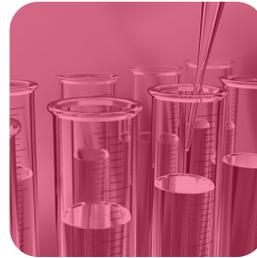
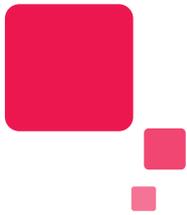


2. Management summary



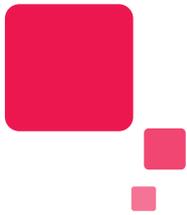
This report covers

the borrowing process from the SME's perspective, with detailed information about those who have, or would have liked to have been, through the process of borrowing funds for their business. Each chapter reports on a specific aspect of the process, dealing with different aspects of SME finance.



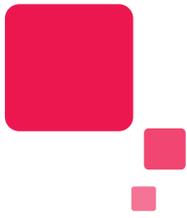
At the end of 2015, SMEs typically find themselves in a good (and often improving) position in terms of profitability, credit balances and an absence of major obstacles to running their business:

General context	
Profitability increasing	80% of SMEs in 2015 reported making a profit in their last 12 months trading (excluding DK answers). This proportion has improved steadily from 2013 when 70% reported making a profit and across all size bands.
Credit balances increasing	Almost all SMEs hold some credit balances. An increasing proportion of SMEs held more than £10,000 in credit balances (24% in 2015, up from 16% in 2012).
Barriers to the business declining	In Q4 2015, 13% of SMEs cited the current economic climate as a major barrier to their business, down from 37% in Q1 2012. 10% cited 'legislation and regulation' and this is now more of an issue for larger SMEs than the broader economic climate. Two thirds of SMEs did not see <u>any</u> of the potential barriers tested as 'major obstacles' to their business (66%).
Steady growth achieved/planned	A steady 4 in 10 SMEs (excluding Starts) had grown in the previous year with around 1 in 10 having grown by more than 20%. The equivalent of 4% of all SMEs had grown by 20% or more over the past 3 years and thus met the definition of a high growth SME. Just under half of SMEs (45% in 2015) planned to grow in the next 12 months, in line with 2014 (46%) but somewhat lower than was the case in 2013 (49%).
Fewer have a worse than average risk rating	The proportion with a worse than average external risk rating has fallen from 54% in 2013 to 46% in 2015.
More are international	The proportion of SMEs that trade internationally increased over time, from 11% in 2011 to 17% in 2015, although a declining proportion of exporters said that overseas sales represented 50% or more of total turnover (13% in 2015).



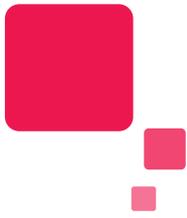
Use of external finance remained stable and limited. Half of SMEs met the definition of a ‘Permanent non-borrower’, with little apparent appetite for finance, either now or in the future. This proportion may have stabilised after previous increases:

Current use of external finance	
A third of SMEs use external finance, increasing with size of business	<p>37% of SMEs in 2015 were using external finance, in line with 2014 (37%) but remaining lower than in previous years (44% in 2012).</p> <p>Usage remained higher amongst larger SMEs – whilst 32% of 0 employee SMEs were using external finance in 2015, this increased to 61% of those with 50-249 employees.</p>
Use of core forms of finance has stabilised	<p>Use of ‘core’ forms of finance (loans, overdrafts and/or credit cards) has stabilised after previous declines (30% in 2015) and a fairly consistent 17% of SMEs were using one or more ‘other’ forms of finance.</p> <p>6 in 10 of the SMEs using <u>any</u> external finance used just one form (of finance).</p>
Half of SMEs are ‘Permanent non borrowers’	<p>Half of SMEs (47%) met the definition of a ‘Permanent non-borrower’ (PNB) in 2015 (defined as those SMEs that are not using external finance and show no appetite to apply).</p> <p>This proportion has increased steadily over time (from 34% in 2011) but there were signs towards the end of 2015 that this trend may not be continuing (in Q4 itself, 43% of SMEs met the definition of a PNB).</p> <p>PNBs are as likely to be profitable and to hold high credit balances, but they are less likely to plan, to be international or to expect to grow.</p>



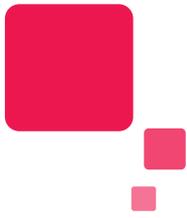
8 in 10 of those who applied for a new/renewed loan or overdraft ended the process with a facility and success rates have improved over time to the highest levels seen on the Monitor to date. The proportion of SMEs applying for such finance though remained limited:

Application success rates	
Consistent but limited proportion of SMEs have applied for new/renewed facilities	<p>In Q4 2015, 7% of SMEs reported making an application for a new/renewed loan or overdraft in the previous 12 months (a Type 1 event). This has changed little over recent quarters but remains lower than in 2011-12 when 10-12% of SMEs would typically report such an event.</p> <p>More broadly, 17% of SMEs reported any borrowing 'event' (including the automatic renewal of overdrafts) and this has changed very little over time.</p>
8 in 10 applications resulted in a facility	<p>8 in 10 (81%) of all loan/overdraft applications in the 18 months to Q4 2015 (and reported to date) resulted in a facility. This overall success rate has increased steadily over time (from 69% of all applications reported for the 18 months to Q4 2012).</p>
Improving success rates for new money applicants including those applying for the first time	<p>70% of new money loan/overdraft applications were successful and this has increased steadily over time (from 54% of applications made in the 18 months to Q4 2012).</p> <p>The success rate for first time applicants has increased more markedly over time (61%, from 41% in the 18 months to Q4 2012) than for those who had applied before (77%, from 70% in the 18 months to Q4 2012) although first time and smaller applicants do remain less likely to be successful.</p> <p>99% of loan/overdraft renewals were successful (little changed over time).</p>
Overdraft application success rates at their highest level to date on the Monitor	<p>86% of <u>overdraft</u> applications resulted in a facility. This is the highest level recorded to date on the SME Finance Monitor (up from 74% for the 18 months to Q4 2012).</p>
Loan application success rates at their highest level to date on the Monitor	<p>73% of <u>loan</u> applications resulted in a facility. This is also the highest level recorded to date on the SME Finance Monitor (up from 59% for the 18 months to Q4 2012).</p>



There were a range of reasons why SMEs were not looking to apply for external finance, including their attitudes to finance, the availability of credit balances, trade credit and a preference to self-finance. There was limited evidence that access to finance was a barrier:

What might the barriers be to application?	
Attitudes to using external finance	Attitudinally, three quarters (75%) of SMEs agreed that their aim was to pay down existing debt and then remain debt free and 80% agreed that their current plans for the business were based on what they could afford to fund themselves.
Credit balances reduce the need for finance	An increasing proportion of SMEs hold more than £10,000 and most said that these credit balances reduced their need for external finance. Over time, such SMEs have become less likely to use external finance at all (from 51% in 2012 to 44% in 2015).
Trade credit reduces the need for finance	A third of SMEs received trade credit from their suppliers. Two thirds of such SMEs said that they needed less external finance because of the trade credit they received.
A quarter had received personal funds	27% of SMEs in 2015 had received an injection of personal funds into the business in the previous 12 months. This remains lower than in 2012-13 when around 4 in 10 SMEs reported such an injection of funds.
Access to finance unlikely to be seen as a barrier	6% of SMEs in Q4 2015 rated Access to Finance as a major barrier to their business and this is currently at half the level seen at the start of 2013 (12%). Those with any future appetite for finance were more likely to see access as a barrier (14% in Q4 2015) but this is also lower than previously seen (27% in Q1 2013).
Very few SMEs had been 'would-be seekers' of finance	3% of SMEs in 2015 met the definition of a 'Would-be seeker' of loan or overdraft funding (an SME that wanted to apply but felt that something had stopped them). Looking forward, a declining proportion of SMEs expected to be a 'Future would-be seeker of finance' (11% in 2015 from 23% in 2012).
And this is true when other lending is included	Broadening the definition of "borrowing events" to include not just loans and overdrafts but those who have applied for other types of finance such as leasing in the last 12 months, results in only a marginal increase in 'would-be seekers' (4% to 5% for the period analysed) compared to an increase in borrowing events from 17% to 26%.



Looking forward to potential future demand for finance, a stable 1 in 7 SMEs planned to apply for finance in the 12 months after interview, but excluding the PNBs reveals an increasing general appetite for finance. Larger, ambitious SMEs who were already using external finance, were the most likely to be prepared to use external finance in future to help their business develop and grow:

What might the future bring?	
A stable 1 in 7 plan to apply for finance	The proportion of SMEs planning to apply for finance in the 3 months after interview has remained stable at 13-14% over time.
An increasing proportion of potential applicants are confident of success	Over half of those planning to apply (53% for 2015) were confident that the bank would agree to their request and confidence is improving over time (42% were confident in 2012). Confidence levels do though remain below actual success rates for both renewals (99% success v 57% confidence) and new money (70% success v 43% confidence).
Excluding the PNBs reveals a different picture for remaining SMEs	Excluding the PNBs, with little apparent appetite for finance: <ul style="list-style-type: none"> • increases the proportion of remaining SMEs using external finance in 2015 from 37% to 70% and this has increased from 66% in 2012 • increases the proportion reporting a borrowing event from 17% to 32% for 2015, up from 28% in 2014 and closer to the 35% reported for 2012 • increases the proportion planning to apply from 13% to 25% for 2015 (up from 21% in 2012).
Just under half of SMEs express a willingness to use external finance	Attitudinally, nearly half (45%) of SMEs agreed that they would be happy to use external finance 'to help the business develop and grow'.
The key predictor is currently using external finance	Analysis showed that a key predictor for agreement with this statement was current use of external finance – amongst those using finance over half agreed with this statement compared to a third of those who hadn't used finance for the past 5 years. Amongst those using external finance, agreement that they would be willing to use it in future increased again if they had plans to grow and if they were a larger business (in terms of turnover, employees or being a limited company).
While ambition is key for those who have not used finance	Amongst those who had not used external finance in the past 5 years, agreement increased if the owner/MD was under 30 and they had plans to grow the business by 20% or more.
Awareness of crowd funding continued to increase although usage is limited	In H2 2015, 41% of SMEs (excluding the PNBs) were aware of this form of funding, compared to 22% in the first half of 2014 Use of this form of finance remained limited (1%). Consideration has increased from 7% to 12% (H1 14 to H2 15).