Sources of earnings

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is a non-International Financial Reporting Standard (IFRS) 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 gain or loss at the point-of sale, primarily because valuation assumptions are different than pricing assumptions and/or actual acquisition expenses may differ from those assumed in pricing. For example, new business losses in individual life insurance would emerge 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.

Other
Impact on pre-tax net income not addressed under the previous categories. Examples include acquisition/integration/restructuring and other related costs.

For the Year Ended December 31, 2019 (in millions of Canadian dollars)	**Sun Life Canada**	**Sun Life U.S.**	**Sun Life Asset Mgmt**	**Sun Life Asia**	**Corporate**	**Total**
Expected Profit on In-force Business	**968**	**486**	**1,330**	**538**	**(134)**	**3,188**
Impact of New Business	**91**	**6**	**–**	**(113)**	**–**	**(16)**
Experience Gains and Losses	**(87)**	**55**	**3**	**(1)**	**(43)**	**(73)**
Management Actions and Changes in Assumptions	**(24)**	**(369)**	**–**	**37**	**229**	**(127)**
Other	**–**	**(26)**	**(174)**	**(2)**	**(35)**	**(237)**
Earnings on Operations (pre-tax)	**948**	**152**	**1,159**	**459**	**17**	**2,735**
Earnings on Surplus	**124**	**34**	**–**	**173**	**169**	**500**
Earnings before Income Taxes	**1,072**	**186**	**1,159**	**632**	**186**	**3,235**
Income Taxes	**(15)**	**(28)**	**(262)**	**(51)**	**64**	**(292)**
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	**1,057**	**158**	**897**	**581**	**250**	**2,943**
Less:						
Non-controlling Interests	**–**	**–**	**–**	**–**	**–**	**–**
Participating Policyholders' Net Income	**174**	**(5)**	**–**	**61**	**–**	**230**
Preferred Share Dividends	**–**	**–**	**–**	**–**	**95**	**95**
Common Shareholders' Net Income (Loss)	**883**	**163**	**897**	**520**	**155**	**2,618**

For the Year Ended December 31, 2018 (in millions of Canadian dollars)	Sun Life Canada	Sun Life U.S.	Sun Life Asset Mgmt	Sun Life Asia	Corporate	Total
Expected Profit on In-force Business	882	451	1,264	507	(106)	2,998
Impact of New Business	108	5	–	(98)	–	15
Experience Gains and Losses	424	(7)	–	(17)	(46)	354
Management Actions and Changes in Assumptions	31	(498)	–	76	145	(246)
Other	(1)	(51)	(71)	(14)	(13)	(150)
Earnings on Operations (pre-tax)	1,444	(100)	1,193	454	(20)	2,971
Earnings on Surplus	127	98	–	164	151	540
Earnings before Income Taxes	1,571	(2)	1,193	618	131	3,511
Income Taxes	(308)	19	(284)	(51)	27	(597)
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	1,263	17	909	567	158	2,914
Less:						
Non-controlling Interests	–	–	–	–	–	–
Participating Policyholders' Net Income	321	(35)	–	12	–	298
Preferred Share Dividends	–	–	–	–	94	94
Common Shareholders' Net Income (Loss)	942	52	909	555	64	2,522

Analysis of results

For the year ended December 31, 2019, the pre-tax expected profit on in-force business of $3,188 million was $190 million higher than 2018. The increase in expected profit was largely driven by business growth in Canada, US, and Asia, higher ANA, expense management, and investment income in MFS, as well as favourable currency impacts from the change in the Canadian dollar relative to foreign currencies.

The new business strain in 2019 was $16 million, $31 million lower than 2018. The change was mainly due to unfavourable yield movements and sales mix.

The 2019 experience loss of $73 million pre-tax was primarily due to unfavourable impacts from interest rates, unfavourable morbidity experience in Canada, and unfavourable other experience, including higher regulatory expenses from the preparation for IFRS 17 Insurance Contracts ("IFRS 17"). This is partially offset by favourable gains from investing activities on insurance contract liabilities, equity market growth, and improved mortality experience.

For the year 2019, management actions and changes in assumptions resulted in a pre-tax loss of $127 million. In Canada, the pre-tax loss of $24 million reflected unfavourable updates to the promulgated URR and unfavourable model enhancements and methodology changes, offset partially by favourable changes to mortality assumptions in Group Retirement Services and favourable investment related assumption updates. In the U.S., the pre-tax loss of $369 million includes unfavourable updates to the reinsurance provisions in In-force Management. In Asia, the pre-tax gain of $37 million reflected favourable methods and model updates, offset partially by unfavourable lapse updates in International. In Corporate, the pre-tax gain of $229 million reflected a favourable mortality impact in the U.K.

Other in 2019 resulted in a pre-tax loss of $237 million. In the U.S., the loss of $26 million was due to the impact of integration costs related to the U.S. employee benefits businesses acquired. In Asset Management, the loss of $174 million was related to fair value adjustments on MFS's share-based payment awards and acquisition costs in SLC Management related to the BGO acquisition. In Corporate, the loss of $35 million was due to restructuring costs, primarily related to severance costs as a result of various initiatives to simplify our organizational structure and drive efficiencies.

Net pre-tax earnings on surplus of $500 million in 2019 was $40 million lower than a year ago. The change was mainly due to declines in valuations for the real estate portfolio and lower investment income, partially offset by higher Available-for-Sale asset gains.