Sources of Earnings

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is a non-IFRS (International Financial Reporting Standard) financial measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of IFRS net income. It provides an analysis of the difference between actual net income and expected net income based on business in-force and assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected profit on in-force business

The portion of the consolidated pre-tax net income on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions made at the beginning of the reporting period. Expected profit for asset management companies is set equal to their pre-tax net income.

Impact of new business

The point-of-sale impact on pre-tax net income of writing new business during the reporting period. Issuing new business may produce a loss at the point-of sale, primarily because valuation assumptions are conservative relative to pricing assumptions and actual acquisition expenses may exceed those assumed in pricing. New business losses are often produced by sales of individual life insurance, where valuation margins and acquisition expenses are relatively high.

Experience gains and losses

Pre-tax gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management actions and changes in assumptions

Impact on pre-tax net income resulting from changes in actuarial methods and assumptions or other management actions.

For the Year Ended December 31, 2016 (in millions of Canadian dollars)	**SLF Canada**	**SLF U.S.**	**SLF Asset Management**	**SLF Asia**	**Corporate**	**Total**
Expected Profit on Inforce Business	**776**	**615**	**1,133**	**339**	**(76)**	**2,787**
Impact of New Business	**61**	**(154)**	**–**	**(72)**	**–**	**(165)**
Experience Gains and Losses	**274**	**5**	**–**	**(37)**	**18**	**260**
Management Actions and Changes in Assumptions	**99**	**84**	**–**	**(6)**	**14**	**191**
Earnings on Operations (pre-tax)	**1,210**	**550**	**1,133**	**224**	**(44)**	**3,073**
Earnings on Surplus	**164**	**108**	**–**	**118**	**68**	**458**
Earnings before Income Taxes	**1,374**	**658**	**1,133**	**342**	**24**	**3,531**
Income Taxes	**(208)**	**(90)**	**(388)**	**(51)**	**80**	**(657)**
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	**1,166**	**568**	**745**	**291**	**104**	**2,874**
Less:						
Non-controlling Interests	**–**	**–**	**46**	**(1)**	**–**	**45**
Participating Policyholders' Net Income	**225**	**5**	**–**	**16**	**–**	**246**
Preferred Share Dividends	**–**	**–**	**–**	**–**	**96**	**96**
Operating Net Income (Loss)	**941**	**563**	**699**	**276**	**8**	**2,487**
Plus:						
Fair value adjustments on share-based payment awards in MFS	**–**	**–**	**30**	**–**	**–**	**30**
Hedges in Canada that do not qualify for hedge accounting	**(5)**	**–**	**–**	**–**	**–**	**(5)**
Acquisition, integration and restructuring costs	**–**	**(55)**	**–**	**33**	**(5)**	**(27)**
Common Shareholders' Net Income (Loss)	**936**	**508**	**729**	**309**	**3**	**2,485**

For the Year Ended December 31, 2015 (in millions of Canadian dollars)	SLF Canada	SLF U.S.	SLF Asset Management	SLF Asia	Corporate	Total
Expected Profit on Inforce Business	756	498	1,198	297	(93)	2,656
Impact of New Business	67	(161)	–	(88)	–	(182)
Experience Gains and Losses	18	155	–	11	(4)	180
Management Actions and Changes in Assumptions	31	(122)	–	40	8	(43)
Earnings on Operations (pre-tax)	872	370	1,198	260	(89)	2,611
Earnings on Surplus	123	116	–	99	97	435
Earnings before Income Taxes	995	486	1,198	359	8	3,046
Income Taxes	(177)	(90)	(436)	(48)	135	(616)
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	818	396	762	311	143	2,430
Less:						
Non-controlling Interests	–	–	62	–	–	62
Participating Policyholders' Net Income	15	–	–	–	–	15
Preferred Share Dividends	–	–	–	–	100	100
Operating Net Income (Loss)	803	396	700	311	43	2,253
Plus:						
Fair value adjustments on share-based payment awards in MFS	–	–	(9)	–	–	(9)
Hedges in Canada that do not qualify for hedge accounting	21	–	–	–	–	21
Acquisition, integration and restructuring costs	–	(63)	–	–	(17)	(80)
Common Shareholders' Net Income (Loss)	824	333	691	311	26	2,185

ANALYSIS OF RESULTS

For the year ended December 31, 2016, the pre-tax expected profit on in-force business of $2,787 million was $131 million higher than 2015. The increase in expected profits was largely driven by the acquisition of Assurant Inc.'s U.S. employee benefits business, growth in SLF Asia and SLF Canada, and currency impacts from the change in the Canadian dollar relative to foreign currencies.

The new business loss in 2016 was $165 million compared to $182 million a year ago. The change was mainly due to increased sales in SLF Asia and the closing of our wealth business in SLF U.S to new sales.

The 2016 experience gain of $260 million pre-tax was primarily due to higher level of gains from investing activity on insurance contract liabilities, favourable impacts from equity markets and experience in participating account, partially offset by adverse expense experience.

For the year 2016, management actions and changes in assumptions resulted in a pre-tax gain of $191 million. In Canada, the pre-tax gain of $99 million reflected a reduction to the provision for investment risk in the SLF Canada participating account, favourable changes to projected credit and swap spreads, unfavourable changes to projected returns on non-fixed income assets, strengthening of mortality and lapse assumptions and model refinements. In the U.S., the pre-tax gain of $84 million reflected favourable changes to projected credit and swap spreads, favourable changes to mortality assumptions, favourable changes to provisions for reinsurance, unfavourable changes to projected returns on non-fixed income assets and strengthening of lapse and policyholder behaviour assumptions. In Asia, the pre-tax impact of $(6) million reflected changes to investment assumptions and lapse and policyholder behaviour assumptions. In Corporate, the pre-tax gain of $14 million reflected changes to lapse and policyholder behaviour assumptions and model refinements.

Additional information can be found under the Assumption Changes and Management Actions section of the 2016 Management's Discussion and Analysis.

Net pre-tax earnings on surplus of $458 million in 2016 was $23 million higher than a year ago. The increase was primarily due to higher available-for-sale gains and investment income on surplus assets, partially offset by higher interest payments on external debt and lower real estate mark to market impacts.