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 inforce business

The portion of the consolidated pre-tax net income on business inforce 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 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.

For the Year Ended December 31, 2017 (in millions of Canadian dollars)	**SLF Canada**	**SLF U.S.**	**SLF Asset Mgmt**	**SLF Asia**	**Corporate**	**Total**
Expected Profit on Inforce Business	**840**	**547**	**1,256**	**355**	**(132)**	**2,866**
Impact of New Business	**133**	**(61)**	**–**	**(91)**	**–**	**(19)**
Experience Gains and Losses	**97**	**5**	**–**	**(14)**	**30**	**118**
Management Actions and Changes in Assumptions	**164**	**(566)**	**–**	**15**	**62**	**(325)**
Other	**(16)**	**(105)**	**(150)**	**–**	**(76)**	**(347)**
Earnings on Operations (pre-tax)	**1,218**	**(180)**	**1,106**	**265**	**(116)**	**2,293**
Earnings on Surplus	**155**	**111**	**–**	**140**	**90**	**496**
Earnings before Income Taxes	**1,373**	**(69)**	**1,106**	**405**	**(26)**	**2,789**
Income Taxes	**(197)**	**381**	**(453)**	**(51)**	**18**	**(302)**
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	**1,176**	**312**	**653**	**354**	**(8)**	**2,487**
Less:						
Non-controlling Interests	**–**	**–**	**–**	**–**	**–**	**–**
Participating Policyholders' Net Income	**213**	**4**	**–**	**28**	**–**	**245**
Preferred Share Dividends	**–**	**–**	**–**	**–**	**93**	**93**
Common Shareholders' Net Income (Loss)	**963**	**308**	**653**	**326**	**(101)**	**2,149**

For the Year Ended December 31, 2016 (in millions of Canadian dollars)	SLF Canada	SLF U.S.	SLF Asset Mgmt	SLF Asia	Corporate	Total
Expected Profit on Inforce Business	776	514	1,133	339	(76)	2,686
Impact of New Business	61	(53)	–	(72)	–	(64)
Experience Gains and Losses	274	5	–	(37)	18	260
Management Actions and Changes in Assumptions	99	84	–	(6)	14	191
Other	(5)	(84)	(11)	33	(19)	(86)
Earnings on Operations (pre-tax)	1,205	466	1,122	257	(63)	2,987
Earnings on Surplus	164	108	–	118	68	458
Earnings before Income Taxes	1,369	574	1,122	375	5	3,445
Income Taxes	(208)	(61)	(393)	(51)	94	(619)
Earnings before Non-controlling Interests, Participating Policyholders' Net Income and Preferred Share Dividends	1,161	513	729	324	99	2,826
Less:						
Non-controlling Interests	–	–	–	(1)	–	(1)
Participating Policyholders' Net Income	225	5	–	16	–	246
Preferred Share Dividends	–	–	–	–	96	96
Common Shareholders' Net Income (Loss)	936	508	729	309	3	2,485

Analysis of results

For the year ended December 31, 2017, the pre-tax expected profit on inforce business of $2,866 million was $180 million higher than 2016. The increase in expected profit was largely driven from growth in all businesses except Corporate, partially offset by currency impacts from the change in the Canadian dollar relative to foreign currencies.

The new business loss in 2017 was $19 million compared to a loss of $64 million a year ago. The change was mainly due to sales level, and individual insurance product design changes in SLF Canada.

The 2017 experience gain of $118 million pre-tax was primarily due to favourable mortality and morbidity experience in the SLF U.S. Group Benefits business, improved mortality experience in SLF Canada and SLF U.K., improved expense experience, offset partially by lower level of gains from investing activity on insurance contract liabilities. The unfavourable impact from changes in interest rates during the year was largely offset by favourable equity markets and fair value changes on real estate.

For the year 2017, management actions and changes in assumptions resulted in a pre-tax loss of $325 million. In Canada, the pre-tax gain of $164 million reflected a reduction to the provision for investment risk in the SLF Canada participating account, favourable changes to investment, mortality and morbidity assumptions, offset partially by a refinement to the allocation of expenses, updated lapse assumptions and updates to promulgated ultimate reinvestment rates. In the U.S., the pre-tax loss of $566 million reflected changes as a result of the U.S. Tax Reform, recapture of certain reinsurance treaties, updates to the expected cost of reinsurance in certain other treaties and lower lapse rates on lapse supported business, offset partially by the resolution of tax uncertainties in a U.S. subsidiary and favourable mortality. In Corporate, the pre-tax gain of $62 million reflected favourable mortality improvement in SLF U.K.

Other in 2017 resulted in a pre-tax loss of $347 million. In the U.S., the loss of $105 million was due to the impact of integration costs related to the U.S. employee benefits business acquired in 2016. In SLF Asset Management, the loss of $150 million was related to fair value adjustments on MFS's share-based payment awards. In Corporate, the loss of $76 million was primarily due to the restructuring charge related to actions to enhance business processes and organizational structures and capabilities.

Net pre-tax earnings on surplus of $496 million in 2017 was $38 million higher than a year ago. The increase was largely due to higher real estate appraisal gains.

The 2016 Sources of earnings has been changed to conform with the current year presentation which reflects the removal of operating income from the 2017 presentation. In addition, expected profit on inforce business and impact of new business reflect a change in presentation for SLF U.S. employee benefits business. Amounts in expected profit on inforce business and impact of new business in 2016 was previously $615 million and $(154) million for SLF U.S., and $2,787 million and $(165) million for the Total Company, respectively, with a net change of $101 million between the two categories.