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Banc of California beats estimates as PacWest costs fade

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BLOOMBERG

A year after buying a rival in crisis, Banc of California is back in the black.

In last year's fourth quarter, net income for the Los Angeles-based bank was $56.9 million, compared with a loss of $482.9 million in the same period of 2023.

Diluted earnings per share were 28 cents, beating analysts' average estimate of 23 cents, according to S&P.

This return to profit was driven in part by higher net interest income, which rose 56% from a year ago to $235.3 million, and a much smaller loss on the sale of securities.

"We had a strong fourth quarter, which marked the end of a transformational year for our company," CEO Jared Wolff said in a conference call with analysts on Thursday. "We made significant progress executing our strategy, optimizing our balance sheet and achieving operational efficiencies to set us up well for growth in 2025."

In a statement, Banc of California attributed much of this progress to an improvement in its net interest margin, which rose to 3.04% in the fourth quarter from 1.69% at the end of 2023. The bank also credited its lower noninterest expenses, which fell to $181.37 million last quarter, a 50% drop from the previous year.

But another factor also played a role: the fading costs of acquiring PacWest Bancorp.

In 2023, Banc of California purchased PacWest, a local competitor that was in deep trouble at the time. Earlier that year, PacWest had fallen victim to the regional banking crisis that started with the collapse of Silicon Valley Bank. In the first quarter of 2023, PacWest had lost almost $6 billion in deposits.

That November, Banc of California bought PacWest for the relatively low price of $1 billion — but absorbing all its debts proved expensive. After the merger, Banc of California sold off $6 billion in lower-yielding loans and securities, resulting in a $442.4 million loss from the securities sales. It was also forced to pay $32.7 million to the Federal Deposit Insurance Corp. as part of that year's special assessment to address the banking crisis.

All these costs contributed to Banc of California's loss at the end of 2023. But as those expenses drifted into the rearview mirror, the bank's leaders shifted their focus from growth to profitability.

"We're focused on hitting our profitability targets, regardless of the size of the balance sheet," Wolff said in January 2024. "If it means we should get smaller, we'll be smaller."

The strategy worked. In each quarter of 2024, Banc of California's net earnings stayed in positive territory, leaving the merger-related losses behind. And on Thursday, Wolff said the bank was ready to grow again.

"With a successful year of merger integration and balance sheet repositioning actions behind us, we are primed for profitable growth going forward," Wolff said. "Given the strength of our balance sheet, with high levels of capital liquidity, as well as our attractive position in key markets, our company is very well positioned."