at December 2008 and 221,046,920 shares at June 2008	**408.6**	379.8	379.8
Additional Paid-In Capital	**965.2**	178.5	94.2
Retained Earnings	**5,323.5**	5,091.2	5,032.2
Accumulated Other Comprehensive Income (Loss)	**(353.4)**	(494.9)	(148.4)
Treasury Stock - (at cost, 3,768,930 shares at June 2009, 4,658,392 shares at December 2008, and 6,874,604 shares at June 2008)	**(215.2)**	(266.5)	(393.7)
Total Stockholders Equity	**6,128.7**	6,389.4	4,964.1
Total Liabilities and Stockholders Equity	**$ 75,045.2**	$ 82,053.6	$ 74,806.9

CONSOLIDATED STATEMENT OF INCOME **NORTHERN TRUST CORPORATION**

(UNAUDITED)

($ In Millions Except Per Share Information)	Three Months Ended June 30 2009	2008	Six Months Ended June 30 2009	2008
Noninterest Income				
Trust, Investment and Other Servicing Fees	**$ 601.4**	$ 645.1	**$ 1,012.1**	$ 1,171.9
Foreign Exchange Trading Income	**134.3**	126.6	**265.4**	239.8
Security Commissions and Trading Income	**16.8**	20.4	**33.6**	38.2
Treasury Management Fees	**21.8**	18.4	**42.2**	35.8
Gain on Visa Share Redemption				167.9
Other Operating Income	**28.2**	34.8	**65.3**	66.6
Security Gains and (Losses), including Other-Than-Temporary-Impairment (OTTI) Losses, net	**(79.6)**		**(79.2)**	5.0
Less: OTTI Recognized in Other Comprehensive Income	**62.1**		**62.1**	
Total Investment Securities Gains (Losses), net	**(17.5)**		**(17.1)**	5.0
Total Noninterest Income	**785.0**	845.3	**1,401.5**	1,725.2
Net Interest Income				
Interest Income	**354.7**	588.9	**748.5**	1,266.0
Interest Expense	**104.5**	352.8	**221.2**	776.4
Net Interest Income	**250.2**	236.1	**527.3**	489.6
Provision for Credit Losses	**60.0**	10.0	**115.0**	30.0
Net Interest Income after Provision for Credit Losses	**190.2**	226.1	**412.3**	459.6
Noninterest Expenses				
Compensation	**288.1**	306.0	**546.4**	592.2
Employee Benefits	**61.7**	62.7	**127.5**	120.0
Outside Services	**102.1**	106.2	**197.8**	200.1
Equipment and Software Expense	**61.2**	56.9	**122.9**	111.1
Occupancy Expense	**40.4**	39.7	**82.2**	81.1
Visa Indemnification Charges				(76.1)
Other Operating Expenses	**(50.8)**	71.8	**19.4**	150.2
Total Noninterest Expenses	**502.7**	643.3	**1,096.2**	1,178.6
Income before Income Taxes	**472.5**	428.1	**717.6**	1,006.2
Provision for Income Taxes	**158.3**	212.5	**241.6**	405.4
Net Income	**$ 314.2**	$ 215.6	**$ 476.0**	$ 600.8
Net Income Applicable to Common Stock	**$ 226.1**	$ 215.6	**$ 364.9**	$ 600.8
Per Common Share				
Net Income - Basic	**$ .95**	$ .97	**$ 1.58**	$ 2.70
- Diluted	**.95**	.96	**1.57**	2.66
Cash Dividends Declared	**.28**	.28	**.56**	.56
Average Number of Common Shares Outstanding				
- Basic	**235,455,068**	220,603,902	**229,439,676**	220,462,104
- Diluted	**236,346,486**	223,868,529	**230,407,045**	223,698,770

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME **NORTHERN TRUST CORPORATION**

(UNAUDITED)

(In Millions)	**Three Months Ended June 30** **2009**	**2008**	**Six Months Ended June 30** **2009**	**2008**
Net Income	**$ 314.2**	$ 215.6	**$ 476.0**	$ 600.8
April 1 Adjustment for Cumulative Effect of Applying FSP FAS 115-2 and 124-2	**(9.5)**		**(9.5)**	
Other Comprehensive Income (Loss) (net of tax and reclassifications)				
Security OTTI Losses Recognized in Other Comprehensive Income	**(62.1)**		**(62.1)**	
Other Unrealized Gains (Losses) on Securities, net	**146.2**	(10.7)	**188.5**	(69.4)
Unrealized Gains (Losses) on Cash Flow Hedge Designations, net	**11.0**	2.3	**17.8**	(.5)
Foreign Currency Translation Adjustments	**4.8**	(5.9)	**1.3**	7.3
Pension and Other Postretirement Benefit Adjustments	**2.3**	2.7	**5.5**	4.5
Other Comprehensive Income (Loss)	**102.2**	(11.6)	**151.0**	(58.1)
Comprehensive Income	**$ 406.9**	$ 204.0	**$ 617.5**	$ 542.7

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY **NORTHERN TRUST CORPORATION**

(UNAUDITED)

(In Millions)	Six Months Ended June 30 2009	2008
Preferred Stock		
Balance at January 1	**$ 1,501.3**	$
Redemption of Preferred Stock, Series B	**(1,576.0)**	
Discount Accretion - Preferred Stock	**74.7**	
Balance at June 30		
Common Stock		
Balance at January 1	**379.8**	379.8
Issuance of Common Stock	**28.8**	
Balance at June 30	**408.6**	379.8
Additional Paid-in Capital		
Balance at January 1	**178.5**	69.1
Common Stock Issuance	**805.3**	
Treasury Stock Transaction - Stock Options and Awards	**(28.4)**	(14.4)
Stock Options and Awards - Amortization	**6.3**	25.9
Stock Options and Awards - Tax Benefits	**3.5**	13.6
Balance at June 30	**965.2**	94.2
Retained Earnings		
Balance at January 1	**5,091.2**	4,556.2
April 1 Adjustment for the Cumulative Effect of Applying FSP FAS 115-2 and 124-2	**9.5**	
Net Income	**476.0**	600.8
Dividends Declared - Common Stock	**(131.9)**	(124.8)
Dividends Declared - Preferred Stock	**(46.6)**	
Discount Accretion - Preferred Stock	**(74.7)**	
Balance at June 30	**5,323.5**	5,032.2
Accumulated Other Comprehensive Income (Loss)		
Balance at January 1	**(494.9)**	(90.3)
April 1 Adjustment for the Cumulative Effect of Applying FSP FAS 115-2 and 124-2	**(9.5)**	
Other Comprehensive Income (Loss)	**151.0**	(58.1)
Balance at June 30	**(353.4)**	(148.4)
Treasury Stock		
Balance at January 1	**(266.5)**	(405.7)
Stock Options and Awards	**62.4**	78.9
Stock Purchased	**(11.1)**	(66.9)
Balance at June 30	**(215.2)**	(393.7)
Total Stockholders Equity at June 30	**$ 6,128.7**	$ 4,964.1

CONSOLIDATED STATEMENT OF CASH FLOWS **NORTHERN TRUST CORPORATION**

(In Millions)	Six Months Ended June 30 2009	2008
Cash Flows from Operating Activities:		
Net Income	**476.0**	600.8
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	**115.0**	30.0
Client Support-Related Charges	**(130.1)**	
Depreciation on Buildings and Equipment	**45.7**	41.5
Amortization of Computer Software	**60.7**	52.8
Investment Security (Gains) Losses, net	**17.1**	
Amortization of Intangibles	**7.9**	9.4
Decrease in Receivables	**68.8**	18.6
Capital Support Agreement Payments	**(66.7)**	
Decrease in Interest Payable	**(10.0)**	(25.0)
Amortization and Accretion of Securities and Unearned Income	**(16.9)**	(1.0)
Excess Tax Benefits from Stock Incentive Plans	**(3.5)**	(13.6)
Net Increase in Trading Account Securities	**(2.4)**	(8.6)
Visa Indemnification Charges		(76.1)
Other Operating Activities, net	**(218.4)**	(56.9)
Net Cash Provided by Operating Activities	**343.2**	571.9
Cash Flows from Investing Activities:		
Net (Increase) Decrease in Federal Funds Sold and Securities Purchased under Agreements to Resell	**(905.8)**	869.5
Net Decrease in Time Deposits with Banks	**666.1**	396.0
Net Decrease in Federal Reserve Deposits and Other Interest-Bearing Assets	**6,419.8**	0.1
Purchases of Securities-Held to Maturity	**(115.6)**	(92.7)
Proceeds from Maturity and Redemption of Securities-Held to Maturity	**108.0**	105.5
Purchases of Securities-Available for Sale	**(7,739.0)**	(8,019.7)
Proceeds from Sale, Maturity and Redemption of Securities-Available for Sale	**5,988.2**	5,073.7
Net (Increase) Decrease in Loans and Leases	**1,709.9**	(3,344.5)
Purchases of Buildings and Equipment, net	**(87.3)**	(42.6)
Purchases and Development of Computer Software	**(95.4)**	(106.9)
Net Increase in Client Security Settlement Receivables	**(453.5)**	(372.3)
Other Investing Activities, net	**333.7**	74.9
Net Cash Provided by (Used in) Investing Activities	**5,829.1**	(5,459.0)
Cash Flows from Financing Activities:		
Net Increase (Decrease) in Deposits	**(8,825.8)**	9,061.2
Net Increase (Decrease) in Federal Funds Purchased	**3,245.3**	(404.8)
Net Decrease in Securities Sold under Agreements to Repurchase	**(829.1)**	(553.4)
Net Increase (Decrease) in Short-Term Other Borrowings	**424.5**	(1,485.3)
Proceeds from Term Federal Funds Purchased	**7,354.0**	75.7
Repayments of Term Federal Funds Purchased	**(7,160.0)**	(113.7)
Proceeds from Senior Notes & Long-Term Debt	**500.0**	663.1
Repayments of Senior Notes & Long-Term Debt	**(139.0)**	(556.7)
Treasury Stock Purchased	**(8.0)**	(62.8)
Net Proceeds from Stock Options	**30.9**	56.9
Excess Tax Benefits from Stock Incentive Plans	**3.5**	13.6
Cash Dividends Paid on Common Stock	**(125.1)**	(123.5)
Proceeds from Common Stock Issuance	**834.5**	
Cash Dividends Paid on Preferred Stock	**(46.6)**	
Redemption of Preferred Stock - Series B	**(1,576.0)**	
Other Financing Activities, net	**(4.5)**	3.7

Net Cash Provided by (Used in) Financing Activities	**(6,321.4)**	6,574.0
Effect of Foreign Currency Exchange Rates on Cash	**32.2**	43.1
Decrease in Cash and Due from Banks	**(116.9)**	1,730.0
Cash and Due from Banks at Beginning of Year	**2,648.2**	3,921.6
Cash and Due from Banks at End of Period	**2,531.3**	5,651.6
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	**231.2**	801.4
Income Taxes Paid	**189.4**	160.4

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), all of which are wholly-owned. Significant intercompany balances and transactions have been eliminated. The consolidated financial statements, as of and for the periods ended June 30, 2009 and 2008, 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. Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through July 29, 2009, the date of the filing of the consolidated financial statements with the Securities and Exchange Commission. For a description of Northern Trust s significant accounting policies, refer to Note 1 of the Notes to Consolidated Financial Statements in the 2008 Annual Report to Shareholders.

2. Recent Accounting Pronouncements - In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events. SFAS No. 165 establishes standards under which an entity shall recognize and disclose events that occur after a balance sheet date but before the related financial statements are issued or are available to be issued. SFAS No. 165 is effective for fiscal years and interim periods ending after June 15, 2009. Adoption of SFAS No. 165 as of June 30, 2009 had no impact on Northern Trust s consolidated financial position or results of operations.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140. SFAS No. 166 amends SFAS No. 140 to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and the transferor s continuing involvement, if any, in transferred financial assets. SFAS No. 166 is effective for interim and annual reporting periods that begin after November 15, 2009. Northern Trust is currently assessing the impact of the adoption of SFAS No. 166 on its consolidated financial position and results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 significantly changes the criteria for determining whether the consolidation of a variable interest entity is required. SFAS No. 167 also addresses the effect of changes required by SFAS No. 166 on FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, and concerns regarding the application of certain provisions of Interpretation No. 46(R), including concerns that the accounting and disclosures under the Interpretation do not always provide timely and useful information about an entity s involvement in a variable interest entity. SFAS No. 167 is effective for interim and annual reporting periods that begin after November 15, 2009. Northern Trust is currently assessing the impact of the adoption of SFAS No. 167 on its consolidated financial position and results of operations.

Notes to Consolidated Financial Statements (continued)

In June 2009, the FASB also issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162. Upon the effective date of SFAS No. 168, the codification will become the sole source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) recognized by the FASB. SFAS No. 168 is effective for fiscal years and interim periods ending after September 15, 2009. Adoption of SFAS No. 168 as of September 30, 2009 is not expected to have a material impact on Northern Trust s consolidated financial position or results of operations as it does not alter existing GAAP.

3. Fair Value Measurements - Fair Value Hierarchy. As of June 30, 2009, Northern Trust adopted the FASB Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4), which provides guidance on how to determine the fair value of assets and liabilities in an environment where the volume and level of activity for the asset or liability have significantly decreased and re-emphasizes that the objective of a fair value measurement remains an exit price. The adoption of FSP FAS 157-4 as of June 30, 2009 did not have a material effect on Northern Trust s financial position or results of operations.

As of June 30, 2009, Northern Trust adopted the FASB Staff Position No.107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1), which requires companies to disclose the fair value of financial instruments within interim financial statements, adding to the current requirement to provide those disclosures annually. Effective June 30, 2009, the required disclosures have been provided within this Note.

The following describes the hierarchy of inputs 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. The hierarchy of valuation inputs (Levels 1, 2, and 3) is based on the extent to which the inputs are observable in the marketplace. 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.

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, seed investments for the development of managed fund products consisting of common stock and securities sold but not yet purchased, 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 investments in government sponsored agency securities, asset-backed securities, obligations of states and political subdivisions, corporate debt securities, and non-U.S. government securities, the fair values of which are modeled by external pricing vendors or, in limited cases, modeled internally, using a discounted cash flow approach that incorporates current market yield curves and assumptions regarding anticipated prepayments and defaults.

Level 2 assets and liabilities also include derivative contracts such as foreign exchange contracts, interest rate contracts, and credit default swap contracts that are valued using widely accepted models that incorporate inputs readily observable in actively quoted markets and do not require significant judgment. Inputs to these models reflect the contractual terms of the contracts and, based on the type of instrument, can include foreign exchange rates, interest rates, credit spreads, and volatility inputs. Northern Trust evaluated the impact of counterparty credit risk and its own credit risk on the valuation of its derivative instruments. Factors considered included 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 Northern Trust s derivative instruments. The resulting valuation adjustments are not considered material. Level 2 other assets represent investments in mutual funds held to fund employee benefit and deferred compensation obligations. These investments are valued at the funds net asset values.

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. The lack of activity in the auction rate security market has limited the amount of observable market inputs to use in determining fair value. Therefore, Northern Trust has incorporated its own assumptions about future cash flows and appropriate discount rates 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. Northern Trust s Level 3 liabilities include capital support agreements (Capital Support Agreements) with certain entities for which Northern Trust acts as investment advisor, which are discussed in further detail in Note 17. These agreements are valued based on an option pricing model which incorporates agreement-specific assumptions, the value of covered investments, and future volatility assumptions of underlying assets in the affected entities. Level 3 liabilities also include financial guarantees relating to standby letters of credit and a net estimated liability for Visa related indemnifications, discussed in further detail in Notes 18 and 13, respectively, the fair values of which are based on available market data and significant management judgment.

Notes to Consolidated Financial Statements (continued)

The following presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 and December 31, 2008, segregated by fair value level.

(In Millions)	Level 1	Level 2	Level 3	Netting *	Assets/Liabilities Fair Value
June 30, 2009					
Securities					
Available for Sale					
U.S. Government	$ 40.8	$	$	$	$ 40.8
Obligations of States and Political Subdivisions		31.4			31.4
Government Sponsored Agency		12,277.9			12,277.9
Corporate Debt		1,919.5			1,919.5
Residential Mortgage-Backed		342.8			342.8
Other Asset-Backed		955.9			955.9
Auction Rate			474.5		474.5
Other		302.8			302.8
Total	**40.8**	**15,830.3**	**474.5**		**16,345.6**
Trading Account		**4.7**			**4.7**
Total	**40.8**	**15,835.0**	**474.5**		**16,350.3**
Other Assets					
Derivatives		**4,495.0**		**(1,758.3)**	**2,736.7**
All Other	**64.5**	**30.1**			**94.6**
Total	**64.5**	**4,525.1**		**(1,758.3)**	**2,831.3**
Total Assets at Fair Value	**$ 105.3**	**$ 20,360.1**	**$ 474.5**	**$ (1,758.3)**	**$ 19,181.6**
Other Liabilities					
Derivatives	**$**	**$ 4,262.9**	**$ 125.6**	**$ (2,242.6)**	**$ 2,145.9**
All Other	**3.0**		**113.0**		**116.0**
Total Liabilities at Fair Value	**$ 3.0**	**$ 4,262.9**	**$ 238.6**	**$ (2,242.6)**	**$ 2,261.9**
December 31, 2008					
Securities					
Available for Sale					
U.S. Government	$ 19.9	$	$	$	$ 19.9
Obligations of States and Political Subdivisions		31.6			31.6
Government Sponsored Agency		11,261.4			11,261.4
Corporate Debt		739.5			739.5
Residential Mortgage-Backed		439.3			439.3
Other Asset-Backed		1,133.3			1,133.3
Auction Rate			453.1		453.1
Other		336.3			336.3
Total	19.9	13,941.4	453.1		14,414.4

Trading Account		2.3			2.3
Total	19.9	13,943.7	453.1		14,416.7
Other Assets					
Derivatives		4,968.7		(1,649.0)	3,319.7
All Other	58.5	27.2			85.7
Total	58.5	4,995.9		(1,649.0)	3,405.4
Total Assets at Fair Value	$ 78.4	$ 18,939.6	$ 453.1	$ (1,649.0)	$ 17,822.1
Other Liabilities					
Derivatives	$	$ 4,466.5	$ 314.1	$ (1,649.0)	$ 3,131.6
All Other	3.3		104.2		107.5
Total Liabilities at Fair Value	$ 3.3	$ 4,466.5	$ 418.3	$ (1,649.0)	$ 3,239.1

* *As permitted under FASB Interpretation No. 39, Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting agreements exist. As of June 30, 2009, derivative assets and liabilities have been further reduced by $503.9 million and $988.2 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 asset and liabilities for the three and six months ended June 30, 2009 and 2008.

	Securities Available for Sale[(1)]		Other Liabilities Derivatives[(2)]		All Other[(3)]	
(In Millions)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Three Months Ended June 30						
Fair Value at April 1	$ 476.3	$	$ (322.4)	$ (8.7)	$ (108.9)	$ (86.4)
Realized and Unrealized Gains (Losses)						
Included in Earnings	.5[(4)]		130.1	(1.2)	2.0	3.5
Included in Other Comprehensive Income	9.8					
Purchases, Sales, Issuances, and Settlements	(11.1)		66.7		(6.1)	(10.8)
Fair Value at June 30	$ 474.5	$	$ (125.6)	$ (9.9)	$ (113.0)	$ (93.7)
Six Months Ended June 30						
Fair Value at January 1	$ 453.1	$	$ (314.1)	$	$ (104.2)	$ (162.9)
Realized and Unrealized Gains (Losses)						
Included in Earnings	2.7[(4)]		121.8	(9.9)	3.8	80.0
Included in Other Comprehensive Income	35.3					
Purchases, Sales, Issuances, and Settlements	(11.2)		66.7		(12.6)	(10.8)
Fair Value at June 30	$ 474.5	$	$ (125.6)	$ (9.9)	$ (113.0)	$ (93.7)

(1) Amounts reflect changes in the fair value of auction rate securities.

(2) Amounts reflect changes in the fair value of the Capital Support Agreements.

(3) Amounts reflect changes in the fair value of standby letters of credit and the net estimated liability for Visa related indemnifications.

(4) Represents gains realized on the redemptions of auction rate securities by the issuers that are included in the income statement within investment security gains (losses), net.

Realized and unrealized gains and losses related to Level 3 other liabilities are included in other operating income or expense. Of the total realized and unrealized gains and losses included in earnings for the three and six months ended June 30, 2009, net gains of $38.2 million and $29.9 million, respectively, relating to the valuation of the Corporation s estimated liability under the Capital Support Agreements held at June 30, 2009 were unrealized.

Impaired loans whose valuation was determined based on available collateral are classified as nonrecurring Level 3 assets. During the three and six months ended June 30, 2009, respectively, Northern Trust provided an additional $12.1 million and $29.9 million in specific reserves for credit losses to adjust loans to their total estimated fair value of $21.0 million and $39.6 million. Reserves were based on the fair value of the loans collateral as supported by third party appraisals, discounted to reflect management s judgment as to the realizable value of the collateral.

Notes to Consolidated Financial Statements (continued)

Fair Value of Financial Instruments. SFAS No. 107, Disclosures About Fair Value of Financial Instruments, as amended by FSP FAS 107-1, requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate fair value. SFAS No. 107 excludes from its scope nonfinancial assets and liabilities, as well as a wide range of franchise, relationship, and intangible values that add value to Northern Trust. Accordingly, the fair value disclosures presented below 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 have been discussed above. The following methods and assumptions were used in estimating the fair values of the financial instruments not carried at fair value.

Held to Maturity Securities. The fair values of held to maturity securities are modeled by external pricing vendors or, in limited cases, modeled internally, using a discounted cash flow approach that incorporates current market yield curves and assumptions regarding anticipated prepayments and defaults.

Loans (excluding lease receivables). The fair values of one-to-four family residential mortgages were based on quoted market prices of similar loans sold, adjusted for differences in loan characteristics. The fair values of the remainder of the loan portfolio were estimated using a discounted cash flow method in which the interest component of the discount rate used was the rate at which Northern Trust would have originated the loan had it been originated as of the date of the financial statement. The fair values of all loans were adjusted to reflect current assessments of loan collectibility.

Savings Certificates, Other Time, and Non-U.S. Offices Interest-Bearing Deposits. The fair values of these instruments were estimated using a discounted cash flow method that incorporated market interest rates.

Senior Notes, Subordinated Debt, Federal Home Loan Bank Borrowings, and Floating Rate Capital Debt. Fair values were 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.

Financial Guarantees and Loan Commitments. The fair values of financial guarantees and 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; money market assets (includes federal funds sold and securities purchased under agreements to resell, time deposits with banks, and federal reserve deposits and other interest-bearing assets); customers acceptance liability; client security settlement receivables; federal funds purchased; securities sold under agreements to repurchase; other borrowings (includes Treasury Investment Program balances, term federal funds purchased, and other short-term borrowings); and liability on acceptances. The fair values required to be disclosed for demand, noninterest-bearing, savings, and money market deposits pursuant to SFAS No. 107 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 book and fair values of financial instruments.

	June 30, 2009		December 31, 2008	
(In Millions)	Book Value	Fair Value	Book Value	Fair Value
ASSETS				
Cash and Due from Banks	**$ 2,531.3**	**$ 2,531.3**	$ 2,648.2	$ 2,648.2
Money Market Assets	**20,113.7**	**20,113.7**	26,293.8	26,293.8
Securities:				
Available for Sale	**16,345.6**	**16,345.6**	14,414.4	14,414.4
Held to Maturity	**1,164.6**	**1,177.2**	1,154.1	1,156.1
Trading Account	**4.7**	**4.7**	2.3	2.3
Loans (excluding Leases)				
Held to Maturity	**27,731.5**	**27,821.3**	29,378.4	29,506.0
Held for Sale	**17.1**	**17.1**	7.3	7.3
Client Security Settlement Receivables	**1,162.8**	**1,162.8**	709.3	709.3
LIABILITIES				
Deposits:				
Demand, Noninterest-Bearing, and Savings and Money Market	**22,233.2**	**22,233.2**	23,758.5	23,758.5
Savings Certificates, Other Time and Foreign Offices Time	**31,347.4**	**31,385.9**	38,647.9	38,676.4
Federal Funds Purchased	**5,028.8**	**5,028.8**	1,783.5	1,783.5
Securities Sold under Agreements to Repurchase	**700.0**	**700.0**	1,529.1	1,529.1
Other Borrowings	**1,354.9**	**1,354.9**	736.7	736.7
Senior Notes	**1,554.4**	**1,577.2**	1,052.6	998.4
Long Term Debt:				
Subordinated Debt	**1,345.6**	**1,312.3**	1,365.7	1,277.6
Federal Home Loan Bank Borrowings	**1,778.7**	**1,851.3**	1,917.7	1,942.2
Floating Rate Capital Debt	**276.7**	**126.8**	276.7	208.8
Financial Guarantees	**238.5**	**238.5**	418.3	418.3
Loan Commitments	**27.5**	**27.5**	19.9	19.9
DERIVATIVE INSTRUMENTS				
Asset/Liability Management:				
Foreign Exchange Contracts				
Assets	**85.7**	**85.7**	103.0	103.0
Liabilities	**80.1**	**80.1**	121.9	121.9
Interest Rate Swap Contracts				
Assets	**102.2**	**102.2**	170.2	170.2
Liabilities	**12.1**	**12.1**	31.8	31.8
Credit Default Swaps				
Assets	**1.3**	**1.3**	38.4	38.4
Liabilities	**.6**	**.6**	.3	.3
Client-Related and Trading:				
Foreign Exchange Contracts				
Assets	**4,180.5**	**4,180.5**	2,931.8	2,931.8
Liabilities	**4,046.2**	**4,046.2**	2,591.1	2,591.1
Interest Rate Swap Contracts				
Assets	**124.8**	**124.8**	190.7	190.7
Liabilities	**123.4**	**123.4**	184.9	184.9
Interest Rate Option Contracts				
Assets	**.5**	**.5**	.3	.3
Liabilities	**.5**	**.5**	.3	.3

Notes to Consolidated Financial Statements (continued)

4. Securities - The following table summarizes the book and fair values of securities.

(In Millions)	June 30, 2009 Book Value	June 30, 2009 Fair Value	December 31, 2008 Book Value	December 31, 2008 Fair Value	June 30, 2008 Book Value	June 30, 2008 Fair Value
Available for Sale						
U.S. Government	**$ 40.8**	**$ 40.8**	$ 19.9	$ 19.9	$ 20.2	$ 20.2
Obligations of States and Political Subdivisions	**31.4**	**31.4**	31.6	31.6	31.7	31.7
Government Sponsored Agency	**12,277.9**	**12,277.9**	11,261.4	11,261.4	8,231.0	8,231.0
Corporate Debt	**1,919.5**	**1,919.5**	739.5	739.5	129.7	129.7
Residential Mortgage-Backed	**342.0**	**342.0**	439.3	439.3	633.6	633.6
Other Asset-Backed	**956.7**	**956.7**	1,133.3	1,133.3	1,234.6	1,234.6
Auction Rate	**474.5**	**474.5**	453.1	453.1		
Other	**302.8**	**302.8**	336.3	336.3	307.9	307.9
Subtotal	**16,345.6**	**16,345.6**	14,414.4	14,414.4	10,588.7	10,588.7
Held to Maturity						
Obligations of States and Political Subdivisions	**740.8**	**770.5**	791.2	819.3	804.9	821.9
Government Sponsored Agency	**77.8**	**79.0**	55.0	56.1	12.3	12.2
Other	**346.0**	**327.7**	307.9	280.7	319.1	303.7
Subtotal	**1,164.6**	**1,177.2**	1,154.1	1,156.1	1,136.3	1,137.8
Trading Account	**4.7**	**4.7**	2.3	2.3	11.7	11.7
Total Securities	**$ 17,514.9**	**$ 17,527.5**	$ 15,570.8	$ 15,572.8	$ 11,736.7	$ 11,738.2

Reconciliation of Amortized Cost to Fair Values of Securities Available for Sale

(In Millions)	June 30, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government	$ 40.8	$	$	$ 40.8
Obligations of States and Political Subdivisions	30.5	1.1	.2	31.4
Government Sponsored Agency	12,236.9	55.6	14.6	12,277.9
Corporate Debt	1,915.2	8.6	4.3	1,919.5
Residential Mortgage-Backed	535.9		193.9	342.0
Other Asset-Backed	969.9	.1	13.3	956.7
Auction Rate	458.0	19.8	3.3	474.5
Other	302.8			302.8
Total	$ 16,490.0	$ 85.2	$ 229.6	$ 16,345.6

Reconciliation of Book Values to Fair Values of Securities Held to Maturity

(In Millions)	June 30, 2009 Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of States and Political Subdivisions	$ 740.8	$ 30.4	$ .7	$ 770.5
Government Sponsored Agency	77.8	1.6	.4	79.0
Other	346.0	.1	18.4	327.7
Total	$ 1,164.6	$ 32.1	$ 19.5	$ 1,177.2

Notes to Consolidated Financial Statements (continued)

Reconciliation of Amortized Cost to Fair Values of

Securities Available for Sale

(In Millions)	December 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government	$ 19.8	$ .1	$	$ 19.9
Obligations of States and Political Subdivisions	30.5	1.1		31.6
Government Sponsored Agency	11,256.4	37.7	32.7	11,261.4
Corporate Debt	743.7	0.9	5.0	739.6
Residential Mortgage-Backed	638.3	1.7	200.7	439.3
Other Asset-Backed	1,241.0		107.7	1,133.3
Auction Rate	467.0		13.9	453.1
Other	336.2			336.2
Total	$ 14,732.9	$ 41.5	$ 360.0	$ 14,414.4

Reconciliation of Book Values to Fair Values of

Securities Held to Maturity

(In Millions)	December 31, 2008 Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of States and Political Subdivisions	$ 791.2	$ 28.6	$ .5	$ 819.3
Government Sponsored Agency	55.0	1.1		56.1
Other	307.9	.2	27.4	280.7
Total	$ 1,154.1	$ 29.9	$ 27.9	$ 1,156.1

The following table provides the remaining maturity of securities as of June 30, 2009.

(In Millions)	Amortized Cost	Fair Value
Available for Sale		
Due in One Year or Less	$ 8,578.0	$ 8,538.4
Due After One Year Through Five Years	6,917.6	6,872.1
Due After Five Years Through Ten Years	445.4	416.3
Due After Ten Years	549.0	518.8
Total	$ 16,490.0	$ 16,345.6
Held to Maturity		
Due in One Year or Less	$ 133.6	$ 133.2
Due After One Year Through Five Years	435.1	441.9
Due After Five Years Through Ten Years	513.7	526.8
Due After Ten Years	82.2	75.3
Total	$ 1,164.6	$ 1,177.2

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

Notes to Consolidated Financial Statements (continued)

Securities with Unrealized Losses. The following table provides information regarding securities at June 30, 2009 that have been in a continuous unrealized loss position for less than 12 months and for 12 months or longer.

Securities with Unrealized Losses as of June 30, 2009	**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	$ 16.9	$ .4	$ 10.9	$ .5	$ 27.8	$ .9
Government Sponsored Agency	1,639.2	5.8	1,239.4	9.2	2,878.6	15.0
Corporate Debt	871.9	4.3			871.9	4.3
Residential Mortgage-Backed	24.9	19.9	317.1	174.0	342.0	193.9
Other Asset-Backed	138.6	1.2	746.6	12.1	885.2	13.3
Auction Rate	22.6	3.3			22.6	3.3
Other	33.3	7.4	30.3	11.0	63.6	18.4
Total	$ 2,747.4	$ 42.3	$ 2,344.3	$ 206.8	$ 5,091.7	$ 249.1

As of June 30, 2009, 263 securities with a combined fair value of $5.1 billion were in an unrealized loss position. Of the total $249.1 million of unrealized losses at June 30, 2009, the majority reflects the impact of credit and liquidity spreads on the valuations of residential mortgage-backed securities with unrealized losses totaling $193.9 million. These unrealized losses represent approximately 14% of the total amortized cost of asset-backed securities with unrealized losses at June 30, 2009. Of these, 7 securities with an unrealized loss of $19.9 million have been at a loss for less than 12 months. The remaining 30 securities with an unrealized loss of $174.0 million have been at a loss for more than 12 months. Residential mortgage-backed and other asset-backed securities held at June 30, 2009 were predominantly floating rate, with average lives less than 5 years, and 81% were rated triple-A, 4% were rated double-A and the remaining 15% were rated below double-A. Asset-backed securities rated below double-A had a total amortized cost and fair value of $352.6 million and $198.9 million, respectively, and were comprised primarily of sub-prime and Alt-A residential mortgage-backed securities.

The majority of the unrealized losses of $18.4 million in other securities 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 $15.0 million related to government sponsored agency securities are primarily attributable to reduced market liquidity. Unrealized losses of $4.3 million within corporate debt securities primarily reflect the widening of credit spreads and 94% of the corporate debt portfolio is backed by guarantees provided by U.S. and non-U.S. governmental entities. Unrealized losses of $3.3 million related to auction rate securities primarily reflect reduced market liquidity as a

Notes to Consolidated Financial Statements (continued)

majority of auctions continue to fail preventing holders from liquidating their investments at par. The remaining unrealized losses on Northern Trust s securities portfolio as of June 30, 2009 are attributable to changes in overall market interest rates, increased credit spreads, and reduced market liquidity.

Securities with Unrealized Losses

as of December 31, 2008	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	$ 13.0	$ .2	$ 3.6	$ .3	$ 16.6	$ .5
Government Sponsored Agency	4,956.5	26.9	160.9	5.8	5,117.4	32.7
Corporate Debt	271.3	3.5	23.4	1.5	294.7	5.0
Residential Mortgage-Backed	56.8	11.6	379.4	189.1	436.2	200.7
Other Asset-Backed	471.8	35.5	661.5	72.2	1,133.3	107.7
Auction Rate	445.8	13.9			445.8	13.9
Other	7.4	7.1	28.3	20.3	35.7	27.4
Total	$ 6,222.6	$ 98.7	$ 1,257.1	$ 289.2	$ 7,479.7	$ 387.9

Effective April 1, 2009, Northern Trust adopted FASB Staff Position No. 115-2 and 124-2, Recognition and Presentation of Other-than-temporary-Impairments (FSP FAS 115-2). FSP FAS 115-2 modifies the requirements for recognizing other-than-temporary-impairment on debt securities and significantly changes the impairment model for such securities. Under FSP FAS 115-2, a security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security s amortized cost basis (the difference being defined as the credit loss) or if the fair value of the security is less than the security s amortized cost basis and the investor intends, or more-likely-than-not will be required, to sell the security before recovery of the security s amortized cost basis. If an other-than-temporary impairment exists, the charge to earnings is limited to the amount of credit loss if the investor does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security s amortized cost basis. Any remaining difference between fair value and amortized cost is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings. Upon adoption of the FSP, an entity reclassifies from retained earnings to other comprehensive income the non-credit portion of an other-than-temporary impairment loss previously recognized on a security it holds if the entity does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security s amortized cost basis. The FSP also modifies the presentation of other-than-temporary impairment losses and increases related disclosure requirements.

Notes to Consolidated Financial Statements (continued)

As a result of adopting this guidance, Northern Trust recorded a cumulative effect adjustment of $9.5 million (after-tax) as of April 1, 2009 to reclassify the non-credit portion of previously recognized other-than-temporary-impairment losses from retained earnings to accumulated other comprehensive income. Additionally, $62.1 million (pre-tax) of non-credit related losses were recognized in other comprehensive income related to residential mortgage-backed securities. Previously, these losses would have been recorded in earnings.

Security impairment reviews are conducted at least quarterly to identify and evaluate securities that have indications of possible other-than-temporary impairment. 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. For each security meeting the requirements of our internal screening process, an extensive review is conducted to determine if other-than-temporary impairment has occurred.

While all securities are considered, the securities primarily impacted by the other-than-temporary impairment testing are residential mortgage-backed securities. To determine if an unrealized loss on a mortgage-backed security, including a 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, 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, an other-than-temporary impairment loss is recorded equal to the difference between the two amounts.

The factors used in developing the expected loss on mortgage backed securities vary by year of origination and type of collateral. The expected loss on our sub prime and Alt-A portfolios was developed using default roll rates ranging from 2% to 25% for underlying assets that are current and 30% to 90% for underlying assets that are 30-90 days past due as to principal and interest payments. Severities were assumed ranging from 45% to 70% for underlying assets that may ultimately end up in default. During the second quarter 2009, performance metrics specific to subprime and Alt-A loans deteriorated and losses totaling $18.0 million were recognized in connection with the other-than-temporary impairment credit losses of eight residential mortgage-backed securities.

Notes to Consolidated Financial Statements (continued)

Credit Losses on Debt Securities. The table below provides information regarding credit-related losses recognized in earnings on debt securities other-than-temporarily impaired.

(In Millions)	Three Months Ended June 30, 2009
Cumulative Credit-Related Losses on Securities - Beginning of Period	$ 46.2
Plus: Losses on Newly Identified Impairments	13.7
Additional Losses on Previously Identified Impairments	4.3
Cumulative Credit-Related Losses on Securities - End of Period	$ 64.2

5. Loans and Leases - Amounts outstanding in selected loan categories are shown below.

(In Millions)	June 30, 2009	December 31, 2008	June 30, 2008
U.S.			
Residential Real Estate	**$ 10,738.3**	$ 10,381.4	$ 9,664.5
Commercial	**7,322.4**	8,253.6	7,453.1
Commercial Real Estate	**3,118.5**	3,014.0	2,661.2
Personal	**4,790.6**	4,766.7	4,302.7
Other	**1,136.4**	1,404.2	1,188.7
Lease Financing	**983.3**	1,143.8	1,114.6
Total U.S.	**28,089.5**	28,963.7	26,384.8
Non-U.S.	**937.6**	1,791.7	2,293.1
Total Loans and Leases	**$ 29,027.1**	$ 30,755.4	$ 28,677.9
Reserve for Credit Losses Assigned to Loans and Leases	**(297.3)**	(229.1)	(172.5)
Net Loans and Leases	**$ 28,729.8**	$ 30,526.3	$ 28,505.4

Other U.S. loans and non-U.S. loans included $1.5 billion at June 30, 2009, $1.9 billion at December 31, 2008, and $2.3 billion at June 30, 2008 of short duration advances, primarily related to overdrafts associated with the timing of custody clients investments.

Notes to Consolidated Financial Statements (continued)

The following table shows outstanding amounts of nonperforming and impaired loans as of June 30, 2009, December 31, 2008 and June 30, 2008.

(In Millions)	June 30, 2009	December 31, 2008	June 30, 2008
Nonperforming Loans	**$ 227.9**	$ 96.7	$ 30.1
Nonperforming Loans Classified as Impaired:			
Impaired Loans with Reserves	**$ 100.1**	$ 31.5	$ 12.3
Impaired Loans without Reserves*	**119.7**	54.1	10.0
Total Impaired Loans	**$ 219.8**	$ 85.6	$ 22.3
Reserves for Impaired Loans	**$ 39.7**	$ 15.5	$ 5.7
Average Balance of Impaired Loans During the Period	**$ 176.2**	$ 31.5	$ 19.8

* *When an impaired loan s discounted cash flows, collateral value, or market price equals or exceeds its carrying value (net of charge-offs), a reserve is not required.*

At June 30, 2009, residential real estate loans totaling $17.1 million were held for sale and carried at the lower of cost or market. Loan commitments for residential real estate loans that will be held for sale when funded are carried at fair value and had a total notional amount of $44.6 million at June 30, 2009. All other loan commitments are carried at the amount of unamortized fees with a reserve for credit loss liability recognized for estimated probable losses. At June 30, 2009, legally binding commitments to extend credit totaled $26.0 billion compared with $25.4 billion at December 31, 2008, and $24.2 billion at June 30, 2008.

6. Reserve for Credit Losses - Changes in the reserve for credit losses were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(In Millions)	2009	2008	2009	2008
Balance at Beginning of Period	**$ 303.3**	$ 177.8	**$ 251.1**	$ 160.2
Charge-Offs	**(45.0)**	(4.9)	**(50.4)**	(7.6)
Recoveries	**.3**	.2	**3.0**	.5
Net Charge-Offs	**(44.7)**	(4.7)	**(47.4)**	(7.1)
Provision for Credit Losses	**60.0**	10.0	**115.0**	30.0
Effect of Foreign Exchange Rates	**.5**		**.4**	
Balance at End of Period	**$ 319.1**	$ 183.1	**$ 319.1**	$ 183.1
Reserve for Credit Losses Assigned to:				
Loans and Leases	**$ 297.3**	$ 172.5	**$ 297.3**	$ 172.5
Unfunded Commitments and Standby Letters of Credit	**21.8**	10.6	**21.8**	10.6
Total Reserve for Credit Losses	**$ 319.1**	$ 183.1	**$ 319.1**	$ 183.1

The reserve for credit losses represents management s estimate of probable inherent losses that have occurred as of the date of the financial statements. The loan and lease portfolio and other credit exposures are regularly reviewed to evaluate the adequacy of the reserve for credit losses. In determining the level of the reserve, Northern Trust evaluates the reserve necessary for specific nonperforming loans and also estimates losses inherent in other credit exposures.

Notes to Consolidated Financial Statements (continued)

7. Pledged Assets - Securities and loans pledged to secure public and trust deposits, repurchase agreements, and for other purposes as required or permitted by law were $22.8 billion on June 30, 2009, $23.6 billion on December 31, 2008 and $18.5 billion on June 30, 2008. Included in the June 30, 2009 pledged assets were securities available for sale of $698.9 million that 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 June 30, 2009, December 31, 2008, and June 30, 2008 was $124.3 million, $32.4 million, and $468.8 million, respectively. There was no repledged collateral at June 30, 2009, December 31, 2008, or June 30, 2008.

8. Goodwill and Other Intangibles - The following table shows the carrying amounts of goodwill by business unit, which include the effect of foreign exchange rates on non-U.S. dollar denominated goodwill, at June 30, 2009, December 31, 2008, and June 30, 2008.

(In Millions)	June 30, 2009	December 31, 2008	June 30, 2008
Corporate and Institutional Services	**$ 338.4**	$ 322.6	$ 364.5
Personal Financial Services	**66.9**	66.8	60.9
Total Goodwill	**$ 405.3**	$ 389.4	$ 425.4

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 June 30, 2009, December 31, 2008, and June 30, 2008, which include the effect of foreign exchange rates on non-U.S. dollar denominated intangible assets, were as follows:

(In Millions)	June 30, 2009	December 31, 2008	June 30, 2008
Gross Carrying Amount	**$ 158.0**	$ 153.4	$ 174.6
Accumulated Amortization	**88.1**	80.2	81.2
Net Book Value	**$ 69.9**	$ 73.2	$ 93.4

Other intangible assets consist primarily of the value of acquired client relationships. Amortization expense related to other intangible assets totaled $4.0 million and $4.5 million for the quarters ended June 30, 2009 and 2008, respectively, and $7.9 million and $9.4 million for the six months ended June 30, 2009 and 2008, respectively. Amortization for the remainder of 2009 and for the years 2010, 2011, 2012, and 2013 is estimated to be $8.6 million, $14.8 million, $11.2 million, $10.9 million and $10.7 million, respectively.

9. Business Units - The tables on page 43, reflecting the earnings contribution of Northern Trust s business units for the three and six month periods ended June 30, 2009 and 2008, are incorporated by reference.

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 June 30, 2009 and 2008, and changes during the three and six months then ended.

(In Millions)	Beginning Balance (Net of Tax)	Period Change Pre-Tax Amount	Tax Effect	Ending Balance (Net of Tax)
Three Months Ended June 30, 2009				
Unrealized Gains (Losses) on Securities Available for Sale	**$ (170.6)**	**$ 115.9**	**$ (42.5)**	**$ (97.2)**
Cumulative Effect of Applying FSP FAS 115-2		**(15.0)**	**5.5**	**(9.5)**
Less: Reclassification Adjustments		**(16.9)**	**6.2**	**(10.7)**
Net Unrealized Gains (Losses) on Securities Available for Sale	**(170.6)**	**117.8**	**(43.2)**	**(96.0)**
Unrealized Gains (Losses) on Cash Flow Hedge Designations	**(13.9)**	**20.4**	**(7.5)**	**(1.0)**
Less: Reclassification Adjustments		**2.9**	**(1.0)**	**1.9**
Net Unrealized Gains (Losses) on Cash Flow Hedge Designations	**(13.9)**	**17.5**	**(6.5)**	**(2.9)**
Foreign Currency Translation Adjustments	**9.3**	**(49.8)**	**54.6**	**14.1**
Pension and Other Postretirement Benefit Adjustments	**(270.9)**			**(270.9)**
Less: Reclassification Adjustments		**4.9**	**(2.6)**	**2.3**
Total Pension and Other Postretirement Benefit Adjustments	**(270.9)**	**4.9**	**(2.6)**	**(268.6)**
Accumulated Other Comprehensive Income (Loss)	**$ (446.1)**	**$ 90.4**	**$ 2.3**	**$ (353.4)**
Three Months Ended June 30, 2008				
Unrealized Gains (Losses) on Securities Available for Sale	$ (87.4)	$ (17.0)	$ 6.3	$ (98.1)
Less: Reclassification Adjustments				
Net Unrealized Gains (Losses) on Securities Available for Sale	(87.4)	(17.0)	6.3	(98.1)
Unrealized Gains (Losses) on Cash Flow Hedge Designations	(5. 8)	2.3	(.8)	(4.3)
Less: Reclassification Adjustments		(1.3)	.5	(.8)
Net Unrealized Gains (Losses) on Cash Flow Hedge Designations	(5.8)	3.6	(1.3)	(3.5)
Foreign Currency Translation Adjustments	34.4	(21.5)	15.6	28.5
Pension and Other Postretirement Benefit Adjustments	(78.0)			(78.0)
Less: Reclassification Adjustments		3.4	(.7)	2.7
Total Pension and Other Postretirement Benefit Adjustments	(78.0)	3.4	(.7)	(75.3)
Accumulated Other Comprehensive Income (Loss)	$ (136.8)	$ (31.5)	$ 19.9	$ (148.4)
Six Months Ended June 30, 2009				
Unrealized Gains (Losses) on Securities Available for Sale	**$ (212.9)**	**$ 182.9**	**$ (67.1)**	**$ (97.1)**
Cumulative Effect of Applying FSP FAS 115-2		**(15.0)**	**5.5**	**(9.5)**
Less: Reclassification Adjustments		**(16.7)**	**6.1**	**(10.6)**
Net Unrealized Gains (Losses) on Securities Available for Sale	**(212.9)**	**184.6**	**(67.7)**	**(96.0)**
Unrealized Gains (Losses) on Cash Flow Hedge Designations	**(20.7)**	**39.4**	**(14.6)**	**4.1**
Less: Reclassification Adjustments		**11.0**	**(4.0)**	**7.0**

Net Unrealized Gains (Losses) on Cash Flow Hedge Designations	**(20.7)**	**28.4**	**(10.6)**	**(2.9)**
Foreign Currency Translation Adjustments	**12.8**	**(36.6)**	**37.9**	**14.1**
Pension and Other Postretirement Benefit Adjustments	**(274.1)**			**(274.1)**
Less: Reclassification Adjustments		**9.8**	**(4.3)**	**5.5**
Total Pension and Other Postretirement Benefit Adjustments	**(274.1)**	**9.8**	**(4.3)**	**(268.6)**
Accumulated Other Comprehensive Income (Loss)	**(494.9)**	**186.2**	**(44.7)**	**(353.4)**
Six Months Ended June 30, 2008				
Unrealized Gains (Losses) on Securities Available for Sale	$ (28.7)	$ (105.3)	$ 39.1	$ (94.9)
Less: Reclassification Adjustments		5.0	(1.8)	3.2
Net Unrealized Gains (Losses) on Securities Available for Sale	(28.7)	(110.3)	40.9	(98.1)
Unrealized Gains (Losses) on Cash Flow Hedge Designations	(3.0)	(4.3)	1.6	(5.7)
Less: Reclassification Adjustments		(3.5)	1.3	(2.2)
Net Unrealized Gains (Losses) on Cash Flow Hedge Designations	(3.0)	(.8)	.3	(3.5)
Foreign Currency Translation Adjustments	21.2	(19.3)	26.6	28.5
Pension and Other Postretirement Benefit Adjustments	(79.8)			(79.8)
Less: Reclassification Adjustments		6.8	(2.3)	4.5
Total Pension and Other Postretirement Benefit Adjustments	(79.8)	6.8	(2.3)	(75.3)
Accumulated Other Comprehensive Income (Loss)	$ (90.3)	$ (123.6)	$ 65.5	$ (148.4)

Notes to Consolidated Financial Statements (continued)

11. Earnings Per Common Share Computations - The computations of net income per common share are presented in the following table and reflect the adoption of FASB EITF 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities , on January 1, 2009.

($ In Millions Except Per Share Information)	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Basic Earnings Per Common Share				
Average Number of Common Shares Outstanding	**235,455,068**	220,603,902	**229,439,676**	220,462,104
Net Income	**$ 314.2**	$ 215.6	**$ 476.0**	$ 600.8
Less: Dividends on Preferred Stock	**16.7**		**36.4**	
Preferred Stock Discount Accretion	**71.4**		**74.7**	
Net Income Applicable to Common Stock	**226.1**	215.6	**364.9**	600.8
Less: Earnings Allocated to Participating Securities	**1.5**	1.8	**2.7**	4.9
Earnings Allocated to Common Shares Outstanding	**$ 224.6**	$ 213.8	**$ 362.2**	$ 595.9
Basic Earnings Per Common Share	**$ .95**	$ .97	**$ 1.58**	$ 2.70
Diluted Earnings Per Common Share				
Average Number of Common Shares Outstanding	**235,455,068**	220,603,902	**229,439,676**	220,462,104
Plus Stock Option Dilution	**891,418**	3,264,627	**967,369**	3,236,666
Average Common and Potential Common Shares	**236,346,486**	223,868,529	**230,407,045**	223,698,770
Earnings Allocated to Common and Potential Common Shares	**$ 224.6**	$ 213.8	**$ 362.2**	$ 595.9
Diluted Earnings Per Common Share	**$ .95**	$ .96	**$ 1.57**	$ 2.66

Note: Common stock equivalents totaling 5,964,892 and 5,968,052 for the three and six months ended June 30, 2009, respectively, and 119,500 and 829,970 for the three and six months ended June 30, 2008, respectively, were not included in the computation of diluted earnings per 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 June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Interest Income				
Loans and Leases	**$ 239.6**	$ 266.8	**$ 483.1**	$ 586.8
Securities Taxable	**53.2**	75.3	**109.6**	165.1
Non-Taxable	**8.4**	9.0	**17.5**	18.3
Time Deposits with Banks	**45.2**	230.1	**126.4**	467.8
Federal Funds Sold and Securities Purchased under Agreements to Resell and Other	**8.3**	7.7	**11.9**	28.0
Total Interest Income	**354.7**	588.9	**748.5**	1,266.0
Interest Expense				
Deposits	**52.3**	280.5	**117.7**	627.3
Federal Funds Purchased	**1.0**	10.6	**2.4**	21.6
Securities Sold Under Agreements to Repurchase	**.3**	7.1	**.7**	17.1
Other Borrowings	**1.1**	7.3	**2.1**	13.8

Senior Notes	**11.3**	8.9	**19.9**	18.2
Long-Term Debt	**37.3**	36.0	**75.7**	72.6
Floating Rate Capital Debt	**1.2**	2.4	**2.7**	5.8
Total Interest Expense	**104.5**	352.8	**221.2**	776.4
Net Interest Income	**$ 250.2**	$ 236.1	**$ 527.3**	$ 489.6

Notes to Consolidated Financial Statements (continued)

13. Visa Membership - In connection with Visa, Inc. s (Visa) March 2008 initial public offering, a portion of the shares of Visa common stock held by Northern Trust as a member bank of Visa U.S.A. Inc. (Visa U.S.A.) was redeemed pursuant to a mandatory redemption. The proceeds of the redemption totaled $167.9 million and were recorded as a gain in the first quarter of 2008. The remaining Visa shares held by Northern Trust are recorded at their original cost basis of zero. These shares have restrictions as to their sale or transfer and the ultimate realization of their value is subject to future adjustments based on the resolution of outstanding indemnified litigation. Northern Trust, as a member bank of Visa U.S.A., and in conjunction with other member banks, is obligated to share in losses resulting from certain indemnified litigation involving Visa and is also required to recognize the contingent obligation to indemnify Visa for potential losses arising from the other indemnified litigation that has not yet settled at its estimated fair value in accordance with GAAP.

During 2007, Northern Trust recorded charges and corresponding liabilities of $150 million relating to Visa indemnified litigation. In March 2008, Visa placed a portion of the proceeds from its initial public offering into an escrow account to fund the settlements of, or judgments in, the indemnified litigation. Northern Trust recorded $76.1 million, its proportionate share of the escrow account balance, in the first quarter of 2008 as an offset to the indemnification liabilities and related charges recorded in the fourth quarter of 2007, reducing the net indemnification liability to $73.9 million. In the third quarter of 2008, in consideration of Visa s announced settlement of the litigation involving Discover Financial Services, Northern Trust recorded a charge of $30.0 million to increase the Visa indemnification liability. In the fourth quarter of 2008, Northern Trust fully reversed the $30.0 million charge recorded in the third quarter as Visa funded its litigation escrow account to cover the amount of the settlement. Visa s funding resulted in a reduction in the future realization of the value of the outstanding shares held by Northern Trust and other Visa U.S.A. member banks.

Northern Trust s net Visa related indemnification liability, included within other liabilities in the consolidated balance sheet, totaled $73.9 million at June 30, 2009 and 2008 and December 31, 2008. On July 16, 2009, Visa deposited additional funds in its litigation escrow account. Accordingly, Northern Trust expects to record in the third quarter of 2009 its proportionate share of the deposit, $17.8 million, as a reduction to the Visa related indemnification liability and related charges.

It is expected that required additional contributions to the litigation escrow account will result in additional adjustments to the future realization of the value of the outstanding shares held by Visa U.S.A. member banks. 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.

Notes to Consolidated Financial Statements (continued)

14. Income Taxes - Income tax expense of $158.3 million was recorded in the current quarter and resulted in an effective tax rate of 33.5%. The prior year quarter provision for income taxes was $212.5 million, representing an effective tax rate of 49.6%, and included $57.9 million associated with structured leasing related adjustments. The effective tax rate for the prior year quarter, excluding the impact of the leasing adjustments, was 33.8%. Total income tax expense was $241.6 million for the six months ended June 30, 2009, representing an effective rate of 33.7%. This compares with $405.4 million in income tax expense and an effective rate of 40.3% for 2008. The effective tax rate for the six months ended June 30, 2008, excluding the impact of the leasing adjustments, was 33.6%.

As part of its audit of federal tax returns filed from 1997-2004, the IRS has 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. The Corporation anticipates that the IRS will continue to disallow deductions relating to these 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. The Corporation is currently holding discussions with the IRS with respect to certain of these transactions that may result in a settlement agreement. Pending an equitable resolution of the tax settlement discussions on these transactions, the Corporation will continue to defend its position on the tax treatment of the leases vigorously.

Included in unrecognized tax benefits at December 31, 2008 were $292.0 million of U.S. federal and state tax positions related to leveraged leasing tax deductions. During the first quarter of 2009, Northern Trust sold certain of the structured leases challenged by the IRS. In connection with these sales, the amount of leveraged lease related uncertain tax positions was reduced by $136.2 million. The acceleration of tax payments relating to the sold leases did not affect net income and does not resolve the IRS challenges with respect to the timing of previous tax deductions taken on these leases or the associated interest and penalties.

It is possible that additional changes in the amount of leveraged lease related uncertain tax positions and related cash flows could occur in the next twelve months if Northern Trust terminates additional leases, is 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.

Notes to Consolidated Financial Statements (continued)

15. Pension and Other Postretirement Plans - The following tables set forth the net periodic pension cost of Northern Trust s U.S. and non-U.S. pension plans, supplemental pension plan, and other postretirement plan for the three and six months ended June 30, 2009 and 2008.

Net Periodic Pension Expense

U.S. Plan (In Millions)	**Three Months Ended June 30 2009**	**2008**	**Six Months Ended June 30 2009**	**2008**
Service Cost	**$ 8.3**	$ 7.4	**$ 16.6**	$ 14.8
Interest Cost	**8.3**	7.7	**16.6**	15.4
Expected Return on Plan Assets	**(14.9)**	(14.3)	**(29.8)**	(28.6)
Amortization:				
Net Loss	**3.0**	2.0	**6.0**	4.0
Prior Service Cost	**.3**	.3	**.6**	.6
Net Periodic Pension Expense	**$ 5.0**	$ 3.1	**$ 10.0**	$ 6.2

Net Periodic Pension Expense

Non-U.S. Plans (In Millions)	**Three Months Ended June 30 2009**	**2008**	**Six Months Ended June 30 2009**	**2008**
Service Cost	**$ .9**	$ 1.1	**$ 1.8**	$ 2.3
Interest Cost	**1.7**	1.8	**3.3**	3.6
Expected Return on Plan Assets	**(2.0)**	(2.4)	**(3.9)**	(4.9)
Net Loss Amortization	**.3**	.1	**.6**	.2
Net Periodic Pension Expense	**$ .9**	$ .6	**$ 1.8**	$ 1.2

Net Periodic Pension Expense

Supplemental Plan (In Millions)	**Three Months Ended June 30 2009**	**2008**	**Six Months Ended June 30 2009**	**2008**
Service Cost	**$ .6**	$ .5	**$ 1.2**	$ 1.0
Interest Cost	**1.0**	.9	**2.0**	1.8
Net Loss Amortization	**1.0**	.6	**2.0**	1.2
Net Periodic Pension Expense	**$ 2.6**	$ 2.0	**$ 5.2**	$ 4.0

Net Periodic Benefit Expense

Other Postretirement Plan (In Millions)	**Three Months Ended June 30 2009**	**2008**	**Six Months Ended June 30 2009**	**2008**
Service Cost	**$ .4**	$ .4	**$ .8**	$ .8
Interest Cost	**.9**	1.0	**1.8**	2.0
Amortization:				
Transition Obligation	**.2**	.1	**.4**	.2
Net Loss	**.1**	.3	**.2**	.6
Net Periodic Benefit Expense	**$ 1.6**	$ 1.8	**$ 3.2**	$ 3.6

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:

($ In Millions)	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Stock Options	**$ 4.3**	$ 4.5	**$ 9.8**	$ 12.7
Stock and Stock Unit Awards	**4.4**	3.5	**8.7**	7.4
Performance Stock Units	**1.7**	4.2	**(13.2)**	8.4
Total Share-Based Compensation Expense	**$ 10.4**	$ 12.2	**$ 5.3**	$ 28.5
Tax Benefits Recognized	**$ 3.8**	$ 4.5	**$ 1.9**	$ 10.6

17. Variable Interest Entities - Northern Trust acts as investment advisor to Registered Investment Companies, Undertakings for the Collective Investment of Transferable Securities and other unregistered short-term investment pools in which various clients of Northern Trust are investors. Although not obligated to do so, in 2008 the Corporation entered into Capital Support Agreements (CSAs) with certain of these entities (Entities) which held notes and other instruments issued by Whistlejacket Capital LLC and/or White Pine Finance LLC or asset backed securities whose values had been adversely impacted by widening risk premiums and liquidity spreads and significant rating agency downgrades. The Corporation entered into the CSAs to assist the Entities in maintaining net asset values of $1.00, in order to provide financial stability to the Entities and investors in the Entities. The CSAs also allowed the registered funds to hold assets that had fallen to below investment grade, thus avoiding a forced sale in an inactive market. During the current quarter, as a part of the restructuring and final settlement related to Whistlejacket Capital LLC and White Pine Finance LLC, which were covered by eight of the nine CSAs, the Corporation made cash payments totaling $66.7 million.

As a result of the restructuring and the related support payments, seven of the nine CSAs were terminated in June 2009. Under the terms of the remaining two CSAs, which expire on November 6, 2009, the Corporation would be required to contribute capital to the remaining two funds (Funds), not to exceed $200.2 million in the aggregate and for no consideration, should certain asset loss events occur.

The estimated fair value of the Corporation s contingent liability under the CSAs was $125.6 million and $314.1 million at June 30, 2009 and December 31, 2008, respectively, and was recorded within other liabilities in the consolidated balance sheet.

Notes to Consolidated Financial Statements (continued)

Under the guidance of FASB Interpretation No. 46(R), (FIN 46(R)) and related interpretations, the Funds are considered variable interest entities (VIE) and the CSAs are considered to reflect Northern Trust s variable interest in the credit risk of the Funds. FIN 46(R) requires the disclosure of an entity s maximum exposure to loss where it has a significant variable interest in an unconsolidated VIE. FIN 46(R) does not define significant and, as such, judgment is required. The variable interest holder, if any, that will absorb a majority of a VIE s expected losses, receive a majority of the entity s expected residual returns, or both, is deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. Assessments of variable interests under FIN 46(R) are based on expected losses and residual returns, which consider various scenarios on a probability-weighted basis.

The Funds were designed to create and pass to investors interest rate and credit risk. In determining whether Northern Trust is the primary beneficiary of the Funds, expected loss calculations based on the characteristics of the underlying investments in the Funds are used to estimate the expected losses related to interest rate and credit risk, while also considering the relative rights and obligations of each of the variable interest holders. These analyses concluded that interest rate risk is the primary driver of expected losses within the Funds. As such, Northern Trust has determined that it is not the primary beneficiary of the Funds and is not required to consolidate them within its balance sheet.

The following table summarizes Northern Trust s significant involvement with unconsolidated VIEs as of June 30, 2009 and December 31, 2008:

(In Millions)	**June 30, 2009**	**December 31, 2008**
Fair Value of Assets Held By the Funds	**$ 24,979.6**	$ 114,157.2
Capital Support Agreement Contingent Liability	**125.6**	314.1
Maximum Exposure To Loss	**200.2**	550.0

The valuation of the contingent liability under the CSAs as of June 30, 2009 uses a proprietary model which incorporates agreement-specific assumptions. Significant inputs to the model are the period-end fair value of covered investments, the period-end fair value and amortized cost of all other investments in the applicable Fund, the termination date of the CSA and future volatility assumptions based on historical trading volatility. For each CSA, the model performs a Monte Carlo simulation of the fair value of the covered investments in the Fund and the resulting fair value of the Fund. Each simulated path calculates the amount of funding that would be required by the particular CSA to bring the NAV of the Fund to $.999. The estimated fair value of each CSA is the average of the results of the Monte Carlo simulation.

Notes to Consolidated Financial Statements (continued)

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 $4.8 billion on June 30, 2009, $4.0 billion on December 31, 2008 and $3.2 billion on June 30, 2008. 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 $39.1 million at June 30, 2009, $30.3 million at December 31, 2008, and $19.8 million at June 30, 2008.

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 the borrower of the securities. The borrowing party is required to fully collateralize securities received with cash, marketable securities, or irrevocable standby letters of credit. 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 $75.5 billion at June 30, 2009, $82.7 billion at December 31, 2008, and $154.1 billion at June 30, 2008. 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 June 30, 2009, December 31, 2008, or June 30, 2008 related to these indemnifications.

As discussed in further detail in Note 17, the estimated fair value of the Corporation s contingent liability under Capital Support Agreements with certain Northern Trust investment vehicles, recorded within other liabilities in the consolidated balance sheet, was $125.6 million at June 30, 2009.

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 obligated to share in losses resulting from certain indemnified litigation involving Visa. The estimated fair value of the net Visa indemnification liability, recorded within other liabilities in the consolidated balance sheet, totaled $73.9 million at June 30, 2009 and 2008.

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 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. In view of the inherent difficulty of predicting the outcome of such matters, particularly matters that will be decided by a jury and actions that seek very large damages based on novel and complex damage and liability legal theories or that involve a large number of parties, the Corporation cannot state with confidence the eventual outcome of these matters or the timing of their ultimate resolution, or estimate the possible loss or range of loss associated with them; however, based on current knowledge and after consultation with legal counsel, management does not believe that judgments or settlements in excess of amounts already reserved, if any, arising from pending or threatened legal actions, regulatory matters, employment matters, or challenges from tax authorities, either individually or in the aggregate, would have a material adverse effect on the consolidated financial position or liquidity of the Corporation, although they could have a material adverse effect on operating results for a particular period.

19. Derivative Financial Instruments - Effective January 1, 2009, Northern Trust adopted FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133 , which increased required disclosures regarding derivatives and hedging activities, including disclosures regarding how an entity uses derivative instruments and how derivative instruments and related hedged items are accounted for and affect an entity s financial position, financial performance, and cash flows. 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.

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 currently uses foreign exchange contracts to reduce or eliminate its exposure to changes in foreign exchange rates relating to certain forecasted non-U.S. dollar denominated revenue and expenditure transactions, non-U.S. dollar denominated assets and liabilities, and net investments in non-U.S. affiliates.

Notes to Consolidated Financial Statements (continued)

Interest rate contracts include swap and option 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 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.

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 commitment.

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. The accounting for changes in the fair value of a derivative in the consolidated statement of income depends on whether the contract has been designated as a hedge and qualifies for hedge accounting in accordance with SFAS No. 133.

Northern Trust enters into master netting agreements with many of our derivative counterparties. Certain of these agreements contain credit-risk-related contingent features in which the counterparty has the option to declare Northern Trust in default and accelerate cash settlement of our 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 are in a liability position on June 30, 2009, was $1.2 billion. Northern Trust has posted collateral of $988 million against these liabilities and therefore the maximum amount of termination payments that could have been required at June 30, 2009 was $224 million. Accelerated settlement because of such events would not affect net income and would not have a material effect on the consolidated financial position or liquidity of Northern Trust.

Notes to Consolidated Financial Statements (continued)

Client-Related and Trading Derivative Instruments. In excess of 96% of Northern Trust s derivatives outstanding at June 30, 2009 and 2008, measured on a notional value basis, related 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 proprietary trading of non-U.S. currencies. 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. Credit risk is limited to the positive fair value of the derivative instrument, which is significantly less than the notional amount.

	June 30, 2009			June 30, 2008		
	Notional	Fair Value		Notional	Fair Value	
(In Millions)	Value	Asset	Liability	Value	Asset	Liability
Foreign Exchange Contracts	**$ 160,779.3**	**$ 4,180.5**	**$ 4,046.2**	$ 210,446.7	$ 1,032.9	$ 966.3
Interest Rate Option Contracts	**169.4**	**.5**	**.5**	559.2	2.3	2.3
Interest Rate Swap Contracts	**4,037.0**	**124.8**	**123.4**	2,901.1	42.2	38.2
Total	**$ 164,985.7**	**$ 4,305.8**	**$ 4,170.1**	$ 213,907.0	$ 1,077.4	$ 1,006.8

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 six months ended June 30, 2009.

		Amount of Derivative Gain/(Loss) Recognized in Income	
(In Millions)	Location of Derivative Gain/(Loss) Recognized in Income	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Foreign Exchange Contracts	Foreign Exchange Trading Income	**$ 134.3**	**$ 265.4**
Interest Rate Option Contracts	Other Income		
Interest Rate Swap Contracts	Other Income	**3.1**	**4.1**
Total		**$ 137.4**	**$ 269.5**

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 SFAS No. 133 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 if they were 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 as offsets to changes in fair value or cash flows of the hedged item. If a derivative ceases to be highly effective, or if the hedged item 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.

Notes to Consolidated Financial Statements (continued)

The following table identifies the types and classifications of derivative instruments designated as hedges, their notional and fair values, and the respective risks addressed.

(In Millions)	Derivative Instrument	Risk Classification	June 30, 2009 Notional Value	June 30, 2009 Fair Value Asset	June 30, 2009 Fair Value Liability	June 30, 2008 Notional Value	June 30, 2008 Fair Value Asset	June 30, 2008 Fair Value Liability
Fair Value Hedges								
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Rate	**$ 1,089.5**	**$**	**$ 11.2**	$ 3,554.9	$	$ 24.6
Time Deposits with Banks	Interest Rate Swap Contracts	Interest Rate				367.0		.2
Senior Notes and Long-Term Subordinated Debt	Interest Rate Swap Contracts	Interest Rate	**1,100.0**	**102.2**	**.9**	400.0	13.0	
Cash Flow Hedges								
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Rate				100.0	1.0	
Forecasted Foreign Denominated Transactions	Foreign Exchange Contracts	Foreign Currency	**1,534.1**	**65.8**	**68.7**	542.7	17.9	11.3
Net Investment Hedges								
Net Investments in Non-U.S. Affiliates	Foreign Exchange Contracts	Net Investment	**1,125.5**	**3.1**		1,166.3		2.5
Total			**$ 4,849.1**	**$ 171.1**	**$ 80.8**	$ 6,130.9	$ 31.9	$ 38.6

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. Changes in fair value of these derivatives are recognized 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 six months ended June 30, 2009.

(In Millions)	Derivative Instrument	Location of Derivative Gain/(Loss) Recognized in Income	Amount of Derivative Gain/(Loss) Recognized in Income: Three Months Ended June 30, 2009	Amount of Derivative Gain/(Loss) Recognized in Income: Six Months Ended June 30, 2009
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Income	**$ (1.2)**	**$ (2.8)**
Senior Notes and Long-Term Subordinated Debt	Interest Rate Swap Contracts	Interest Expense	**59.4**	**83.7**
Total			**$ 58.2**	**$ 80.9**

For fair value hedges, Northern Trust applies the shortcut method of accounting, available under SFAS No. 133, 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.

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 accumulated other comprehensive income, a component of stockholders equity. When the hedged forecasted transaction impacts earnings, balances in other comprehensive income are reclassified to the same income or expense

Notes to Consolidated Financial Statements (continued)

classification as the hedged item. Northern Trust applies the shortcut method of accounting for cash flow hedges of available for sale securities. For cash flow hedges of forecasted foreign currency denominated revenue and expenditure transactions, Northern Trust utilizes the dollar-offset method, a long-haul method of accounting under SFAS No. 133, in assessing whether these hedging relationships are highly effective at inception and on an ongoing basis. Any ineffectiveness is recognized currently in earnings. As of June 30, 2009, 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 accumulated other comprehensive income and the amounts reclassified to earnings during the three and six months ended June 30, 2009.

(In Millions)	Foreign Exchange Contracts	Interest Rate Swap Contracts
Three Months Ended June 30, 2009		
Gain/(Loss) Recognized in OCI (Effective Portion)	$ 20.4	$
Gain/(Loss) Reclassified from Accumulated OCI into Income		
Trust, Investment and Other Servicing Fees	3.6	
Other Operating Income	1.3	
Interest Income	4.1	
Interest Expense	.2	
Compensation	(9.1)	
Employee Benefits	(2.8)	
Equipment and Software Expense	(.2)	
Occupancy Expense	(1.1)	
Other Operating Expense	1.1	
Total	$ (2.9)	$
Six Months Ended June 30, 2009		
Gain/(Loss) Recognized in OCI (Effective Portion)	$ 39.4	$
Gain/(Loss) Reclassified from Accumulated OCI into Income		
Trust, Investment and Other Servicing Fees	17.4	
Other Operating Income	1.2	
Interest Income	8.8	.2
Interest Expense	(.3)	
Compensation	(25.7)	
Employee Benefits	(6.9)	
Equipment and Software Expense	(.4)	
Occupancy Expense	(3.4)	
Other Operating Expense	(1.9)	
Total	$ (11.2)	$ .2

Notes to Consolidated Financial Statements (continued)

Included in the $2.9 million and $11.0 million of derivative losses reclassified from accumulated comprehensive income during the three and six months ended June 30, 2009, were $.8 million of foreign exchange contract gains and $.9 million of foreign exchange contract losses, respectively, relating to cash flow hedges of forecasted foreign currency denominated revenue and expenditure transactions that were discontinued as it was no longer probable that the original forecasted transactions would occur. It is estimated that a net loss of $4.9 million will be reclassified into earnings within the next twelve months relating to cash flow hedges.

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 accumulated other comprehensive income consistent with the related translation gains and losses. 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 six months ended June 30, 2009 or 2008. Amounts recorded in accumulated other comprehensive income would be 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 accumulated other comprehensive income during the three and six months ended June 30, 2009.

	Amount of Hedging Instrument Gain/(Loss) Recognized in OCI (Before Tax)	
(In Millions)	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2009**
Foreign Exchange Contracts	**$ (93.7)**	**$ (58.3)**
Sterling Denominated Subordinated Debt	**(34.0)**	**(30.4)**
Sterling Denominated Senior Debt	**(22.7)**	