

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, 2021, expected profit for U.S. group policies includes previously classified impact of new business, aligning group business sources of earnings reporting across business groups. We have updated prior period amounts to reflect this change.

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, 2021 (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	1,225	494	1,815	612	(179)	3,967
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)	(551)	352	(70)	(401)
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

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	554	1,541	558	(147)	3,613
Impact of New Business	105	—	—	(77)	—	28
Experience Gains and Losses	(401)	74	—	14	(27)	(340)
Assumption Changes and Management Actions	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

*The 2021 and 2020 SOE reflect the change in 2021 to the presentation of expected profit on in-force business and impact of new business for U.S. businesses. Amounts in expected profit on in-force business and impact of new business were previously \$537 and \$17 for U.S. and \$3,596 and \$45 for Total for 2020.

Analysis of results

For the year ended December 31, 2021, the pre-tax expected profit on in-force business of \$3,967 million was \$354 million higher than 2020, driven by broad-based business growth across our pillars, with particular strength in asset management and wealth, reflecting higher asset values.

The new business gain in 2021 was \$73 million, \$45 million higher than 2020, driven by higher new business gains in Asia Local Markets.

The 2021 experience gain of \$983 million pre-tax was primarily due to higher equity markets, an increase in the value of our real estate investments, investing activity gains across the insurance businesses, interest rate impacts, and favourable credit experience in insurance businesses. This is partially offset by losses from expenses, mortality experience, and other experience.

For the year 2021, assumption changes and management actions resulted in a pre-tax gain of \$66 million. In Canada, the pre-tax gain of \$52 million reflected a reduction to expense margins and the favourable impact of increased investment in non-fixed income assets in Canada Individual Insurance & Wealth, offset partially by a reduction to the best estimate real estate assumption and net updates to promulgated Ultimate Reinvestment Rate (URR) and promulgated maximum net credit spreads. In the U.S., the pre-tax loss of \$126 million reflected updates to lapse and policyholder behaviour in In-force Management offset partially a reduction to expense margins and increased investment in non-fixed income assets. In Asia, the pre-tax gain of \$135 million reflected a reduction to expense margins and favourable model enhancements.

Other in 2021 resulted in a pre-tax loss of \$401 million. The loss includes higher fair value adjustments on MFS's share-based payment awards, an increase in SLC Management's acquisition-related liabilities⁽¹⁾, and a par allocation adjustment⁽²⁾. These losses are partially offset by a gain on the Initial Public Offering (IPO)⁽³⁾ of our India joint venture, Aditya Birla Sun Life AMC Limited.

Net pre-tax earnings on surplus of \$409 million in 2021 was \$72 million lower than a year ago.

⁽¹⁾ Reflects the changes in estimated future payments for acquisition-related contingent considerations and options to purchase remaining ownership interests of SLC Management affiliates.

⁽²⁾ Reflects an adjustment of investment income and expense allocations between participating policyholders and shareholders for prior years.

⁽³⁾ As a result of the initial public offering ("IPO"), our holding of ABSLAMC was reduced by 12.5%. After the IPO, we retained indirect ownership of the listed entity of 36.5%. Shares of ABSLAMC began trading on the BSE Limited and the National Stock Exchange of India Limited on October 11, 2021.