NOTE 25 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

OTHER DERIVATIVE CONTRACTS

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to periodically hedge the market risk associated with certain fee income. Equity put options are used to manage the potential credit risk impact of significant declines in certain equity markets.

Forward agreements and total return swaps are used to manage exposure to fluctuations in the total return of common shares related to deferred compensation arrangements. Forward agreements and total return swaps require the exchange of net contractual payments periodically or at maturity without the exchange of the notional principal amounts on which the payments are based. Certain of these instruments are not designated as hedges. Changes in fair value are recorded in operating and administrative expenses in the statements of earnings for those instruments not designated as hedges.

ENFORCEABLE MASTER NETTING AGREEMENTS OR SIMILAR AGREEMENTS

The Corporation and its subsidiaries enter into the International Swaps and Derivative Association's master agreements for transacting over-the-counter derivatives. The Corporation and its subsidiaries receive and pledge collateral according to the related International Swaps and Derivative Association's Credit Support Annexes. The International Swaps and Derivative Association's master agreements do not meet the criteria for offsetting on the balance sheets because they create a right of set-off that is enforceable only in the event of default, insolvency, or bankruptcy.

For exchange-traded derivatives subject to derivative clearing agreements with exchanges and clearing houses, there is no provision for set-off at default. Initial margin is excluded from the table below as it would become part of a pooled settlement process.

Lifeco's reverse repurchase agreements are also subject to right of set-off in the event of default. These transactions and agreements include master netting arrangements which provide for the netting of payment obligations between Lifeco and its counterparties in the event of default.

The following disclosure shows the potential effect on the Corporation's balance sheets on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the balance sheets.

		RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEETS		
DECEMBER 31, 2014	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION [1]	FINANCIAL COLLATERAL RECEIVED/ PLEDGED [2]	NET EXPOSURE
FINANCIAL INSTRUMENTS (ASSETS)				
Derivative financial instruments	693	(331)	(51)	311
Reverse repurchase agreements [3]	44	–	(44)	–
Total financial instruments (assets)	737	(331)	(95)	311
FINANCIAL INSTRUMENTS (LIABILITIES)				
Derivative instruments	1,225	(331)	(260)	634
Total financial instruments (liabilities)	1,225	(331)	(260)	634

		RELATED AMOUNTS NOT SET OFF IN THE BALANCE SHEETS		
DECEMBER 31, 2013	GROSS AMOUNT OF FINANCIAL INSTRUMENTS PRESENTED IN THE BALANCE SHEET	OFFSETTING COUNTERPARTY POSITION [1]	FINANCIAL COLLATERAL RECEIVED/ PLEDGED [2]	NET EXPOSURE
FINANCIAL INSTRUMENTS (ASSETS)				
Derivative financial instruments	654	(271)	(22)	361
Reverse repurchase agreements [3]	87	–	(87)	–
Total financial instruments (assets)	741	(271)	(109)	361
FINANCIAL INSTRUMENTS (LIABILITIES)				
Derivative instruments	779	(271)	(199)	309
Total financial instruments (liabilities)	779	(271)	(199)	309

[1] Includes counterparty amounts recognized on the balance sheets where the Corporation and its subsidiaries have a potential offsetting position (as described above) but does not meet the criteria for offsetting on the balance sheets, excluding collateral.

[2] Financial collateral presented above excludes overcollateralization and, for exchange-traded derivatives, initial margin. Financial collateral received on reverse repurchase agreements is held by a third party. Total financial collateral, including initial margin and overcollateralization, received on derivative assets was $52 million ($22 million at December 31, 2013), received on reverse repurchase agreements was $45 million ($89 million at December 31, 2013), and pledged on derivative liabilities was $299 million ($222 million at December 31, 2013).

[3] Assets related to reverse repurchase agreements are included in bonds in the balance sheets.