



Effect of Corporate Governance on Financial Performance of Deposit Money Banks in Nigeria

Sani, Abdulrahman Bala^{1*}, Aliyu, A. Almustapha¹
and Bakare, Taophic Olarewaju¹

¹Department of Accounting and Finance, Usmanu Dan Fodiyo University, Sokoto, Nigeria.

Authors' contributions

This work was carried out in collaboration among all authors. Author SAB designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Authors AAA and BTO managed the analyses of the study and managed the literature searches. All authors read and approved the final manuscript.

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ABSTRACT

Effective supervision of financial institutions is premised on existence of sound corporate governance. Corporate governance refers to the extent to which companies are run in an open and honest manner. Despite the relative stability experienced by financial institutions post-consolidated era, the health of financial institutions in Nigeria today appears to have worsen due to the weak corporate governance. It is as a result of this, the study examine the effect of corporate governance on financial performance of deposit money banks in Nigeria. This study obtained secondary data from the annual report of deposit money banks quoted on the Nigeria Stock Exchange (NSE) spanning from 2011 to 2018 with the use of purposive sampling technique. Panel regression technique was adopted to analyse data collected. The result showed that corporate governance has significant effects on financial performance of deposit money banks in Nigeria as indicated by the p-value of Wald χ^2 of (0.0000) with coefficient (10.92) at 5% significance level. When individual element of corporate governance is considered, CEO duality has no significance effect on ROA with

*Corresponding author: E-mail: sonyaxle9@gmail.com;

coefficient 2.1903 and p-value 0.943 while management equity holding has significant effect on ROA as indicated by p-value of 0.0000 and coefficient 10.958 at 5% significant level. The study then concluded that corporate governance has significant effect on financial performance of selected banks in Nigeria. Therefore the study recommends that CEO duality should be discourage in the deposit money banks in Nigeria and mandates a three years cooling off period where this is the case. This will assist to minimize potential conflicts of interests.

Keywords: CEO duality; management equity holding; corporate governance; ROA.

1. INTRODUCTION

Corporate governance has attracted a good deal of public interest in recent years because of its apparent importance to the economic health of corporations and the society in general. Good corporate governance ensures accountability, transparency and fairness in reporting and it is not only concerned with corporate efficiency, it relates to a much wider range of company strategies and life cycle development [1].

Sound corporate governance practices lead the economy towards the achievement of higher returns to the owners of the business and provide sources for capital investment by increasing the creditability of shareholders [2]. The way in which corporate governance is organized differs from one country to another depending on the economic, political, technological and social background of the country.

Effective supervision of financial institutions is premised on existence of sound corporate governance, hence the strong premium placed on it by the regulators. Strong corporate governance in the financial institutions subsector will boost public confidence and ensure efficient and effective functioning of the banking systems. Corporate governance refers to the extent to which companies are run in an open and honest manner [3].

Sound corporate governance can have some influence in the management of corporations. As such, good corporate governance has a critical importance in the functioning of the deposit money banks. The assessment of an entity's ability to continue in making returns is the responsibility of the entity's management. Financial reporting framework contain an explicit requirement for management to make a specific assessment of the entity's ability to continue making returns and standards regarding matters to be considered and disclosures to be made in connection with organizational performance [4].

Despite the fact that Board of directors existed in the failed corporate businesses worldwide yet there exist some of corporate governance problems which led to their failure such as the role of corporation's board, corporation's corporate culture, and whistle blowing system and corporation internal and external auditors [5-8].

In recent time, continue decline in the international prices of crude oil (the main revenue base of Nigeria economy), volatile foreign exchange market, spiral Inflation rate as well as implementation of Treasury Single Account have contributed to constant decline in the returns of deposit money banks in Nigeria [9-12]. Despite the relative stability experienced by financial institutions post-consolidated era as well as improved public confidence occasioned by various reforms introduced by the Central Bank of Nigeria (CBN) during the 2010 financial crisis, the health of financial institutions in Nigeria today appears to have worsen due to the weak corporate governance. The current situation has not only created liquidity problems but also eroded greatly balance sheet size of the sector thereby affecting returns of deposit money banks in Nigeria [13].

The problems of corporate governance compliance still remain largely unresolved among Deposit Money Banks in Nigeria despite various measures taken by successive governments through relevant regulatory agencies such as CBN, Security and Exchange Commission (SEC), Nigeria Deposit Insurance Commission (NDIC) among others.

The justification for linking the concepts of corporate governance characteristics with the financial performance of deposit money banks is necessitated by the fact that banks are established to meet the expectations of the stakeholders and maximise profit and this can only be achieved through functional and sound governance to enhance returns of Deposit Money Banks in Nigeria prepared their financial

report based on the assumption that the company will continue to operate in the coming years [14-15].

Different studies including Mohammed [16], Akiyomi and Olutoye [17], Odili, Ikenna and Orikara (2015), Akinguola, Adekunle and Adedipe [18], Okoye, Evbuomwan, Achugamonu and Araghan [19], James and Ibezim [20], Uguru and Obasi [21] to mention a few concentrates on the relationship between corporate governance and financial performance of manufacturing quoted companies. Sunusi and Mudzimir [13] looked at the roles played by the audit committee financial expertise on financial performance and board ownership [22-24]. Although there are few related studies that conducted their research on deposit money banks but since the introduction of newly established code of corporate governance for banks in Nigeria with effective date from October 1st, 2014 only very few studies had take into cognizance the effect of newly code for corporate governance on the financial performance of deposit money banks in Nigeria to the best of researcher's knowledge, its thus an empirical study which is very scarce in Nigerian literature with respect to deposit money banks in Nigeria. The period of the study is eight (8) years spanning between 2011-2018.

It is in the light of this development that this study evaluates the effects of Corporate Governance on Financial Performance of Deposit Money Banks in Nigeria.

1.1 Research Questions

In the course of carrying out this study, the following research questions were answered. These include:

- i. How does CEO Duality affect the going concern of the Deposit Money Banks in Nigeria?
- ii. In what way does Management Equity Holding affect the going concern of Deposit Money Banks in Nigeria?

2. CONCEPTUAL ISSUES OF LITERATURE

The term corporate governance has become a topic that has been researched increasingly in the last decade [25]. It has recently received much attention due to Adelphia, Enron, world.com, some Nigerian banks failure, and other high profit scandals, serving as the drive to

such recent U.S. regulations as the Sarbanes Oxley Act of 2002, considered to be the most sweeping corporate governance regulation in the past years, and enhancing the long standing bandwagon for increasing shareholder power.

Corporate governance is about how an organization is directed and controlled. It is also about the structures and monitoring effective management of an organization, including mechanisms to ensure legal compliance and prevent improper or unlawful behaviour [26]. Corporate governance ensures putting in place the structure, processes and mechanism that a firm is being directed and managed in a way that enhances long term shareholder value through accountability of managers and enhancing organizational performance.

Organization for Economic Cooperation and Development (OECD) takes a broad view of corporate governance and defines it as the full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring the performance [27].

According to Hugghebaert and Hulle [28], corporate governance concerns the development of performance to structures in corporate organization. One of the important dimensions of corporate governance is the creation of effective monitoring of managers, voting by shareholders is a legal exercise for monitoring management. Regularly, many questions have been raised if institutional investors should be assigned to an influential role in corporate governance [29-32]. Corporate governance is an important component for profitability and growth of firms through achieving the allocation efficiency, so that scarce funds were transferred to investment projects with higher returns.

Corporate governance mechanism provides protection to shareholders and other stakeholder particularly investors. Good governance practices help to increase the share prices that could get higher capital. It also facilitates the international investor to lend money and purchase shares in domestic companies [33].

2.1 Corporate Governance in Nigeria

Corporate governance is not an entirely new concept in Nigeria. There are a number of corporate governance provisions in the

Companies and Allied Matters Act 1990, the Bank and other Financial Institutions Act 1991 (as amended), the Investment and Securities Act 1999 (as amended), the Securities and Exchange Commission Act 1988 (as amended). These laws which place the responsibility for regulating corporate governance on the Corporate Affairs Commission (CAC), Security and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) reflect some of the OECD principles of corporate governance following the growing concerns on issues of corporate governance and realizing the need to align with the international best practices.

The Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) inaugurated a seventeen member committee to identify weaknesses in the current corporate governance practice in Nigeria and fashion out necessary changes that will improve our corporate governance practices. The final report of the committee was eventually approved by the Boards of the SEC and CAC and released as the code of best practices on corporate governance in Nigeria for public quoted companies in 2003.

2.2 Principles of Corporate Governance

The revised OECD principles of corporate governance were endorsed in April 2004. The main area covered by the OECD principles includes:

- i. **Rights and Equitable Treatment of Shareholders:** Organization should respect the rights of shareholders and help them to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and encouraging shareholders to participate at general meetings.
- ii. **Interests of other Stakeholders:** Organization should recognize that they have legal and other obligations to all legitimate stakeholders, i.e. employees, customers government etc.
- iii. **Roles and Responsibility of the Board:** The Board members have various ranges of skills and understanding to be able to deal with various business issues and the ability to review and challenge management performance.
- iv. **Integrity and Ethical Behaviours:** Ethical and responsible decision making is not

only important for public relations but it is also a necessary element in risk management and avoidance of lawsuits.

- v. **Code of Conduct:** Organizations should develop a code for their Directors and Executives to promote ethical and responsible decision making.
- vi. **Disclosure and Transparency:** Organizations should clarify and make publicly known the roles and responsibilities of the Board and management, to provide shareholders with a level of accountability. They should also implement procedure to independently verify and safeguard the integrity of the company's financial reporting systems. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear and factual information.

2.3 Performance

It is important to establish performance goals (both financial and operational goals) for an organization and key individuals together with a system to monitor and report on achievement against those goals. Regular monitoring of performance against strategic and business plans, budgets and other performance indicators (including service delivery and quality assurance standards) is essential to enable the board and management of an organization to respond and take appropriate actions in pursuit of organizational objectives and desired outcomes.

Return on Asset (ROA): This is one of the proxies for measuring going concern of a company [13]. It is defined as the profit before interest and tax divided by total assets as at the end of the fiscal year under consideration multiply by hundred percent. This is preferred in this research because the researcher believes it is more comprehensive in Going Concern measurement. (ROA) represents the amount of earnings (before interest and tax) a company can achieve for each naira of assets it controls and is a good indicator of a firm's Going Concern. It determines whether the company is able to generate an adequate return on these assets rather than simply showing robust return on sales. ROA explicitly takes into account the assets used to support business activities. It is given by the formula:

$$\text{ROA} = \frac{\text{Profit before interest and tax}}{\text{Total Assets}} \times 100$$

2.4 Theoretical Review

Corporate governance of an organization has generated a lot of discussion on how to effectively manage and operating the affairs of an organization as well as aligned the interests of the managers and the owners.

2.5 Stakeholder Theory

Stakeholders are defined as any person (it can be individual or company) who is affected by organization's decisions or activities. They are groups or individuals that benefit or harmed, and whose rights are violated or respected by organization operations [34]. Stakeholder theory is concerned with the idea that business organizations should be concerned about the interest of other stakeholders when taking strategic decisions [35]. In contrast to shareholder/Agency theorists that called for shareholder wealth maximization, stakeholder theorists campaigned for satisfying stakeholders interests. From stakeholder perspective, shareholders are one of the important members of stakeholder. Shareholders have stake and are affected by organization's operations and achievement, same with other stakeholders such as employees, customers, suppliers, and environment and so on.

The stakeholder theory therefore appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituents of a firm. Thus, creditors, customers, employees, banks, governments and society are regarded as relevant stakeholders. Therefore, for the sake of this study, stakeholder theory is considered appropriate in linking corporate governance and going concern and therefore adopted for the study.

2.6 Empirical Review

Olayinka [36] investigated the influence of corporate governance on the performance of selected companies in Nigeria. The study analyzed and determined, individually and jointly, the influence of board size, board composition and audit committee size on corporate performance. The study employed exploratory research design. Ten (10) listed firms were chosen through a purposive sampling technique and data extracted from the annual reports of these firms from year 2010 to 2016. A panel data regression was used to analysed the data.

Corporate governance was proxied with board size, board composition and audit committee size while performance was proxied with net profit margin. Findings revealed that board size had a significant negative correlation with NPM, board composition had a significant positive correlation with NPM, audit committee size had an insignificant correlation with NPM. The study concluded that smaller board size will increase performance and the board composition should consist more of the non-executive directors while the audit committee also should be reviewed from time to time.

Olaoye and Adewumi [37] examined the effect of corporate governance on earnings management of listed deposit money banks in Nigeria for five years (2006- 2015). The data for the study were extracted from the annual reports and accounts of the sampled banks for the study period. Descriptive statistics, Pearson correlation and regression technique were used to analyzed the data with the aid of SPSS version 21. A panel data regression technique was employed since the data has both time series and cross sectional attributes. It was found that reputable audit firms has a positive but insignificant effect on the earnings management of the sampled banks while board size has negative but insignificant effect on the earnings management of the sampled firms. However, independent directors on the board and leverage have a negative and significant effect on earnings management of Deposit Money Banks in Nigeria.

Sathyamoorthi, Pritika, Mashoko and Lillian [38] examined the effect of corporate governance of listed companies in the consumer services sector in Botswana for the period 2012-2016. Return on Assets was taken as the dependent variable to measure profitability and Board size, gender diversity, male-female representation in the board, composition of executive and non-executive directorship, number of sub-committees and frequency of board meetings as independent variables. The findings indicated significant positive relationships between board size and the number of male board members and between board size and the number of non-executive directors. Negative significant relationships were identified between male board representation and female board representation and between the number of executives and gender diversity. Return on assets, which measured the performance of the selected companies showed a strong negative relationship with number of sub-committees.

Yunusa, Oyindamola and Obidu [39] investigated determinants of listed Deposit Money Banks' (DMBs) survival in Nigeria. The study used sixteen listed DMBs in Nigeria as at December 2016 and fifteen were sampled by applying a judgemental sampling technique. The study adopted descriptive and ex-post facto research design. The Emerging Market score (EM score) model was applied in the prediction of going concern status of sampled DMBs. The data used were obtained from the annual reports and accounts of the DMBs for 2007 to 2016 accounting periods. The data were analysed using Robust GLS Regression model. The study found that there is a positive and significant impact of liquidity, leverage, profitability, solvency and asset management on DMBs' going concern (GC).

Amina, Allam and Qasim [40] investigated the impact of Corporate Governance on firm performance of listed companies in Saudi stock exchange. The study methodology was a pooled data collected from the Saudi stock exchange (TADAUWL) for the period from 2012 to 2014 while study sampled 171 listed companies. The study independent variable is Corporate Governance principals. The dependent variable was Firm performance which was measured using ROA, ROE and Tobin's Q. The results of the study test indicated that there is no significant impact for corporate governance adoption on firm's operational and financial performance in the listed companies in Saudi stock exchange. By testing the Tobin's Q model the study also concluded that there's no significant impact for ownership of the largest shareholder and independency of Board of Directors on firm's market performance. Significant impact was found for the ownership and the size of the Board of Directors on firm's performance.

3. METHODOLOGY

3.1 Research Design

The study employed *ex-post facto* research design. *Ex-post facto* help to investigate possible cause and effect relationship by first identifying some existing consequence and searching back by analyzing causal factors. This is in view of the fact that the study entailed the use of annual reports and financial statement of some selected deposit money banks quoted on Nigeria Stock Exchange with a view to establish the effect of corporate governance on the

financial performance of deposit money banks in Nigeria.

Corporate governance mechanism are CEO Duality (CEOD) and Management Equity Holding (MEH) and the financial performance of deposit money banks as measured by Returns on Asset [16,40,13] within the period of 2011 to 2018. In their submission, the higher amount the return on assets to the company, the more likely the healthier the firms. The study use E-view 8.0 version in carrying out its analysis.

3.2 Sample size and Sampling Technique

For any company to be included as sample of the study, it must be quoted on the Nigerian Stock Exchange on or 31st December, 2011 and it must be licensed by CBN to operate at international level. Therefore, using convenience sampling techniques method, Access Bank Plc, Fidelity Bank Plc, First City Monument Bank Plc, First Bank Plc, Guaranty Trust Bank Plc, Union Bank of Nigeria Plc, United Bank for Africa Plc and Zenith Bank Plc were selected for the study. This provides the researcher an unrestricted access to all data relevant to the research work. The reason for these periods (2011-2018) is that banking sector has experienced numerous changes in Nigeria, and some of the expected effects are visible identified in the reports.

3.3 Model Specification

This study adopted a similar regression of Emile, Ragab and Kyaw (2014) model to establish the effect of corporate governance mechanism on firm financial performance. Return on asset measurement of financial performance [41].

The model was adopted and re-modified to suit the objectives of this study. The model was specified below:

$$GOC = f(CEOD, MEH)$$

$$ROA_{it} = \alpha + \beta_1 CEOD_{it} + \beta_2 MEH_{it} + \mu_i$$

CG = CEO Duality (CEOD) and Management Equity Holding (MEH)

Where:

ROA = Return on Asset

CEOD = CEO Duality

MEH = Management Equity Holding

α = Intercept

$\beta_1 - \beta_2 =$ Parameters of Estimate,

$$\mu_{it} = \varepsilon_{it} + \lambda_i$$

ε_{it} = stochastic error term

λ_i = cross-sectionals individual difference
(Composite Error)

A priori expectation is that $\beta_1 - \beta_2 > 0$

Decision rule; null hypothesis is rejected if the prob (p-value) is < 5% significance level, otherwise it is accepted.

4. ANALYSIS AND DISCUSSION OF RESULTS

The most fundamental assumption in data analysis is normality, which considers the benchmark for statistical methods. Normality refers to the shape of data distribution for an individual metric variable. The simplest test for normality is a visual check of the histogram that compares the observed data values with distribution approximating the distribution. This method is problematic for small's samples where the construction of the histogram can disfigure the visual portrayal to such an extent that the analysis is useless.

The main statistical tests for normality which are available in most of the statistical programs are skewness, kurtosis and Jarque-bera. A non-significant result (P-value of more than 0.05)

indicates that the distribution is normal. Meanwhile, a significant result (P-value of less than 0.05) indicates that the distribution violates the assumption of normality which is common in large samples (Pallant, 2005). In this study the normality test that were used are skewness, kurtosis and Jarque-bera, and the result shows that the P-value of some of the variables such as discretionary loan loss provision and management equity holding are less than 0.05. Therefore, this model is violates by normal distributions. It means the model does not use large sample size and therefore, there is no serious departure from the assumption of normality of the error terms.

Argued the result of pair-wise correlation with the use of variance inflation factor (VIF) of the independent variables, the result also shows that there is absent of multi-collinearity among the variables as indicated by VIF for each variable less than 10, and the average VIF is also less than 10.

Heteroskedasticity show in a model if the variances of the error- term of the different observation are different. This study analyzed Breusch-pagan test to check if there is problem of heteroskedasticity. The Breusch-pagan tests of the null hypothesis that the error variances are all equal against the alternative that the error variance are a multiplicative function of one or more variables.

Table 1. Normality test

Test	DLLP	ROA	CEOD	MEH	ACE	BS
Skewness	3.7205	-0.4124	-0.4536	0.0417	-0.2853	-0.3104
Kurtosis	18.044	2.6655	3.0589	6.2003	2.4305	2.4864
Jarque-bera	985.89	2.7727	2.8929	35.871	2.2744	2.4110
P-value	0.0000	0.2499	0.2354	0.0000	0.3207	0.2817

Source: Author's Computations, 2019

Table 2. Multi-collinearity test - variance inflation factor

Variables	VIF	1/VIF
CEO Duality (CEOD)	1.24	0.8069
Management Equity Holding (MEH)	1.19	0.8404
Mean VIF	1.d28	

Source: Author's Computations, 2019

Table 3. Breusch-Pagan/ cook-Weisberg test for Heteroskedasticity

Variable	Chi ²	P-value
Model	0.73	0.6181

Source: Author's Computations, 2019

Table 4. Hypothesis testing-corporate governance and going concern

Dependent variable: Return on assets			
Variables	Pool OLS model	Fixed-effects model	Random-effects model
Constant	4.5143 (0.000)	4.5143 (0.168)	-75.7104*** (0.168)
CEO Duality	1.8898* (0.081)	1.7649* (0.088)	2.1903 (0.943)
Management Equity Holding (MEH)	19.7355 (0.000)	11.6244 (0.020)	10.9578*** (0.000)
F-stat	11.58*** (0.000)	7.56*** (0.000)	
Wald X ²			57.91*** (0.000)
Hausman Test		15.37*** (0.0040)	

* , ** , ***: denotes Significant at 10%, 5% and 1% level respectively; () : denotes Prob, while the value denotes Coefficients; Source: Author's Computations 2019

In Table 3, the result of P-value (0.6181) is greater than 5% significance level, the null hypothesis was rejected. Therefore, these models do not face any heteroskedasticity problem. This implies that the correlation coefficients between independent variable are fairly small.

Table 4 shows the linear relationship between Corporate Governance and Going Concern proxied by return on assets (ROA) of selected deposit money banks in Nigeria, with the use of panel regression analysis. Table 4 shows the result of the pool OLS, fixed-effects and random-effects of the model.

Hausman was computed to check which model is appropriate between fixed-effects and random-effects, the result shows that fixed-effects model is appropriate as indicated by the coefficient 15.37 prob. value 0.0040 at 5% level of significance.

In terms of the sign of the coefficient that signify the effect of Corporate Governance on Return on Assets (ROA) of selected deposit money banks in Nigeria, it can be seen that all the variables: CEO duality (CEOD) and management equity holding (MEH) concur with *a priori* expectation with positive sign, this implies that there is direct relationship between CEO Duality (CEOD), management equity holding (MEH) and Return on Assets (ROA).

To achieve the first objective of the study, the magnitude of the coefficient CEO Duality clearly has no significance effect on return on assets (ROA) as indicated by coefficient (2.1903) with prob. value of (0.943) at 5% significance level, the null hypothesis was thereby accepted. This implies that CEO Duality has no significant effect return on assets (ROA) of Deposit Money Banks in Nigeria.

To achieve the second objective of the study, the magnitude of the coefficient management equity holding (MEH) clearly has significant effect on Return on Assets (ROA) as indicated by coefficient (10.9578) with prob (0.000) at 5% significance level, the null hypothesis was rejected. This implies that if there is 1% changes in management equity holding, it will induce 10.96% positive changes in return on assets (ROA) of deposit money banks in Nigeria.

The Ordinary Least Square (OLS) result shows that variables CEO Duality has no significant effect on return on assets (ROA) as indicates by prob. value of 0.081 with coefficient -1.8898 at 5% level of significance. Management equity holding (MEH) has positive and significance relationship on return on assets (ROA) as indicated by the prob. value of 0.000 with coefficient 19.7355 at 5% level of significance.

Overall, the result of the F-stat (7.56) with prob (0.000) at 5% level of significant, this revealed that corporate governance have significant effect on financial performance of deposit money banks in Nigeria as measured by return on assets.

5. CONCLUSION AND RECOMMENDATIONS

The study concluded that corporate governance have significant effect on financial performance of deposit money banks in Nigeria, but when individual corporate governance bank variables are considered CEO duality does not have significant effect on return on assets which means that there should be separation of position for BOD chairman and CEO while management equity holding has positive and significant effect on return on assets of deposit money banks in Nigeria. Therefore, significant effect of management equity holding on return on

assets of the deposit money banks can be linked to good corporate governance.

Based on the findings of this study, the following recommendations were deemed pertinent:

- i. Managers who are at the helm of affairs do control majority of shares allotted in the company, as it gives them too much power and control over other shareholders which may be responsible for the opportunistic behaviours by the managers in a bid to get short term private gains which may jeopardize the financial performance of deposit money banks. As a result of this, fewer amounts of shares should be held by the managers of deposit money banks.
- ii. CEO duality should be discourage in the deposit money banks in Nigeria and mandates a three years cooling off period where this is the case. This will assist to minimize potential conflicts of interests. During the cooling off period, it is advisable that such directors continuously update their skills, knowledge and experience, remain informed on key changes in their industry to ensure that they remain relevant.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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