**Step 7. Sensitivity Analysis**

In order to evaluate the robustness of the selected model under stressed economic conditions, a sensitivity analysis was performed. This analysis evaluates the model's sensitivity to changes in macroeconomic indicators by individually adjusting each regressor to observe its impact on the estimated PDs / LGDs.

Final model is no: ***{sensitivity\_model\_number}***, having ***{sensitivity\_dependent\_var}*** as dependent variable and explanatories as follows: ***{sensitivity\_temp\_list}***.

We applied an increase and a decrease of ***{percentage}*** to the initial macroeconomic variables included in the model. The effects are further derived based on the transformation of the initial macroeconomic variable used in the model. The results of the analysis are presented in the below file:

*Please see reference 13 from Annex 1*

The results revealed the following evolutions of the estimated risk parameter as an average of the predictions, as presented in the below table:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Independent variable | Average Baseline | Average Increase | Average Decrease | Relative diff increase | Relative diff decrease |
| {#sensitivityTable}{Variable BPV Analysis} | ***{Average\_Baseline}*** | ***{Average\_Increase}*** | ***{Average\_Decrease}*** | ***{Relative\_diff\_increase}*** | ***{Relative\_diff\_decrease}{/sensitivityTable}*** |

The results of this sensitivity analysis indicate that the model remains stable under stressed scenario applied on the macroeconomic environment. The outcomes provide confidence in the model's predictive power and confirm that the model is fit for use in predicting the evolution of the risk parameter of the portfolio.

**Annex 1**

|  |  |
| --- | --- |
| Reference | File name |
| 4 | {stationarityFileName} |
| 8 | {finalSubsetFileName} |
| 12 | {finalFeasibleFileName} |
| 13 | {sensitivityAnalysisFileName} |