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One-time expenses thwarted the Q4 2023 bank earnings that could have been

Article

The news: The first round of reporting on big US banks' Q4 earnings season shows that profits have taken some temporary hits.

- **JPMorgan**, **Citibank**, **Wells Fargo**, **Bank of America, PNC, Goldman Sachs, and Morgan Stanley** all reported earnings deflated by one-time expenses. These include:

FDIC insurance: Each bank owed billions of dollars to replenish the FDIC's insurance fund which had been depleted by last year's banking crisis.

- JPMorgan's bill was $2.9 billion, Bank of America's was $2.1 billion, Citibank's was $1.7 billion, Wells Fargo's was $1.9 billion; PNC's was $515 million, Goldman Sachs' was $529 million, and Morgan Stanley's was $286 million.
- Large FIs will now pay an annual rate of 13.4 basis points, and banking leaders have warned that will reduce the amount of loans they'll be able to offer their customers.
- Smaller FIs with less than $5 billion remain exempt from this plan, so their earnings won't take the same hit.

Fines for noncompliance: Morgan Stanley was hit with legal expenses totaling $249 million resulting from a Securities and Exchange Commission (SEC) investigation of an unauthorized disclosure of block trades and a related criminal investigation.

Severance expenses: Sixty-two thousand employees at the 20 largest US banks lost their jobs in 2023, and that comes with a cost.

- Wells Fargo accounted for nearly 20% of the cuts with over 12,000 layoffs last year. As a result, the bank set aside $969 million for severance pay.
- Citibank is undergoing some major restructuring and staff downsizing. The bank laid off 5,000 employees in 2023 and plans to eliminate 20,000 more by 2026. That resulted in a $780 million severance charge.
- PNC plans to eliminate 4% of its staff, and had $150 million in "workforce reduction" charges.

International exposures: Citibank experienced an especially tough year because of its exposure to unstable countries. The bank set aside $1.3 billion to cover the risks of banking in Russia and Argentina. It lost $880 million in revenue when the Argentinian peso was devalued, and Citibank is unsure if it will continue servicing the country's debt going forward.

Credit loss provisions: JPMorgan and Bank of America upped their loss provisions, but Wells Fargo experienced the worst of such credit losses. Its provisions for credit losses rose to

$1.28 billion, up 34% from one year ago. The losses resulted from soured credit card and real estate loans, which the bank said it partially offset by reducing its auto loan allowances.

What these one-time charges mean: While at first glance, the big bank Q4 earnings seem disappointing, the banks actually performed fairly well compared to expectations—and the one-time charges won't always be a factor for these banks going forward.

- If their earnings were adjusted to remove these one-time fees, JPMorgan and Bank of America would have beaten analyst expectations, and Citigroup would have met them.
- Wells Fargo, Goldman Sachs, Morgan Stanley, and PNC beat expectations without adjustments.