Lloyds Banking Group sees profit decline amid rising costs and interest rate challenges

Lloyds Banking Group has reported a drop in profit for the first half of the year, following a surge in costs and a decline in revenue generated from interest rates.

The group, which is comprised of Lloyds Bank, Halifax, Bank of Scotland and Scottish Widows, recorded a pretax profit of £3.32bn for the six months up until the end of June, a reduction from roughly £3.87bn witnessed for the same period the previous year.

However, the fall was less than analysts' predictions of £3.2bn, and comes amid a broader slowdown in banking profits subsequent to a record-breaking previous year. Lloyds was among several of the UK's retail banks making sizeable profits in 2023 due to a series of substantial interest rate hikes by the Bank of England.

Nevertheless, the bank revealed that its net interest income, the difference between the interest paid to savers and borrowers, fell by 10% in the first six months of this year to £6.3bn, while the margin between these two rates narrowed to 2.94%, as reported by City AM.

Operating costs also increased by seven per cent, reaching £4. bn.

Charlie Nunn, Group chief executive of Lloyds, commented on their "robust" first half trading results, praising the "solid income performance and cost discipline alongside strong capital generation".

Furthermore, he maintained that they were on course to meet their 2024 targets and reiterated his confidence in achieving the strategic objectives and guidelines set for 2026. Nunn confirmed the intention to carry on with plans to "successfully transform our Group".

This year, Lloyds' margins have been squeezed due to fierce competition in the mortgage and deposit markets, coupled with the anticipation of multiple rate cuts by regulators.