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CONTENTS

HUMAN RESOURCE ACCOUNTING AND PROFITABILITY OF LISTED DEPOSITMONEY BANKS IN NIGERIA

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Abstract

One of a company's most important intangible assets is its human capital. Because a company'ssuccess or failure depends on how well its few physical resources are exploited by its human resources, a company's failure to account for human resources and the changes that occur inside may present a misleading image of its performance. due to inconsistent in the literature, the study examine the relationship between human resource accounting and financial performance of deposit money banks in Nigeria. The study used ex-postfacto research design as it entails the use of annual reports and accounts of listed Deposit Money Banks in the Nigerian Exchange Group. Secondary data were sourced from the banks' financial report for the period of seven (7) years from 2015 to 2021. The dependent variable is Return on Assetsuse as a proxy of profitability, the independent variables are: Staff Cost, Directors' Remunerations use as the proxy of human resource accounting. The study control for age and size.The descriptive statistics, correlation and regression statistical method of analysis are employedto test the nature, relationship and effect among the variables using Statistical Software (STATA v14). The result shows that HRA has significant effect on the financial performance of listed deposit money banks in Nigeria. Thus, upon recommendation, workers should be retain to avoidunemployment, and company management should endeavor to send workers on training and development to accommodate the structural changes.

Keywords: directors' remuneration, human resource accounting, staff cost.

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1. Introduction

One of a company's most important intangible assets is its human capital. The usage of this asset is anticipated to result in a monetary advantage to the organization. Human capital's value extends well beyond its intrinsic contribution to better and more efficient use of available resources. A source of confidence for external resource providers, and particularly financial institutions, is provided by this. Financial institutions in Nigeria have adopted the practice of revealing the identity of the persons behind a company before extending loans to them (Asein, et al., 2019). Human resource accounting (HRA) is the practice of calculating the value of a company's humancapital in monetary terms (Asien, et al., 2019). Accurately allocating financial values to a company's human resources is known as human capital accounting.

As Adebawojo, et al., (2015) have stated, the essence of human resource accounting is to determine a generally accepted model of valuation for human assets and to ensure that the worth that drivesan organization for desired performance is adequately represented and disclosed in financial statements as intangible assets. Hence, those in need of information regarding human resources might get it via human resource accounting, which is the process of collecting and sharing such data. Internal management decisions and long-term investment choices are both heavily influenced by human resource accounting. In human resource accounting, people are given a monetary valueaccording to their experience, education, skills, and, most crucially, their expected future contributions to the company in the form of revenue.

Because a company's success or failure depends on how well its few physical resources are exploited by its human resources, a company's failure to account for human resources and the changes that occur inside may present a misleading image of its performance (Ofurum & Adeola, 2018). An organization's growth and progress can only be ensured by enhancing the efficiency ofits employees. Human behavior characteristics, such as loyalty, skill, motivation, and ability for effective communication and decision-making are indicators of the genuine health of a firm. However, profitability refers to a company's or individual's capacity to generate a profit from its commercial endeavors. A company's capacity to generate profits is examined in profitability analysis. A company's operational outcomes are represented in its income statement, which shows the company's profitability. According to its financial statement, an entity's potential to generateprofits is also dependent on the assets it has available for use (Warren, et al., 2014). The ability of a company to generate profits both now and in the future is critical to its growth. Stakeholders can use metrics like profitability to analyze a company's historical financial performance and currentfinancial status, according to Erasmus, (2008). It is also employed as a broad indicator of a company's long-term financial health. Measures of profitability include return on investment (ROI), return on assets (ROA), value added (VAR), and other financial measures of a company'sperformance.

There are a variety of ratios that may be used to gauge a company's profitability (Hill, Jones, & Schilling, 2015). According to Ebrahim, et al., (2014), profitability may be measured in terms ofROA, ROE, Profit Margin (PM), Earnings Per Share (EPS), and Return on Investment (EPS). Return on Investment (ROI), Return on Capital Employed (ROCE), Growth in Sales (GRO), among others. Thus, the importance of segment reporting in allowing users of financial reports toassess and make informed decisions on the true position and performance of business and geographic segments a diversified entity is operating, and thus affects the profitability on how efficiently a company uses its resources, is further demonstrated.

As a result, several investigations on the link between human resource accounting and financial performance have been carried out. Except for the study by Ofurum and Adeola (2018), which found no correlation between human resource accounting and financial performance, all studies (such as Ijeoma and Aronu (2013), Ofe and David (2018), Okpako, et al., (2014), Oladele, et al.,(2018), and Oladele, et al., (2018), Prince, et al., (2013), and Vohra and Vipla (2014), that the researcher can review about human resource accounting and financial. Nevertheless, the use of Human resource assures management efficiency. However, based on the assertion by the President, Chartered Institute of Bankers of Nigeria the researchers' found the available literature inconsistent and therefore seeks to re-examine the relationship between human resource accounting and financial performance of deposit money banks in Nigeria.

Moreover, the choice of this domain is because, the banking business relies heavily on its humanresources, making HRM crucial. Banks have significant difficulties in human resource management and risk management. In the banking industry, your performance is directly proportional to how well you manage both the people and the risks associated with running the firm. There may not be enough competent workers to make risk management effective. In the past, and in the future, banking will remain a “People Business”. While cost is a major factor for manycustomers, it is not the only factor in choosing a bank. Therefore, the specific objectives are to determine the effect of staff cost and directors’ remunerations on financial performance of listed deposit money banks in Nigeria, also hypothesize that staff cost and directors’ remunerations hasno significant effect on the financial performance of listed deposit money banks in Nigeria. Thus,the section covers the literature review.

2. Literature Review

Concept of Human Resources Accounting

Jasrotia (2004) defines Human Resource Accounting (HRA) as a way of calculating the value and cost of an organization’s human capital. HRA is defined more precisely by Rahaman, et al., (2013) as the process by which businesses and other organizations measure the costs associated with recruiting, selecting, hiring, training, and developing human assets. For the purposes of valuing and reporting on human resources, this definition outlines what should be considered an expense.In this study, the term HRA is used to describe the economic worth of employees to a business. Human resource accounting is a method for calculating the monetary and intangible benefits of an organization's workforce. It entails calculating how much it costs to find, interview, hire, train, and develop personnel, as well as estimating how much such workers are worth financially to the company. Accounting for human resources allows businesses to better allocate funds and better utilize their most valuable asset: their employees. It's a boon to hiring and retaining competent staff. Accounting for human resources is done so that management may learn how much their employees are costing them and how much they are worth (Ofurum & Adeola, 2018).

Benefits of Human Resource Accounting

HRA valuation approaches have their advantages and limits, but accounting for human resourcesmay benefit an organization and the people who have an interest in it. Oluwatoyin (2014), importance of human resources accounting as: (i) managers may use human resources accounting to make better decisions about how to hire and use employees. ii) It aids in personnel decisions such as transfers, promotions, training, and layoffs. iii) It serves as a foundation for the allocation of financial resources in relation to human capital. iv) It aids in analyzing the costs of training and education for workers in relation to the benefits they receive from the company. v) It aids management in measuring an organization's inherent strength and guiding the business successfully through adverse and unfavorable conditions. vi) It improves the performance and negotiating strength of the workforce. It enables each employee to see how his or her work contributes to the success of the company in comparison to the amount of money the company spends on him or her.

Challenges of Human Resources Accounting

The challenges to the introduction of human resources accounting is stated by Oluwatoyin, (2014). Among the qualities he listed were the following: There is no standard technique or guideline fordetermining the cost and value of an organization's human resources. There are certain downsides to the systems now in use. Valuing human resources in the future while their existence is unclear seems to be impractical. In order to support the notion that human resources accounting as a management tool promotes better and more effective human resource management, empirical data is still lacking. This is a dilemma for management since human resources are not like physical assets in that they are unable to be owned, held, and fully exploited. Workers' unions are wary ofputting a monetary value on their labor, for fear they may seek incentives and remuneration basedon that monetary value.

Human assets, however, have a service life that is extremely difficult to predict. Free movement of personnel and recruits is to blame for this. He may leave his current work at any moment, knowing that he just has to pay back a few months' wages to his previous employer. There is a great deal of uncertainty when it comes to estimating the contribution level of a new employee to the company. In contrast to a machine that has been installed by a corporation and has a known output capacity. This makes it simple and accurate to estimate and forecast. There is no doubt that an employee's contribution level cannot be accurately measured or projected. His/her output varies and is affected by a variety of different circumstances. When it comes to valuing human resources, payments in terms of salary and wages have a significant role. When the government changes policy that affects the compensation system or the workers' union takes action, the value of an employee who is highly regarded in terms of future salaries and pay will be affected.

Concept of Profitability

Profitability is a measure of a company's capacity to earn revenues from its key business assets. Stakeholders can use profitability to analyse a company's historical financial performance and current financial status, according to Erasmus, (2008). It is also employed as a broad indicator ofa company's long-term financial health. As defined by the business dictionary (2013), profitability is measured in terms of monetary outcomes, and these results may be seen in the company's return on investment, return on assets, and value added. Profitability measurements, according to Neely (2011), are used for three primary goals. As a financial management tool, as a business goal, andas a means of motivating employees inside a company, they all play a role in financial management.

Measures of Profitability

It is possible to utilize a variety of different profit ratios, each of which assesses a different component of the profitability of a business (Hill, Jones, & Schilling, 2015). (The return on assets (ROA) is a regularly utilized profit ratio, as well as the return on equity (ROE) and the ROI. In other words, if a company's profitability ratio is larger than its competitors', then its future shareprice should be similarly high. Most companies' annual reports include profitability measures, which are among the most widely used statistics in business. Annual reports are designed to provide investors with information about the company's performance and future prospects. The ROA, ROE, and ROI are all included in this group of ratios (Gibson, 2012). But the return on assets (ROA), which divides net income by the company's assets, is a basic measure of profitability that takes into consideration the company's size.

ROA is a useful metric for evaluating a manager's performance since it reveals how effectively assets are being utilized to create revenue (Bloomsbury, 2009). Unlike other profitability ratios, ROA measures encompass all of a company's assets, including those derived from liabilities to creditors and contributions from investors. Therefore, ROA has a lower profile among investors than certain other financial statistics due to its brevity. Even more so, ROA is a crucial internal measuring tool, particularly for analyzing the performance of different departments or division within a company. A decent internal management ratio, ROA, compares profit against the total assets a division employs to generate that profit. In this method, the profitability and efficiency ofthe division may be assessed. For one thing, division managers seldom become engaged in fund raising or deciding on the optimum ratio of debt to equity.

Review of Empirical Studies

Using data from a panel of big enterprises that includes information on training length, direct expenses, and numerous other features of the organizations, Almeida and Carneiro (2008) estimate the rate of return to company investments in human capital in the form of formal job training. Estimates of the financial benefit to training providers are rather high (8.6%). Findings indicate that these businesses might benefit from investing in formal job training, with returns perhaps on par with those of expenditures in physical capital or in education. In order for businesses to get the most out of their investments in human resources, Huang (2011) explores how Return on investment (ROI) can be used most effectively during the evaluation process to provide convincing data regarding the value of Human Resources and their contributions to the project. Companies can see better revenues through the efficient utilization of Human Resources in the manufacturing process, and this influence can be quantified using a scientific and rational technique.

Perera's (2012) research corroborates the foregoing findings, showing that people are the key to an organization's success or failure. That means it's crucial for management to be able to steer the company in the right direction by making sound, well-considered decisions. According to Pandurangarao, et al., (2013) research on human resource accounting methods and practices in India, intangible assets, and people in particular, make significant contributions to the creation of shareholder value in knowledge-based industries such as Information Technology (IT), Teleservices, and so on. Their claim that intellectual capability of employees is the sole substantial contribution into these industries. Using a regression model, Saeed, et al., (2013) explored the connection between human resources and the value added efficiency of human capital, with Return on Equity (ROE) serving as the measure of company performance. The study's findings demonstrate a favorable and statistically significant association between HR and the value-addedefficiency of human capital and return on equity.

Zenith Bank Plc’s financial performance was studied by Ijeoma and Aronu (2013), who looked at the impact of human resource accounting on the financial performance of Nigerian banks. Field survey was used to gather data, and questionnaires and interviews with Zenith Bank Plc employees were part of the process. Zenith Bank Plc’s financial position was improved by accounting for human resources, according to the findings. A study conducted in Nigeria by Izedonme, et al., (2013) examined the relationship between human resource accounting and company performance. An analysis of the Nigerian securities market fact book's cross-sectional data was used in this study (2009). The data was analyzed using multivariate analysis. Human capital was found to have a small but positive effect on organizational performance. Survey data from 103 owners/managers in Punjab state, India, were utilized by Vohra and Vipla (2014) to examine how human resource accounting methods affect business performance through employee retention. The data was analyzed with the use of statistical tests such as multivariate analysis and regression. Firm performance is significantly impacted by human resources accounting methods, according to the research. According to Okpako, et al., (2014) who conducted a mixed-methods research project involving the use of primary and secondary data, the study sampled seven (7) Nigerian stock market listed firms and distributed 260 questionnaires to the relevant employees. Human resource accounting's value was quantified using principle component analysis (PCA) and the return on equity (ROE) from 2006 to 2010 as a measure of financial performance, which resulted in a series of data points. According to the findings, accounting for human resources has a positive effect on a company's performance.

Omodero and Ihendinihu (2017) studied the relationship between human resource accounting and the financial performance of Nigerian enterprises. UsingPersonnel Benefit Cost (PBC) as a proxy for human resource accounting, the dependent variables were profit after tax, total revenue and net asset. SPSS software was used to do a multiple correlation analysis on the data. PBC hada largeand beneficial influence on profit after tax (PAT), but a negative impact on online asset, according to the findings. A study conducted by Oladele, et al., (2018) studied the influence of human resource accounting disclosure on the financial performance of selected listed corporations in Nigeria. To measure the dependent variable, a financial report index of the selected businesses was utilized to measure the annual profitability, company size, financial leverage, andindustry type of the human resources accounting disclosures. The research was conducted between 2011 and 2015. The data was examined using descriptive statistics, correlation, and regression. The study found acorrelation between financial success and human resource accounting.

According to Ofe and David (2018), human resource accounting has a significant impact on the performance of Nigerian listed banks. From 2009 to 2017, the information was gleaned from theannual reports of 18 Nigerian commercial banks that are publicly traded. Staff costs, director compensation, employee count, and business size all played a role in human resource accounting.Multivariate research found a strong correlation between employee costs, employee strength, and the size of the company. The financial performance of directors was not significantly influenced by their compensation. Despite this, Ofurum and Adeola (2018) conducted a study on the relationship between Human Resource Accounting and also the Profitability of quoted companiesin Nigeria. Human Resource Accounting was simulated by staff compensation, whereas profitability was simulated by net operating profit and return on capital utilized. From 2011 to 2015, the study was conducted. SPSS version 20 was used to analyze the gathered data using OLS and Pearson correlation. A correlation between Human Resource Accounting and a company's profitability was found to be weak.

Oladejo and Ojokuku (2019) analyzed the impact of human resource accounting (HRA) procedures on the bottom line of publicly traded Nigerian manufacturing firms, both in the long and short term. Thirty-seven (37) out of the sixty-three (63) listed manufacturing businesses on the Nigerian Stock Exchange (NSE) in 2015 were chosen using a simple random selection approach. Secondary data collected from the firms' financial statements over a 16-year period wasused in the analysis. Analysis of data in panels was utilized. The findings showed that HRA practices are connected to the financial success of the companies in the long and short term.

Nevertheless, on the study gap identification which necessitate this current study; majority of thestudies reviewed revealed positive relationship between human resource accounting and financial performance (Perera's (2012); Pandurangarao, et al., (2013); Saeed, et al., (2013); Izedonme, et al., (2013); Vohra and Vipla (2014), Okpako, et al., (2014), Oladele, et al., (2018); Ofe and David (2018), Ofurum and Adeola (2018), and Oladejo and Ojokuku (2019), other than the study of Omodero and Ihendinihu (2017) who established that there is no significant relationship betweenhuman resource accounting and the profitability of quoted firms in Nigeria, although the study used only one bank, which not enough to make generalization. Building on that, this paper consider using more bank and recent data for effective generalization to better understand the effect of human resource accounting in the banking industry.

Theoretical frameworkHuman Capital Theory

Human capital theory, first proposed by Becker (1964), is widely accepted because of its emphasis on education and training as a source of wealth. Asian countries' strong growth in the 1970s and 1980s was largely due to a large investment in human capital (Psacharopoulos & Woodhall, 1997; Robert, 1991;).

According to the human capital theory, training and development are no longer "costs that the company should aim to reduce," but rather "returnable investments" that should beincluded in the firm's overall financial planning. Employees' education, experience, and abilitieshave monetary value for both employers and the economy as a whole, and the concept of humancapital recognizes that not all labor is equal. Firm performance and competitive advantage are largely dependent on the competence, knowledge, talents, capacities, and skills of the personnel.

3. Methodology

This study adopted correlation research design. The population of the study consists of all the 14 Deposit Money Banks listed on the Nigerian Stock Exchange as at 31 December 2021. The study adoptedcensus method to select the sample size by applying two criteria; first, the bank must be listed before 2014 and secondly, HRA expenditure can be identified in the financial statement of such banks. Based on the criteria, 10 banks were selected as the sample size of the study. The study used secondary data which were extracted from the annual reports of Deposit Money Banks listed on the Nigerian Stock Exchange for the period of seven years from 2014 to 2020. The dependent variable is Return on Assets (ROA) used as a proxy of financial performance and the independentvariables are variables of human resource which are: Staff Cost (SC), and Directors' Remuneration's (DR). For the purpose of presentation and discussion of the result of data generated in the course of these research, descriptive statistics, correlation and regression techniques of data analysis were used in STATA version 14th statistical tools of analysis.

Model Specification

$$\mathbf{ROA_{it} = \beta_{0it} + \beta_1 STC_{it} + \beta_2 DRR_{it} + \beta_3 Age_{it} + \beta_4 Size_{it} + e_{it}}$$

Where:

ROA_{it} = Return on assets (measure by PBT divided total assets) SC_{it} = Staff Cost (measure by natural log. Of Staff Cost)

DR_{it} = Directors' Remunerations (measure by natural log. Of Directors' Remunerations) Age_{it} = Age (measure by counting from year of listing to the periods covered) $Size_{it}$ = Size (measure by natural log. Of Total assets)

β_0 = Constant (i.e., the intercept)

$\beta_1 – \beta_5$ = Coefficient of the explanatory variables (i.e., the slope) e = Error termi = Individual bank

t = Time period (i.e., year)

4. Discussion of Results

The section presents the data analysis and interpretation of result of the dependent variable and independent variables. It presents the descriptive statistics, correlation and regression results of the study.

Descriptive Statistics

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Dev
ROA	70	0.152	0.370	0.251	0.243
SC	70	4.763	7.831	6.999	0.780
DR	70	0.000	6.048	5.274	0.987
AGE	70	1.000	50.00	18.285	12.151
SIZE	70	8.1119	9.695	8.958	0.496

Source: STATA Output, 2022

In Table 1, the mean, minimum, maximum and standard deviation of the study is presented. From the Table, it can be deduced that during the period under study, the performance (ROA) of listed deposit money banks in Nigeria increased gradually to a maximum of 37.0 percent from a minimum of 15.2 percent with an average of 25.1 percent. Meaning that the performance of listed deposit money banks improved within the period of the study. Also, deposit money banks spent on the average N6.99 million on staff cost (SC), with a maximum of N7.83 million and a minimum of N4.76 million. Implying a sharp increase in staff maintenance costs such as; training, emoluments and other benefits within the period of the study. Averagely, N5.274 million was spent on director's remuneration (DR) with a minimum of zero naira and a maximum of N6.04 million. This infers a sudden increase in director's emolument duringthe period of the study. The table also revealed that deposit money banks' age which is a control variable ranged between 1 to 50 years and size, (the second control variable) is 8.95 percent on the average during the period of the study.

Diagnostic Testing

Table 2: Multicollinearity

	Tolerance	VIF
SC	0.2473	4.04
DR	0.900	1.11
AGE	0.666	1.50
SIZE	0.264	3.79

Source: STATA Output, 2022

According to the results in Table 4.2, it shows that the VIF for all the independent variables individually are below 5. SC (4.04), DR (1.11), Age (1.50) and Size (3.79). The tolerance for all independent variables: SC (0.24), DR (0.90), Age (0.26) were all greater than 0.1 or 10%. Therefore, the study concludes that there is no multi-collinearity among the variables. This was an indication that the estimators: SC, DR, AGE and SIZE are reliable to estimate the model.

Heteroscedasticity Tests

Table 3: Heteroscedasticity Tests

Breusch-Pagan/Cook-Weisberg	
Chi^2	40.58
Prob. > Chi^2	0.501

Source: STATA Output, 2022

The results in table 3 show that the p-value is 0.501 which greater than 0.05. This implies that there is no presence of heteroscedasticity problems in the study data. This is because, the varianceof each error term is the same for all values of the explanatory variable as a result all the banks doreflect their monetary term.

Correlation Result

Table 4: Correlation Result

	ROA	**SC**	**DR**	**AGE**	**SIZE**
ROA	1				
SC	-0.517	1			
DR	0.381	-0.233	1		
AGE	-0.552	0.372	-0.256	1	
SIZE	0.468	0.901	0.633	0.701	1

Source: STATA Output, 2022

Table 4 shows the correlation result of the dependent variable: ROA, the independent variables: SC, DR, and the control variables: AGE and SIZE. The relationship between ROA and SC is negative, with a coefficient of -0.517, this means that, all things being equal the higher the SC thelower the ROA. The relationship between ROA and DR is positive but weak, with a coefficient of 0.381, this means that, all things being equal the higher the DR the higher the ROA. The relationship between ROA and AGE is negative and weak, with a coefficient of -0.552, this means that, all things being equal the higher the AGE the lower the ROA. The relationship between ROA and SIZE is positive, with a coefficient of 0.468, this means that, all things being equal the higher the SIZE the higher the ROA.

Regression Result
Table 5: Regression

	Coefficient	t-statistic	prob.t
(Constant)	-0.788	-2.640	0.011
SC	-0.166	-2.650	0.011
DR	0.109	2.900	0.005
AGE	0.133	-3.010	0.004
SIZE	0.154	2.840	0.006
R^2	0.686		
Adj. R^2	0.641		
F-statistic	21.39		
Prob. (F)	0.001		

Source: STATA Output, 2022

Table 3 shows the regression results of the model. The model consists of dependent variable ROA and other explanatory variables (SC, DR, AGE and SIZE). In the model the multiple coefficientsof determination R^2 is 0.686. This means that 68.6 percent of change in ROA was caused by the change in the explanatory variables while the 31.4 percent change in ROA was caused by other factors not included in the model. The f-statistics is 21.39 with p-value of 0.001 which is less than 0.05 and is statistically significant which mean the model is fit, because it accounts for the variation in the dependent variable. The effect of SC on dependent variable ROA is negative with coefficient value of -0.166, meaning that an increase in the SC while other variable remains constant lead toa decrease in ROA by 16.6 percent. The effect of DR on dependent variable ROA is positive with coefficient value of 0.109, meaning that an increase in the DR while other variable remains constant lead to an increase in ROA by 10.9 percent.

Test of Hypotheses

In order to decide whether to reject or accept the null hypothesis at 0.05 (5%) level of significant,the rejection point is use which states that. (1) If the p value is equal to or less than 5%, the null hypotheses is rejected and the alternate hypotheses is accepted; (2) If the p value is more than 5%, the null hypotheses is accepted and the alternate hypotheses is rejected.

SC and Profitability of listed Deposit Money Banks in Nigeria.

The t-test of STC is -2.650 with p value of 0.011 which is less than 0.05. Therefore; the null hypothesis one which states that staff cost has no significant effect on the financial performance of listed deposit money banks in Nigeria is hereby rejected.

DR and Profitability of listed Deposit Money Banks in Nigeria.

The t-test of DR is 2.900 with p value of 0.009 which is less than 0.05. Therefore; the null hypothesis two which states that directors' remunerations have no significant effect on the financial performance of listed deposit money banks in Nigeria is therefore rejected.

5. Conclusions and Recommendations

Conclusively, the results show that HRA has a significant effect on the profitability of listed deposit money banks in Nigeria. The study recommends that since HRA has a significant effect on the profitability workers should be retained to prevent unemployment, and company management should send workers on training and development to accommodate the structural changes. The study suggests for further research that more studies should be carry out on other HRA related sector.

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