Cassa Depositi e Prestiti SpA

Cassa Depositi e Prestiti SpA (CDP, Aa2s/A+s/AA-s) is a specialized lender providing financing to the Italian public sector. Its public-policy mission comprises the development of public investment, local utility infrastructure, and major public projects of national interest. CDP has an important public-policy role, and channels retail deposits collected via the post office network into public sector financing.

The business model of CDP comprises two business lines with separate accounting systems: "segregated activity" ("gestione separata") and "ordinary activity" ("gestione ordinaria"). The "segregated activity" business line (SA) is the dominant lending business of CDP, comprising more than 95% of the total loan book. It includes the provision of medium-to-long-term financing of the Italian public sector. SA business is mainly funded via the state-guaranteed postal savings. Postal savings growth has by far outpaced CDP's overall lending, thus demand deposits with the Italian Treasury represent roughly 50% of total assets. The "ordinary activity" business line (OA) entails funding for public infrastructure owned and managed by private-law companies, including project finance, and comprises roughly 4% of the total loan book.

CDP is a limited liability company with a special public sector mission and very strong support from the Republic of Italy (Aa2s/A+s/Aa-s). Although CDP lost its status as a public sector entity in 2003, the Italian government is required by law (Law Decree 269/03) to be majority owner. Currently, the Republic of Italy, through the Ministry of Finance, owns 70% of CDP's shares. This majority ownership is required to ensure that the government maintains its ability to control and supervise CDP and its public-policy role. The remaining 30% of CDP's capital is held by 66 different banking foundations. The single largest shareholding amounts to 2.6%. Italian banking foundations are not-for-profit institutions created in the process of bank privatization, with a policy mandate to promote local and regional development.

In sum, CDP's credit quality – both for SA and for OA funding – can be equalized with that of the Republic of Italy. CDP enjoys strong government support, is considered an important tool for public policy, and – in addition to its 70% government ownership – is closely supervised and monitored by the Ministry of Finance. Most crucially, the guarantee on part of CDP's obligations is de facto extended to the non-guaranteed part of funding. As a consequence, all three rating agencies equate the rating of CDP with that of the Republic of Italy.

CDP's EMTN program provides funds for the OA business line. Thus, the bonds issued under this program are not directly guaranteed by the Italian government. Nevertheless, they enjoy special government support. The current outstanding volume is EUR 2bn. For 2011, CDP has a funding target of EUR 1bn. CDP's main funding sources for the SA business line are the postal savings instruments, which are unconditionally guaranteed by the Republic of Italy. They are distributed through the branch network of the state-owned postal company Poste Italiane Group. The postal guaranteed instruments are the main funding source of the SA business. Furthermore, CDP has in the past issued covered bonds to fund the SA business.

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Ratings of CDP

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<th>Outlook</th>
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<tr>
<td>Moody's</td>
<td>Aa2</td>
<td>P-1</td>
<td>Stable</td>
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<tr>
<td>S&amp;P</td>
<td>A+</td>
<td>A-1+</td>
<td>Stable</td>
</tr>
<tr>
<td>Fitch</td>
<td>AA-</td>
<td>F1+</td>
<td>Stable</td>
</tr>
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Source: Rating agencies

Ticker
CDEP

Company web site
http://www.cassaddpp.it

Related publications
- Credit Flash: EU/EFSF Funding Update - 19 May 2011
- SSA Chartbook - 17 May 2011
- Credit View: NRW.Bank - 9 May 2011
- Credit Flash: EU/EFSF - Implications of Portugal’s aid package - 6 May 2011
- Sector Report: European agency issuers - 15 April 2011
- Credit Flash: European Council agrees on ESM - 22 March 2011
- Credit View: Erste Abwicklungsanstalt - 21 March 2011
- Credit View: International Petroleum Investment Company - 8 March 2011
- Credit View: EFSF issues inaugural bond - 26 January 2011
- Credit Flash: FADE - A new Spanish agency - 19 January 2011
- Credit Flash: CADES details 2011 funding strategy - 13 January 2011
- Sector Report: European Agencies & Supras - 14 December 2010

Authors
Valentina Stadler (UniCredit Bank) +49 89 378-16296 valentina.stadler@unicreditgroup.de
Amey Dyckmans (UniCredit Bank) +49 89 378-12004 anna-maria.dyckmans@unicreditgroup.de

Bloomberg
UCCR

Internet
www.research.unicreditgroup.eu
Profile

Cassa Depositi e Prestiti SpA, (CDP, Aa2s/A+s/AA-s) is a specialized lender providing financing to the Italian public sector. Its public policy mission comprises the development of public investment, local utility infrastructure, and major public projects of national interest. CDP has an important public-policy role and channels retail deposits collected via the post office network into public sector financing. CDP is owned by the Italian Ministry of Finance (70%) and 66 different Italian banking foundations (30%).

CDP: SWOT-ANALYSIS

<table>
<thead>
<tr>
<th>Strengths/Opportunities</th>
<th>Weaknesses/Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong implicit support from the Republic of Italy</td>
<td>High concentration of the loan book (Italian public sector)</td>
</tr>
<tr>
<td>Strong asset quality: Majority of lending to the Italian public sector</td>
<td>Ample liquidity</td>
</tr>
<tr>
<td>Cheap funding available via postal savings instruments</td>
<td></td>
</tr>
</tbody>
</table>

Source: UniCredit Research

History

CDP was established in Turin in 1850, with the aim to provide financing to the House of Savoy. In 1863, the mandate was broadened to cover all of Italy. CDP generated funds through administrative and judicial deposits as well as excess cash holdings of provincial treasuries. In 1875, these were supplemented by funds from postal savings banks, including postal passbook savings accounts, and as of 1925 postal savings bonds. CDP was transformed from a public administration entity to a limited liability company (SpA) in 2003.

While no imminent change took place with respect to the business model, the transformation resulted in the creation of two separate business areas within the same legal entity, namely "gestione separata" and "gestione ordinaria", which we describe in greater detail below. Since then, the mandate and areas of expertise of CDP have subsequently been broadened, while maintaining the public-policy mandate:

2003: Financing of private enterprises for investments in plants, networks, and other infrastructure intended to supply public services, using funds from institutional investors;

2009: Financing of projects “promoted” by public entities;

2009: Financing for small and medium-sized enterprises;

2009: Support for the areas of Abruzzo that were hit by the earthquake;

2010: Providing support for the international expansion of companies.

In March 2011, the scope of CDP’s operations was further broadened with respect to equity investments in companies of national interest. This is based on certain conditions, as specified in a decree by the Ministry of Finance, including a stable financial position and adequate profit prospects of the particular company in question.

With the transformation to a limited liability company, CDP has moved from being a pure lending arm of the state to a more commercially-oriented company. Moody’s noted that this cultural evolution is an ongoing and challenging process.
The business model of CDP comprises two business lines with separate accounting systems: “segregated activity” ("gestione separata") and "ordinary activity" ("gestione ordinaria").

**Segregated activity**

The "segregated activity" business line (SA) is the dominant lending business of CDP, comprising more than 95% of the total loan book. It provides medium-to-long-term financing to the Italian public sector, i.e. the state, local authorities, and public-law entities. The activities also include projects with long-term economic value, which are co-financed by the EU member states and its institutions, credit support for Italian exporters and financing for SMEs. SA loans are granted according to predetermined guidelines regarding lending operations, interest rates and maturity terms of the Ministry of Finance. The law requires that the SA business line is run to break even. While the loan book is diversified across Italy, it nevertheless has some loan concentration owing to the fact that lending is to the Italian public sector. Asset quality is strong, with non-performing loans of only 0.1% of total outstanding, according to company data. The SA business is mainly funded via the state-guaranteed postal savings. Postal savings growth has by far outpaced CDP's overall lending, thus demand deposits with the Italian Treasury represent roughly 50% of total assets.

**Ordinary activity**

The "ordinary activity" business line (OA) entails funding for public infrastructure owned and managed by private-law companies, including project finance, and comprises roughly 4% of the total loan book. In contrast to SA loans, OA loans are granted at competitive terms and according to private business principles. S&P highlights that while OA loans will gradually increase, it expects this to remain well below 10% of the total loan book and at less than 50% of CDP's liquidity.

**Equity investments**

CDP has various equity investments including two listed companies, and a few very small unlisted companies, as well as private equity. When CDP was transformed into an SpA, it swapped part of its demand deposits with the Italian Treasury against equity holdings of state-owned enterprises. A government decree ruled that CDP may take equity stakes only in companies whose business is related to or complements CDP's corporate purpose. Current main shareholdings include: Terna SpA 29.94%, Eni SpA 26.4%, and Istituto per il Credito Sportivo SpA 21.6%.

**FINANCIAL HIGHLIGHTS (CONSOLIDATED)**

<table>
<thead>
<tr>
<th>EUR mn</th>
<th>31-Dec-10</th>
<th>31-Dec-09</th>
<th>31-Dec-08</th>
<th>31-Dec-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>1,566</td>
<td>1,878</td>
<td>2,246</td>
<td>2,089</td>
</tr>
<tr>
<td>Net fee and commission income</td>
<td>-710</td>
<td>-912</td>
<td>-731</td>
<td>-756</td>
</tr>
<tr>
<td>Loan Loss Provisions</td>
<td>3.79</td>
<td>1.22</td>
<td>23.86</td>
<td>10.34</td>
</tr>
<tr>
<td>Net income</td>
<td>2,751</td>
<td>2,500</td>
<td>1,641</td>
<td>2,042</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>90,328</td>
<td>85,745</td>
<td>84,149</td>
<td>79,961</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>123,751</td>
<td>114,689</td>
<td>106,863</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total assets</td>
<td>260,937</td>
<td>238,027</td>
<td>220,632</td>
<td>205,687</td>
</tr>
<tr>
<td>Total capital / shareholders' equity</td>
<td>16,800</td>
<td>15,658</td>
<td>12,626</td>
<td>17,458</td>
</tr>
</tbody>
</table>

Source: Moody's, Company data, UniCredit Research
Ownership and support

CDP is a limited liability company (SpA) with a special public-sector mission and very strong support by the Republic of Italy (Aa2s/A+s/Aa-s). Although CDP lost its status as a public-sector entity in 2003, the Italian government is required by law (Law Decree 269/03) to be majority owner. Currently, the Republic of Italy, through the Ministry of Finance, owns 70% of CDP's shares. This majority ownership is required to ensure that the government maintains its ability to control and supervise CDP and its public-policy role. In particular, the Ministry of Economy and Finance (MEF) establishes the parameters of CDP's core lending activity to public sector entities, including operating guidelines for lending. The MEF also establishes the rate of remuneration from the Italian Treasury account in which CDP deposits its excess liquidity.

Different layers of government control

Italian legislation provides several means by which the Italian government and other public authorities can exercise effective control over CDP. CDP's board of directors includes the chief accountant of the state, the director general of the MEF's Treasury department, and three experts on financial matters appointed by the MEF (as representatives of local administrations). The MEF presents an annual report to parliament on CDP's activities and results, while the Italian Court of Accounts (Corte dei Conti) – which is responsible for controlling public expenditures and companies controlled by the state -- supervises CDP's accounts and prepares its own report to parliament.

Bank foundations own 30%

The remaining 30% of CDP's capital is held by 66 different banking foundations. The single largest shareholding amounts to 2.6%. Italian banking foundations are not-for-profit institutions created in the process of bank privatization, with a policy mandate to promote local and regional development. The foundations' investment guidelines as well as their special tax status are subject to government regulation. Foundations have no shareholders, but regional and local authorities typically nominate their board of directors. By law, minority shareholders may only be banking foundations, banks, and other supervised financial intermediaries, none of which are permitted to own more than 5% of CDP's shares.

Borrowing for SA activity is guaranteed

In carrying out its public-interest role, CDP enjoys an explicit, unconditional and irrevocable guarantee from the Republic of Italy on all borrowing that is required to finance the SA business (except for covered bonds). Currently, the guarantee is only applicable to liabilities for the funding from Poste Italiane. However, the law specifies that any other market funding for the SA business could also be guaranteed by the central government. SA business is expected to continue to account for more than 90% of overall lending operations for the next five years.

OA funding enjoys special support

Although OA-related borrowing under the EMTN program is not directly guaranteed, it also enjoys special government protection. Strictly speaking, OA obligations might not be served on a timely basis by the government should OA cash flows become insufficient. However, in such a stress scenario, OA debt holders would have access to any and all of the assets held by CDP, other than those backing CDP's covered bonds. Furthermore, SA assets can be lent internally to OA to ensure payments on OA obligations. This internal transaction should not increase the default probability of SA obligations as these are guaranteed by the sovereign. According to S&P, it can be assumed that even the non-guaranteed part of CDP's obligations would be serviced pari passu with the SA obligations, and therefore with the sovereign's own obligations.
In sum, CDP’s credit quality – both for SA and for OA funding – can be equalized with that of the Republic of Italy. CDP enjoys strong government support, is considered an important tool for public policy and – in addition to its 70% government ownership – is closely supervised and monitored by the Ministry of Finance. Most crucially, the guarantee on part of CDP’s obligations is de facto extended to the non-guaranteed part of funding. As a consequence, all three rating agency equate the rating of CDP with that of the Republic of Italy.

Funding strategy

CDP’s EMTN program provides funds for the OA business line. Thus, the bonds issued under this program are not directly guaranteed by the Italian state. Nevertheless, they enjoy government support (please refer to the section on ownership and support). The program includes a great degree of flexibility in terms of currency and structure. The current outstanding volume is EUR 2bn. For 2011, CDP has a funding target of EUR 1bn, of which EUR 0.1mn have already been raised.

CDP’s main funding sources for the SA business line are the postal savings instruments, which are unconditionally guaranteed by the Republic of Italy. They are distributed through the branch network of the state-owned postal company Poste Italiane Group. The postal guaranteed instruments will remain the main funding source for the SA business. Furthermore, CDP has in the past issued covered bonds to fund the SA business. The two currently outstanding covered bonds are CDEP 3.75% 01/12 and CDEP 3% 01/13.

Since ample funding is available through the postal savings, which outpaced CDP’s overall lending growth, there has not been any covered bond issuance since March 2007.

Source: UniCredit Research
Rating Agencies’ View

CASSA DEPOSITI E PRESTITI SPA: RATING PROFILE

<table>
<thead>
<tr>
<th>Agency</th>
<th>Long-term</th>
<th>Short-term</th>
<th>Outlook</th>
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<tbody>
<tr>
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<tr>
<td>Fitch</td>
<td>AA-</td>
<td>F1+</td>
<td>stable</td>
</tr>
</tbody>
</table>

Source: Rating agencies, UniCredit Research

RATING AGENCIES' COMMENTS ON CASSA DEPOSITI E PRESTITI SPA

<table>
<thead>
<tr>
<th>Agency</th>
<th>Comment</th>
</tr>
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<tbody>
<tr>
<td>Moody's</td>
<td>Summary rating rationale: Moody's assigns a Baseline Credit Assessment (BCA) of 5 and long-term and short-term issuer and debt ratings of Aa2 and P-1 to Cassa Depositi e Prestiti (CDP). In accordance with Moody's Government-Related Issuers (GRI) rating methodology for non-banking financial institutions, the ratings of CDP reflect the combination of the following inputs:- BCA of 5 (on a scale of 1 to 21, where 1 represents the lowest credit risk); - Italian government bond rating of Aa2; - High dependence; - High support. CDP's BCA is 5 and reflects the statutory majority ownership by the Italian State with significant government involvement and supervision of CDP's business activities. The BCA is also underpinned by CDP's overall low risk profile - as it plans to remain mainly focused on its public-sector activities - as well as its long-established dominant position in public-sector financing, while taking into account the sizeable market risk in its banking book. The probability of extraordinary support for CDP from the Republic of Italy is expected to be high. As a matter of fact, CDP has historically assumed the important role of ensuring financing to public sector entities thus assuming a market-leading position, and it has strong links with the Italian State. The important role of CDP is now even more emphasized given that it represents an important vehicle of the Italian State in sustaining the development of new infrastructure as well as supporting the Italian economy in the ongoing downturn. Since its establishment in 1850, CDP has enjoyed a key role in the financing of Italian public-sector entities, channeling state-guaranteed retail deposits collected through the Italian Post Office (Poste Italiane, rated Aa2/P-1). At year-end 2003, CDP was legally transformed into a limited liability company that is 70% owned by the Italian state, with the remaining 30% distributed among 66 fondazioni (local banking foundations). A key change resulting from CDP's transformation was the creation, within the same legal entity, of two separate and segregated business areas: (i) the gestione separata, which encompasses all of CDP's public interest activities and (ii) the gestione ordinaria, which incorporates market-based lending and project finance business activities. Since 2007, CDP also consolidates the utility Tema SpA (rated A2/P-1). At present, CDP's overall risk profile is low, thanks to the low risk profile of the underlying public-sector business and the fact that a large part of its funding benefits from a guarantee from the Italian state, which ensures ample liquidity. The gestione ordinaria part of the business represents a new role for CDP as a private investor in infrastructure projects providing essential public services. We are cautious about the development of this business area, given the higher risks involved in project finance and lending to private borrowers, coupled with the challenges of establishing a new business. However, we view this risk as limited in light of CDP's intention to ensure that the gestione ordinaria lending remains marginal to the total activities. Credit Strengths: - Expected high support from the Republic of Italy given CDP's historical and strategic importance and the State's explicit guarantee on retail funding collected through the Italian Post Office; - strong market leader in the public financing sector; - strong asset quality, as lending is almost exclusively to public-sector entities; - solid liquidity and funding position. Credit Challenges: - Sizeable market risk appetite deriving from substantial interest rate risk in its banking book (due to the net exposure arising from the fixed-rate loans and from the structured bonds that it places through the Italian Post Office), as well as its large equity risk; - a concentrated portfolio of equity participations; - traditional low risk profile could be threatened in the longer term by expansion of project finance and market lending activities; - cultural transition from being a lending arm of the state to a more commercially oriented joint-stock company. What Could Change the Rating – Up: An upgrade of the Republic of Italy - assuming CDP continues to maintain its strong links with the Italian State - would lead to positive rating pressure. Positive pressures on CDP's ratings could also be triggered by an improvement of its risk profile deriving from a combination of the following: (i) substantially lower market risk appetite; (ii) material reduction in its asset concentration levels; and (iii) more contained potential volatility of its earning sources. What Could Change the Rating – Down: CDP's ratings could be downgraded as a consequence of a material deterioration in its risk profile and/or in the event of a downgrade of Italy's rating. Negative pressure on CDP's ratings could also be triggered by substantial weakening of its linkages with the Italian State.</td>
</tr>
<tr>
<td>10 June 2010 (Credit opinion)</td>
<td></td>
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</tbody>
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UniCredit Research
The ratings on Italy-based lending institution Cassa Depositi e Prestiti SpA (CDP) are based on an equalization with the long-term rating on the Republic of Italy (A+/Stable/A-1+), reflecting Standard & Poor's Ratings Services opinion that there is an "almost certain" likelihood that the Italian government would provide timely and sufficient extraordinary support in an event of financial stress (see "Enhanced Methodology And Assumptions For Rating Government-Related Entities", published June 29, 2009, on RatingsDirect). In accordance with our criteria for government-related entities, our rating approach is based on our view of CDP's: 

- "Critical" role through its public policy mandate.
- Operations not currently prescribed by law. A significant reduction of sovereign support could weaken the ratings on CDP.
- Perceivable operational and valuation losses from CDP's equity stakes. S&P assume that CDP will not branch out into other lending come under pressure. Furthermore, Standard & Poor's expects CDP to maintain ample liquidity, which should comfortably absorb any perceivable operational and valuation losses from CDP's equity stakes. S&P assume that CDP will not branch out into other lending operations not currently prescribed by law. A significant reduction of sovereign support could weaken the ratings on CDP.

Rationale: The ratings on Italy-based lending institution Cassa Depositi e Prestiti SpA (CDP) are based on an equalization with the long-term rating on the Republic of Italy (A+/Stable/A-1+), reflecting Standard & Poor's Ratings Services opinion that there is an "almost certain" likelihood that the Italian government would provide timely and sufficient extraordinary support in an event of financial stress (see "Enhanced Methodology And Assumptions For Rating Government-Related Entities", published June 29, 2009, on RatingsDirect). In accordance with our criteria for government-related entities, our rating approach is based on our view of CDP's: 

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S&P
7 December 2010
(Rating report)

Rationale: The ratings on Italy-based lending institution Cassa Depositi e Prestiti SpA (CDP) are based on an equalization with the long-term rating on the Republic of Italy (A+/Stable/A-1+), reflecting Standard & Poor's Ratings Services opinion that there is an "almost certain" likelihood that the Italian government would provide timely and sufficient extraordinary support in an event of financial stress (see "Enhanced Methodology And Assumptions For Rating Government-Related Entities", published June 29, 2009, on RatingsDirect). In accordance with our criteria for government-related entities, our rating approach is based on our view of CDP's: 

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Fitch
8 March 2010
(Full rating report)

Rating Rationale: The ratings of Cassa Depositi e Prestiti (CDP) reflect its role as the main financing arm of the Italian state. In addition, CDP's main funding sources are state guaranteed retail deposits and long term bonds distributed through Poste Italiane S.p.A. (Poste, 'A+/Stable' and Fitch Ratings' expects that the amount of state guaranteed liabilities on CDP's balance sheet will remain high. The new strategic plan announced in 2009 emphasizes CDP's strategic role as an arm of the Italian state to pursue its policies of support to Italian local authorities, strategic infrastructure projects of strategic importance or public interest and to the domestic economy. CDP finances Italian local authorities, strategic infrastructure projects of local authorities and the local economy, funding this lending mainly through state guaranteed savings products distributed through Poste. To a much lesser extent, CDP provides infrastructure financing to fund this lending at market conditions and without the benefit of state guaranteed funding. CDP adopts separate accounting for its two businesses - CDP's performance can be affected by the regulatory environment within which it operates, and changes in legislation can materially alter its profitability and/or business mix. The natures of CDP's principal business of financing Italian local authorities has underpinned its stable operating profitability over time. CDP's current exposure to credit risk is moderate and asset quality ratios excellent due to the nature of its lending activity, which at end June 2009 was mainly to the Italian central government and local authorities. State guaranteed funding distributed through Poste totaled around EUR184bn, representing 88% of CDP's total liabilities at end June 2009. CDP also has in place an EMTN program without the benefit of a state guarantee, under which it has issued about EUR2.3bn. The end June 2009 equity/total assets ratio of 4.64%, but substantial participations weigh on its capitalization. Support: CDP's role as the financing arm of the Italian state is of such domestic importance that, in Fitch's opinion, there is an extremely high probability that the authorities would support CDP, including its senior unsecured nonguaranteed obligations, should this ever be necessary. Key Rating Drivers: CDP's IDRs are equalized with those of the Italian Republic, and any change in the sovereign rating would be reflected in CDP's ratings. A material weakening in the links between CDP and the Italian state would also likely result in a downgrade of CDP's IDRs and the ratings of its non guaranteed obligations. The likelihood of support for CDP's non guaranteed senior notes depends on these obligations constituting a limited proportion of its overall issues.

Source: Rating agencies
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POTENTIAL CONFLICTS OF INTERESTS

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- **Overweight**:
- **Underweight**:

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