



DOES THE NON-FINANCIAL FACTOR AFFECT THE PROFITABILITY OF ISLAMIC COMMERCIAL BANKING?

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Abstract

The growth of the Islamic Finance Industry shows positive developments. The average growth of these assets is around 0.12% annually, allowing the Islamic banking industry to optimize profits and limit risk to as small as possible. This study wants to reveal whether or not there is an influence of non-financial factors, namely intellectual capital and Islamic social reporting, on profitability. The population includes Islamic Commercial Banks in Indonesia and uses the purposive sampling technique, so there are 12 types of Islamic Commercial Banks. This research used secondary data using the annual report from their website for the period 2016 to 2020. Found that the probability value of intellectual capital was 0.9901 or more than alpha (0.05), so that partially intellectual capital did not affect the profitability. Another factor is Islamic Social Reporting which has a probability value of 0.0070 or less than alpha (0.05), so Islamic Social Reporting partially affects the profitability. Based on the simultaneous test, the Prob value (F-statistic) is 0.000003 or less than alpha (0.05), so the Intellectual Capital and Islamic Social Reporting variables simultaneously affect the profitability of Islamic Commercial Banks.

Keywords: Intellectual Capital, Islamic Social Reporting, ROA, Islamic Commercial Banks.

Paper type: Research paper

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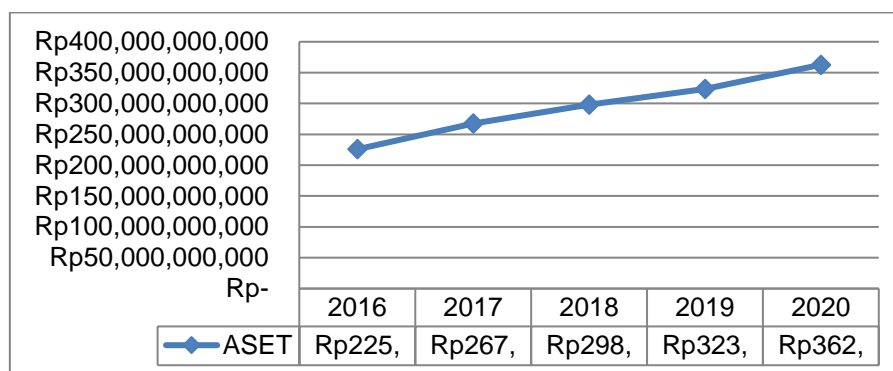
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1. Introduction

Competition in the globalization era in recent decades has experienced rapid development, both on a small, medium, and even large scale, including the development of Islamic Finance, which is increasing every year, based on one of the assets that continue to grow slowly. The growth of the Islamic Finance Industry, predominantly Islamic Banking, especially Islamic Commercial Banks, has also shown positive developments (Luqyana & Zunaidi, 2021).

According to the *Global Islamic Finance Report (2020)*, in 2019 Indonesia ranked first. It overtook GCC countries and Malaysia with a score of 81.01 in the growth of the Islamic banking and finance industry in the countries in the sample. This shows Indonesia has leadership capabilities and great global potential in Islamic banking and finance. This requires a tremendous and integrated commitment from the government to achieve Indonesia's vision of becoming a world sharia economy.

Figure 1. Islamic Commercial Bank Asset Growth



Source: Otoritas Jasa Keuangan (2020)

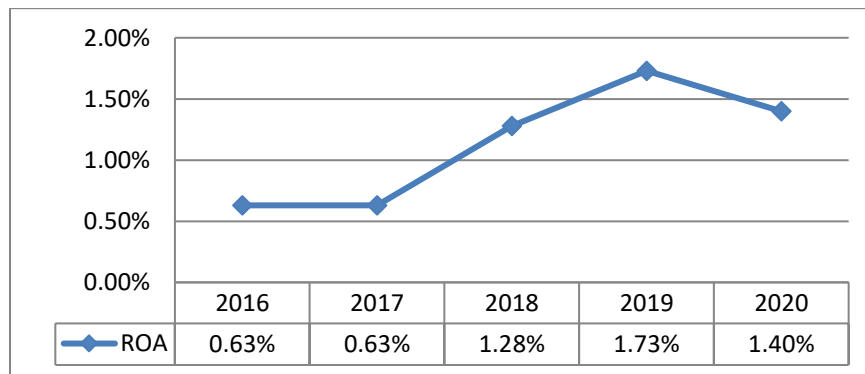
The graph above shows that the growth of assets at Islamic Commercial Banks in Indonesia has increased. Starting in 2016, the total assets of Islamic Commercial Banks amounted to Rp. 225,804,000,000, which then increased in 2017 to Rp. 267,570,000,000, until in 2020 it has reached Rp. 362,692,000,000. The average growth of this asset is around 0.12% annually. With better assets, the Islamic banking industry can optimize profits and limit risk to as small as possible. In addition, Islamic banking also has a role in helping economic recovery nationally, which can be done by growing investment through third-party funds and financing products offered to the public (Dianita, Irawan, & Mulya, 2021).

According to Darsono et al., (2017) there are various challenges in the growth of Islamic banks in Indonesia, namely: (1) some people still think that Islamic banks in their regulations are the same as conventional banks; (2) in terms of policies, operations, and even human resources are still in the development stage, so that the potential figures and levels of development are still quite far away, (3) the lack of quality human resources and the use of technology in a professional manner. Not only that, but Darsono et al., (2017) also identify opportunities that can be a factor in the development of Islamic banking, including rapid technological advances, economic growth in the halal industry, and increasing religious awareness among Indonesian people.

The thing that needs to be developed by Islamic banking to improve financial performance is to optimize its ability to provide profit sharing to customers (Wahyuni & Pujiharto, 2018) Is it cause financial performance can determine the company's financial condition (Rahayu, Kurniati, & Wahyuni, 2020). The company's annual financial statements can be seen as financial performance. The report can also show the level of profitability.

For Islamic banking, the level of profitability can be analyzed, which is by using Return On Assets (ROA). Return on Assets (ROA) is a ratio measuring the company's overall ability to generate profits using total assets (Rahayu et al., 2020).

Figure 2. Development of the Average ROA of Islamic Commercial Banks



Source : Otoritas Jasa Keuangan (2020)

The graph shows that in 2016 and 2017, there was no increase in ROA. This is because Islamic banking has not been able to run its business by sharia provisions, so it has not been able to manage its income properly (Pudyastuti, 2018). From 2018 to 2019, there began to be an increase in ROA, proving that the Islamic Banking industry continues to grow in line with a continuous rise in profitability. Several non-financial factors can affect Islamic commercial banks' profitability, including Intellectual Capital and Islamic Social Reporting.

Intellectual Capital can be interpreted as knowledge-based resources and intangible assets (Rahayu et al., 2020). In Ulum's research (2007), it is explained that companies in Indonesia are less able to take advantage of existing technology. Besides that, companies also have not given more attention to human resources. In the research conducted by Octavio & Soesetio (2019), the results of Intellectual Capital not affect the profitability of Islamic banks in Indonesia. In contrast to the research of Ur Rehman, Aslam, & Iqbal (2022) stated that the three components of Intellectual Capital (Structural Capital Efficiency, Relational Capital Efficiency, and Human Capital Efficiency) affect market performance by using Return On Assets. So it can be said that Intellectual Capital influences profitability.

Another non-financial factor, Islamic Social Reporting (ISR) is a standard for reporting the social performance of a sharia-based company (Othman & Thani, 2010). According to Nabilah (2020), Islamic Social Reporting on companies expects to assist decision-making and assist companies in fulfilling their obligations to Allah Subhanahu Wa Ta'ala. Previous research was conducted by Prihartadi (2019), and the results showed that Islamic Social Reporting influenced the profitability of Islamic Banking listed on the BEI from 2014-2017. Another study by Mubarak (2020) found that Islamic Social Reporting did not affect profitability as measured by using ROA in Islamic Banking.

From the results of previous studies, it can be concluded that there is an influence between non-financial factors on the profitability, and also found that there is no influence between non-financial factors on the profitability of Islamic commercial banks, which shows inconsistent results. So in this study, we try to re-examine these non-financial factors' influence on Islamic Commercial Banks' profitability because, in previous studies, there has not been a combination of these two factors. It is also hoped that conclusions can be drawn from the existing differences.

2. Literature Review

2.1 Grand Theory

A. The Resource- Based Theory

The Resource-Based Theory observes strategy as an instrument for aligning the company's resources and capabilities with the requirements of the external environment (Radjenovic & Krstic, 2017).

Company resources are classified into three categories firstly, human capital, which consists of intelligence, experience, and training; the second is physical capital which consists of the technology used and location and the third is organizational capital

related to the company's reporting structure, formal and informal planning (Maqhfirah & Fadhlia, 2020).

B. Legitimacy Theory

This legitimacy theory can be interpreted as an activity involving the public or society related to the application of social norms and values of trust so that there is harmony between the social values embedded in the environment to reveal the existence of information in the company's financial statements (Santika, 2019). Legitimacy theory has excellent potential in explaining how managers respond to environmental conditions (Azizul Islam, 2017).

C. Signaling Theory

It is a theory that emphasizes the importance of information issued by the company to decisions made by management or investors (Puteri, 2021). After the data is released, investors will interpret it as a good or bad signal (Nursatyani, Wahyudi, & Syaichu, 2014).

D. Intellectual Capital

Intellectual Capital (IC) is knowledge shared by everyone in the organization. This knowledge becomes an added value for the organization (Suroso et al., 2017). Čater & Čater (2009) in Suroso et al., (2017) concluded that Intellectual Capital is an intangible asset that is not shown in the company's financial statements. Intellectual Capital is one of the factors of banking performance. This makes the concept of Intellectual Capital popular in Islamic Banking (Ur Rehman et al., 2022). According to Ulum (2013), the iB-VAIC (Value Added Intellectual Coefficient) method is used for the Intellectual Capital performance measurement model in Islamic Banking. iB-VAIC consists of several elements, including (Ulum, 2013):

a. *iB-Value Added Capital Employed (iB-VACA)*

iB-VACA is an indicator that describes Human Capital (HC). This indicator makes for each unit of Capital Employed against the Value Added to a company.

$$iB - VACA = \frac{Value\ Added}{Capital\ Employed}$$

Information:

iB-VACA : Value Added Capital Employed, the ratio of VA to Capital Employed

iB-VA : Value Added

CE : Capital Employed, available funds (total equity)

b. *iB-Value Added Human Capital (iB-VAHU)*

iB-VAHU shows the amount of Value Added ratio generated against every rupiah of funds that have been invested in labor.

$$iB - VAHU = \frac{Value\ Added}{Human\ Capital}$$

Information:

iB-VAHU : Value Added Capital Employed, a ratio of VA to Human Capital

iB-VA : Value Added

HC : Human Capital, expenses (employees)

c. *iB-Structural Capital Value Added (iB-STVA)*

iB-STVA is a measure of Structural Capital and an indication of the success of Structural Capital in value creation.

$$iB - STVA = \frac{Value\ Added}{Human\ Capital}$$

Information:

iB-STVA : Structural Capital Value Added,

iB-VA : Value Added

SC : Structural Capital

d. *iB- Value Added Intellectual Coefficient (iB-VAIC)*

iB-VAIC is used to measure the performance of Islamic banking in Indonesia. iB-VAIC shows the organization's intellectual ability, which is known as Business Performance Indicator (BPI).

$$iB - VAIC = iB - VACA + iB - VAHU + iB - STVA$$

E. Islamic Social Reporting

According to Othman, Thani, & Ghani (2009), Islamic Social Reporting (ISR) is a standard for reporting a company's social performance based on sharia. The purpose of Islamic Social Reporting (ISR), according to Mais & Ramadhanty (2021), is a form of corporate accountability between God and society to increase the transparency of business activities, by presenting relevant information by taking into account the spiritual needs of Muslim investors or sharia compliance in decision making.

The concept of Islamic Social Reporting to the development of Corporate Social Reporting (CSR) requires all business sectors to incorporate as Limited Liability Companies with the Undang-Undang No. 40 of 2007 concerning Limited Liability Companies and Government Regulation No. 47 of 2012 regarding Social and Environmental Responsibility of Limited Liability Companies. The Islamic Social Reporting Index is a compilation that has been determined and developed by researchers so that these items can be relevant and can be used by sharia entities. This index has 6

(six) different disclosure themes with a total of 41 (forty-one) items. In disclosing the value per item, Ridhawati & Rahman (2020) explains in their research find that disclosure of the ISR index item in the annual report of Islamic Commercial Banks gives a value of 1. In contrast, if it is not found, it is given a value of 0. After seeing the total disclosure value, the percentage index can be determined. Islamic Social Reporting with the following formula:

$$\text{Index Percentage} = \frac{\text{Number of items disclosed}}{\text{Total item value}} \times 100\%$$

F. Profitability

According to Rahayu et al. (2020), profitability is net income from various company policies and decisions. The company's profitability not only maintains the company's financial growth but can also strengthen the company's financial condition (Pratiwi, Nurulrahmatia, & Muniarty, 2020).

Thus the company's profitability can show comprehensive and indirect effects. This will make it easier for long-term investors. For companies that have not achieved the financial targets that have been determined, the company needs to increase work productivity and effectiveness, and vice versa. One of the indicators used to measure profitability is ROA (Return On Assets).

According to Pratiwi, Nurulrahmatia, & Muniarty, (2020), Return On Assets, ROA is a measurement of a company's overall ability to generate profits with the available assets. The meaning of this ROA is one of the ratios in measuring the company's success in using company assets to create profits. The higher the ROA ratio, the better the situation in the company, and vice versa. Here is the ROA (Return On Asset) formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

In perspective Islam, profitability has two aspects: non-material and material. In the material element, all human beings still need materials to serve as a means of worship and reach the afterlife of Allah SWT. Meanwhile, non-material aspects that cannot be counted can be seen but have countless benefits (Pratama & Jaharuddin, 2018).

The main goal is to get profit to support the company's operations. Profit arises because of the company's turnover of business capital and procedures. Islam strongly recommends using their wealth, and it is not allowed to keep their assets so that they are not subject to zakat. The assets obtained can play a role in supporting economic

activity. Profit in the Qur'an is mentioned in the Surah Al-Baqarah 16:

أُولَٰئِكَ الَّذِينَ اشْتَرُوا الضَّلَالَةَ بِالْهُدَىٰ فَمَا رَبِحَت تِّجَارَتُهُمْ وَمَا كَانُوا مُهْتَدِينَ

“They are the ones who trade guidance for misguidance. But this trade is profitless, and they are not ‘rightly’ guided

From surah Al Baqarah (2:16), the attitude of those who go wrong and ignore the truth can be imagined as dishonest traders in their trade. Then the trader will not be lucky, have no profit, and will lose the capital. They also didn't get a guide that could lead them to the truth because what is in them is a digression.

2.2 Previous Research

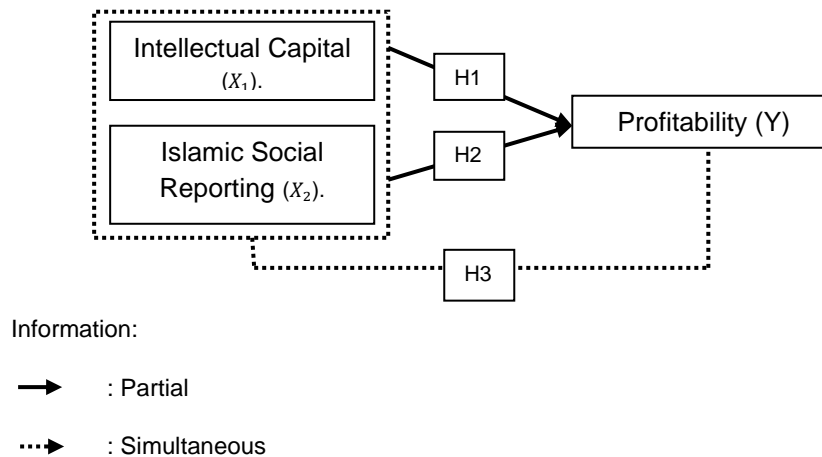
Found the results of previous research, among others:

- Researchers Ur Rehman et al. (2022) revealed that Intellectual Capital affects the profitability of Islamic banks in 29 Muslim countries, including in the Middle East, South Asia, and Southeast Asia.
- Other results were also found by Octavio & Soesetio (2019), which stated that Intellectual Capital did not affect profitability. However, this result applies to Islamic Sharia Commercial Banks, while Conventional Banks affect profitability. This difference indicates that conventional banks are better at managing their intellectual capital to generate profits than Islamic banks.
- Another non-financial factor, namely Islamic Social Reporting, has also been researched by Prihartadi (2019)) that Islamic Social Reporting can affect the profitability of Islamic Banking which ROA has measured.
- Mubarok (2020) found another result: Islamic Social Reporting did not affect the profitability of Islamic Commercial Banks.

2.3 Conceptual Research Framework

The conceptual framework manages research problems identified in the relevant theoretical framework. This study takes two variables: Intellectual Capital (X_1) And Islamic Social Reporting (X_2). Illustrated as shown below:

Figure 3. Conceptual Research Framework



2.4 Hypothesis

The hypothesis this study will propose is a quick answer to formulating the research problem. Research that must be hypothesized uses experimental methods (Sugiyono, 2016). general hypotheses in this study include:

H_1 = Intellectual Capital affects the profitability of Islamic Commercial Banks for the 2016-2020 period

H_2 = Islamic Social Reporting affects the profitability of Islamic Commercial Banks for the 2016-2020 period

H_3 = Simultaneously, Intellectual Capital and Islamic Social Reporting affect the profitability of Islamic Commercial Banks for the 2016-2020 period

3. Research Method

a. Population and Sample

The population is the whole object of research. In this study, the population includes Islamic Commercial Banks in Indonesia. The sample is part of the number and characteristics possessed by the population (Sugiyono, 2016:81). This study uses a purposive sampling technique so that there are provisions based on the criteria for sampling, including the following:

- (1) Sharia Commercial Banks that run their operations are registered with the Financial Services Authority (OJK)
- (2) Islamic Commercial Banks that publish complete annual reports during the research period.

So that there are 12 types of Islamic Commercial Banks that will be sampled in this study.

b. Sources and Types Research of Data

The type of data to be used is secondary data (annual reports) obtained from the website of Islamic Commercial Banks. The secondary data that will be used is time series data and cross-section data for the period from 2016 to 2020, totaling 60 data.

c. Data Analyze

This research's analytical method is panel data regression analysis using the Eviews 10 application.

4. Results and Discussions

4.1 Results

A. Overview of Research Objects

Sharia Commercial Banks that carry out their operations have been registered with the Financial Services Authority and routinely publish annual reports are the objects of this research. The data was obtained from the official website of Islamic Commercial Banks and then processed using the E-Views 10 application. The population of Islamic Commercial Banks registered with the OJK was 14 banks, then used the purposive sampling technique to determine the sample. The following are the results of samples that will be used as research objects, including:

Table 1. List of Islamic Commercial Banks as Samples

No	Bank Umum Syariah
1	PT Bank Aceh Syariah
2	PT Bank Muamalat Indonesia
3	PT Bank Victoria Syariah
4	PT Bank Jabar Banten Syariah
5	PT Bank Panin Dubai Syariah, Tbk
6	PT Bank Syariah Bukopin
7	PT BCA Syariah
8	PT Bank Tabungan Pensiunan Nasional Syariah
9	PT Bank Net Indonesia Syariah
10	PT Bank Rakyat Indonesia, Tbk
11	Bank BNI Syariah
12	Bank Mega Syariah

B. Descriptive Analysis

The results of the descriptive analysis can be seen in table 2 below:

Table 2. Result Descriptive Analysis

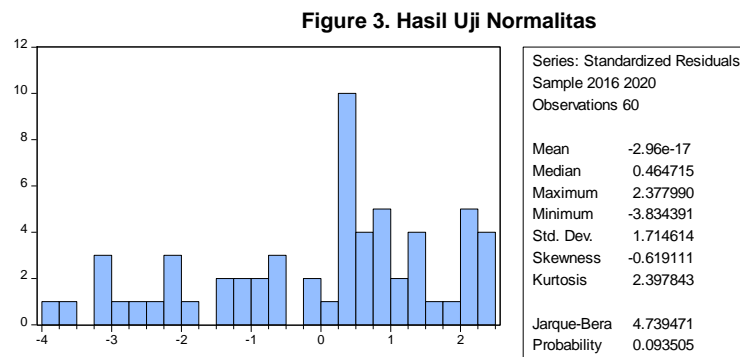
	<i>IC</i>	<i>ISR</i>	<i>ROA</i>
Mean	1.862891	-0.254191	-0.135131
Maximum	3.665150	-0.050010	2.610070
Minimum	0.450228	-0.535518	-3.912023
Std Dev.	0.601614	0.142125	1.767672

Source : data processed by researchers, (2022)

As seen in the table above, the smallest value of Intellectual Capital was obtained by Bank Net Syariah in 2018 at 0.45, and Bank Mega Syariah got the most significant value of 3.66 in 2018. Intellectual Capital acquired a mean value of 1.86. In Islamic Social Reporting, the smallest value of -0.53 was obtained by Bank Jabar Banten Syariah in 2016, while the highest score was obtained by Bank Muamalat, Bank Panin Dubai Syariah, Bank BRI Syariah, and Bank BNI of -0.05. Bank BTPN Syariah got the most significant Return On Asset value of 2.61 in 2019 and the smallest Return On Asset value of -3.91. In comparison, the average value of Return On Assets is -0.13.

C. Classic Assumption Test

- Normality Test



Source : data processed by researchers, (2022)

Results Based on the normality test in Figure 3, the Jarque-Bera Probability value is 0.093505 or more than alpha (0.05). The conclusion that the research has been normally distributed and the classical assumption test on the normality test can be fulfilled.

- Multicollinearity

Table 3. Result of Multicollinearity test

	IC	ISR
IC	1.000000	0.022586
ISR	0.022586	1.000000

Source : data processed by researchers, (2022)

The results of the multicollinearity analysis in table 3 show that the correlation value of Intellectual Capital and Islamic Social Reporting is 0.022 or less than 0.90, so there is no autocorrelation problem.

- Heteroskedasticity Test

Table 4. Result of Heteroskedasticity Test

Heteroskedasticity Test: White

F-statistic	1.175830	Prob. F(5,54)	0.3331
Obs*R-squared	5.891013	Prob. Chi-Square(5)	0.3170
Scaled explained SS	3.715913	Prob. Chi-Square(5)	0.5910

Source : data processed by researchers, (2022)

Based on Figure 4 above shows that the value of Prob. Chi-Square of 0.3170 or more than alpha (0.05), then there is no heteroscedasticity problem.

- Autocorrelation Test

Table 5. Result of Autocorrelation Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.150964	0.850578	0.177484	0.8598
IC	-0.462267	0.377591	-1.224251	0.2259
ISR	-2.262303	1.598341	-1.415407	0.1624
R-squared	0.059131	Mean dependent var	-0.135131	
Adjusted R-squared	0.026118	S.D. dependent var	1.767672	
S.E. of regression	1.744436	Akaike info criterion	3.999446	
Sum squared resid	173.4542	Schwarz criterion	4.104163	
Log likelihood	-116.9834	Hannan-Quinn criter.	4.040407	
F-statistic	1.791136	Durbin-Watson stat	1.672991	
Prob(F-statistic)	0.176029			

Source : data processed by researchers, (2022)

From the results of the autocorrelation test in Figure 5, the Durbin Watson value is 1.672991. The dU value is 16518, the 4-dU value is 23482, the dL value is 15144, and the 4-dL value is 24856. It means that the Durbin Watson value is between dU and 4-dU, which means that there is no autocorrelation problem.

- Panel Data Regression Test

Table 6. Result of Panel Data Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.104321	0.865513	-1.275914	0.2072
IC	-0.070949	0.350623	-0.202351	0.8404
ISR	-4.332801	1.556846	-2.783064	0.0073

Source : data processed by researchers, (2022)

$$ROA = -1.104 - 0.070IC - 4.33ISR$$

The regression equation above concludes that the Islamic Social Reporting regression coefficient is -4.33. It means that an increase in one Islamic Social Reporting by assuming other variables will continue to decrease the ROA of Islamic Commercial Banks in 2016-2020 by -4.33.

The researcher only interprets the influential variables, and the variable that influences the profitability as measured by ROA at Islamic Commercial Banks in 2016-2020 is Islamic Social Reporting.

- Hypothesis Testing

- o Parsial Test (Uji-T)

Table 7. Result of Parsial Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.342780	0.767365	-1.749858	0.0868
IC	-0.004727	0.377793	-0.012512	0.9901
ISR	-4.785589	1.696377	-2.821065	0.0070

Source : data processed by researchers, (2022)

Based on the partial test in Table 8, it can explain as follows:

- a. The test results on the Intellectual Capital variable have a probability value of 0.9901 or more than alpha (0.05), thus rejecting H1, namely Intellectual Capital does not affect Profitability.
 - b. The test results on the Islamic Social Reporting variable have a probability value of 0.0070 or less than alpha (0.05), so accepting H1 is that Islamic Social Reporting affects Profitability.
- o Coefficient of Determination Test (R^2)

Table 8. Result of Coefficient of Determination Test

R-squared	0.785186
Adjusted R-squared	0.724478

Source : data processed by researchers, (2022)

The Coefficient of Determination (R^2) results in table 8 shows the Adjusted R-Squared value of 0.724478, which means that IC and ISR of 72% can explain ROA. In comparison, the remaining 28% is explained by other variables outside the model.

o Simultaneous Test (Uji-F)

Table 9. Result of Simultaneous Test

F-statistic	12.93376
Prob(F-statistic)	0.000003

Source : data processed by researchers, (2022)

Table 9 shows the results of the simultaneous test of the Prob value (F-statistic) of 0.000003 or less than alpha (0.05) so that the Intellectual Capital and Islamic Social Reporting variables simultaneously affect Return On Assets.

4.2 Discussions

This study aims to partially determine whether the variable Intellectual Capital and Islamic Social Reporting influence the profitability of Islamic Commercial Banks partially or simultaneously.

a. The Effect of Intellectual Capital on Profitability

The results of the Intellectual Capital T-Test have a probability value of 0.9901 or more significant than alpha (0.05), which means that Intellectual Capital does not affect profitability as measured by ROA. So it can conclude that H_1 is rejected.

This statement is in line with the research of Ur Rehman et al., (2022), which states that Intellectual Capital Efficiency can affect performance as measured by Islamic Banking ROA. Ur Rehman et al., (2022) researched Islamic Banking in 29 Muslim countries, including the Middle East, South Asia, and Southeast Asia.

b. The Effect of Islamic Social Reporting on Profitability

The T-test results show a probability value of 0.0070 or less than alpha (0.05). This indicates that Islamic Social Reporting can affect profitability as measured by the ROA of Islamic Commercial Banks. It can conclude that H_2 is accepted.

These results align with research conducted by Prihartadi, (2019) by revealing Islamic Social Reporting as a whole based on its components.

c. The Influence of Intellectual Capital and Islamic Social Reporting on Profitability

The profitability ratio is used to reveal a company's profit (Maqhfirah & Fadhlia, 2020). The reason for choosing the profitability ratio is because this ratio has an essential role in explaining financial performance. The ratio that will be used is Return On Assets (ROA).

Based on the simultaneous test or F test, the Prob value (F-statistic) is 0.000003 or less than alpha (0.05), so the Intellectual Capital and Islamic Social Reporting variables simultaneously affect Return On Assets. It can conclude that H_3 is accepted.

5. Conclusions and Suggestion

5.1 Conclusions

Based on the test results regarding the Effect of Non-Financial Factors on Profitability (Case Study of Islamic Commercial Banks 2016-2020), it can conclude as follows:

1. Intellectual Capital partially does not affect the profitability of Islamic Commercial Banks
2. Islamic Social Reporting partially affects the profitability of Islamic Commercial Banks
3. Intellectual Capital and Islamic Social Reporting simultaneously affect the profitability of Islamic Commercial Banks.

5.2 Sugesstion

1. For further researchers it is expected to add other variables to add factors that affect profitability because, in this study, 28% of other factors that did not explain in the model could affect the profitability of Islamic Commercial Banks.
2. Sharia Commercial Banks are expected to be able to comprehensively disclose social responsibility because it can affect the profitability of Sharia Commercial Banks.

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