

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.

Effective January 1, 2022, there was a change in presentation for the fair value adjustment on MFS' share-based payment awards. We have updated prior periods to reflect this change in presentation.

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.

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.

Assumption changes and management actions

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.

Earnings on Surplus

Pre-tax net income earned on a company's surplus funds. Earnings on Surplus is comprised of realized gains on available-for-sale assets, as well as net investment returns on surplus, such as investment income, gains (losses) on seed investments, investment properties mark-to-market, and interest on debt.

For the Year Ended December 31, 2022 (in millions of Canadian dollars)	Sun Life Canada	Sun Life U.S.	Sun Life Asset Mgmt¹	Sun Life Asia	Corporate	Total¹
Expected Profit on In-force Business	1,268	692	1,609	579	(238)	3,910
Impact of New Business	130	-	-	(50)	-	80
Experience Gains and Losses	(10)	157	-	(120)	(73)	(46)
Assumption Changes and Management Actions	98	(18)	-	(41)	44	83
Other	(3)	(172)	(67)	10	(187)	(419)
Earnings on Operations (pre-tax)	1,483	659	1,542	378	(454)	3,608
Earnings on Surplus	40	70	-	156	49	315
Earnings before Income Taxes	1,523	729	1,542	534	(405)	3,923
Income Taxes	(363)	(143)	(345)	(63)	293	(621)
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	1,160	586	1,197	471	(112)	3,302
Less:						
Non-controlling Interests	-	-	56	-	-	56
Participating Policyholders' Net Income	160	-	-	(44)	-	116
Preferred Share Dividends	-	-	-	-	70	70
Common Shareholders' Net Income (Loss)	1,000	586	1,141	515	(182)	3,060

For the Year Ended December 31, 2021 (in millions of Canadian dollars)	Sun Life Canada	Sun Life U.S.	Sun Life Asset Mgmt¹	Sun Life Asia	Corporate	Total¹
Expected Profit on In-force Business	1,225	494	1,734	612	(179)	3,886
Impact of New Business	119	-	-	(46)	-	73
Experience Gains and Losses	876	199	-	45	(133)	987
Assumption Changes and Management Actions	52	(126)	-	135	5	66
Other	(118)	(14)	(470)	352	(70)	(320)
Earnings on Operations (pre-tax)	2,154	553	1,264	1,098	(377)	4,692
Earnings on Surplus	53	70	-	164	122	409
Earnings before Income Taxes	2,207	623	1,264	1,262	(255)	5,101
Income Taxes	(384)	(124)	(372)	(117)	266	(731)
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	1,823	499	892	1,145	11	4,370
Less:						
Non-controlling Interests	-	-	-	-	-	-
Participating Policyholders' Net Income	265	-	-	70	-	335
Preferred Share Dividends	-	-	-	-	101	101
Common Shareholders' Net Income (Loss)	1,558	499	892	1,075	(90)	3,934

The 2022 and 2021 SOE reflect the change in 2022 to the presentation for the fair value adjustments on MFS' share-based payment awards. Amounts in expected profit on in-force business and other were previously \$1,815 and \$(551) for Asset Management and \$3,967 and \$(401) for Total for 2021.

Analysis of results

For the year ended December 31, 2022, the pre-tax expected profit on in-force business of \$3,910 million was \$24 million higher than 2021, driven by business growth and the contribution from the DentaQuest acquisition, partially offset by lower wealth and asset management earnings reflecting declines in global equity markets.

The new business gain in 2022 was \$80 million, \$7 million higher than 2021, driven by higher new business gains in Canada.

The 2022 experience loss of \$(46) million pre-tax was primarily from lower equity markets and interest rate movements. This is partially offset by favourable investing activity gains across the businesses and favourable morbidity experience driven by U.S. medical stop-loss.

For the year 2022, assumption changes and management actions resulted in a pre-tax gain of \$83 million. In Canada, the pre-tax gain of \$98 million is driven by a number of largely favourable methodology changes and a favourable mortality impact in Group Retirement Services (GRS). In the U.S., the pre-tax loss of \$(18) million reflected updates to lapse and policyholder behaviour in In-force Management block. In Asia, the pre-tax loss of \$(41) million reflected updates to lapse and policyholder behaviour, with the largest item an adverse lapse impact in Vietnam. In Corporate, the pre-tax gain of \$44 million reflects an update to UK mortality.

Other in 2022 resulted in a pre-tax loss of \$419 million. The loss includes a charge of \$(170) million related to the sale of Sun Life UK¹, DentaQuest acquisition and integration costs, an increase in SLC Management's acquisition-related liabilities, and a charge reflecting the resolution of a matter related to reinsurance pricing for our U.S. In-force Management business. This is partially offset by fair value changes on MFS² share-based payment awards and a gain on the sale-leaseback of the Wellesley office in the U.S.

Net pre-tax earnings on surplus of \$315 million in 2022 was \$94 million lower than a year ago.

Income taxes include an increase in the value of deferred tax asset related to the Canada Tax Rate Change³.

¹On August 4, 2022, we entered into an agreement to sell SLF of Canada UK Limited ("Sun Life UK") to Phoenix Group Holdings plc ("Phoenix Group"). In Q3'22, we recognized an impairment charge of \$170 million (£108 million) pertaining to the attributed goodwill that is not expected to be recovered through the sale ("sale of Sun Life UK").

²MFS Investment Management ("MFS")

³On December 15, 2022, legislation implementing an additional surtax of 1.5% applicable to banks and life insurers' taxable income in excess of \$100 million was enacted in Canada ("Canada Tax Rate Change"). This legislation applies retroactively to the Federal Budget date of April 7, 2022. As a result, reported net income increased by \$127 million in the fourth quarter, reflected in Assumption changes and management actions ("ACMA") and Other adjustments.