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, 2020 (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	**1,107**	**537**	**1,541**	**558**	**(147)**	**3,596**
Impact of New Business	**105**	**17**	**—**	**(77)**	**—**	**45**
Experience Gains and Losses	**(401)**	**74**	**—**	**14**	**(27)**	**(340)**
Management Actions and Changes in Assumptions	**43**	**(397)**	**—**	**99**	**41**	**(214)**
Other	**4**	**(6)**	**(216)**	**(8)**	**(64)**	**(290)**
Earnings on Operations (pre-tax)	**858**	**225**	**1,325**	**586**	**(197)**	**2,797**
Earnings on Surplus	**105**	**88**	**—**	**139**	**149**	**481**
Earnings before Income Taxes	**963**	**313**	**1,325**	**725**	**(48)**	**3,278**
Income Taxes	**(50)**	**(56)**	**(334)**	**(44)**	**(2)**	**(486)**
Earnings before Non-controlling Interests, Participating Policyholders’ Net Income and Preferred Share Dividends	**913**	**257**	**991**	**681**	**(50)**	**2,792**
Less:						
Non-controlling Interests	**—**	**—**	**11**	**—**	**—**	**11**
Participating Policyholders' Net Income	**196**	**—**	**—**	**87**	**—**	**283**
Preferred Share Dividends	**—**	**—**	**—**	**—**	**94**	**94**
Common Shareholders’ Net Income (Loss)	**717**	**257**	**980**	**594**	**(144)**	**2,404**

For the Year Ended December 31, 2020 (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

Analysis of results

For the year ended December 31, 2020, the pre-tax expected profit on in-force business of $3,596 million was $408 million higher than 2019. The increase in expected profit was largely driven by higher net income from acquisitions in SLC Management, higher average net assets ("ANA") in MFS, business growth in Canada, US, and Asia, expense management, as well as favourable currency impacts from the change in the Canadian dollar relative to foreign currencies.

The new business gain in 2020 was $45 million, $61 million higher than 2019. The change was mainly driven by strong sales in Asia International Hubs and more favourable pricing in Canada insurance.

The 2020 experience loss of $340 million pre-tax was primarily due to unfavourable impacts from interest rates, equities, changes in the fair value of investment properties, and expenses. This is partially offset by favourable gains from investing activities on insurance contract liabilities and morbidity experience.

For the year 2020, management actions and changes in assumptions resulted in a pre-tax loss of $214 million. In Canada, the pre-tax gain of $43 million reflected favourable group disability government pension plan offsets and favourable investment related assumption updates offset partially by unfavourable mortality impacts in Individual life and health. In the US, the pre-tax loss of $397 million reflected unfavourable updates to mortality and lapse and policyholder behaviour, and a new reinsurance arrangement in In-force Management. In Asia, the pre-tax gain of $99 million reflected favourable method and model updates. In Corporate, the pre-tax gain of $41 million reflected minor updates in the U.K.

Other in 2020 resulted in a pre-tax loss of $290 million. In Asset Management, the loss of $216 million was related to fair value adjustments on MFS's share-based payment awards and acquisition and integration costs in SLC Management related to the InfraRed acquisition and Crescent acquisition. In Corporate, the loss of $64 million was due to various projects to simplify our organizational structure and drive efficiencies.

Net pre-tax earnings on surplus of $481 million in 2020 was $19 million lower than a year ago. The change was mainly due to lower net investment income.