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EXPLORING THE INTERRELATION BETWEEN CORPORATE GOVERNANCE & FINANCIAL PERFORMANCE: EVIDENCE FROM GREEK SYSTEMIC BANKS

In recent years significant changes have been made in the business context, both at national and international level, in many cases, without the existence of an appropriate regulatory framework. These changes had had a significant impact not only on the business itself, but also on the markets and on various stakeholders, both within and outside the business, and have led to the need to establish or strengthen relevant regulatory frameworks with a view to regulating changes in the business environment. This paper reviews the literature on corporate governance in the banking sector. Our research focuses on the impact of Corporate Governance Regulations on the financial performance of systemic banks of Greece, as measured by ROA and ROE ratios based on accounting data, basic principles of sound corporate governance such as the duality of positions of the Chairman of the Board of Directors and the CEO, the existence of Independent members to the Board of Directors, and the establishment of corporate governance committees, for a period of 10 years. The results of our research showed a positive relationship between the financial performance of banks as measured by the ROA and ROE indices and the existence of independent members on the Board of Directors and the establishment of corporate governance committees, and a negative relationship between the financial performance of banks as measured by the ROA and ROE indices and the duality of positions of the Chairman of the Board of Directors and the CEO.

Keywords: Corporate Governance, Board of Directors, Committees, Financial performance, Accounting data, Independent Board members, Systemic banks.

Tab. 4. Lit. 18.

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Андреас Кутупіс, Панайотіс Кірякогконас, Христос Кампуріс ВИВЧЕННЯ ВЗАЄМОЗВ'ЯЗКУ МІЖ КОРПОРАТИВНИМ УПРАВЛІННЯМ ТА ФІНАНСОВИМИ ПОКАЗНИКАМИ: ДАНІ ГРЕЦЬКИХ СИСТЕМНИХ БАНКІВ

За останні роки в бізнес-контексті були внесені суттєві зміни як на національному, так і на міжнародному рівнях, у багатьох випадках без відсутності відповідної нормативної бази. Ці зміни мали значний вплив не тільки на сам бізнес, але також на ринки та різні зацікавлені сторони, як всередині бізнесу, так і поза ним, і призвели до необхідності встановлення або посилення відповідної нормативної бази з метою регулювання змін в діловому середовищі. У цій статті розглядається література з питань корпоративного управління в банківському секторі. Наше дослідження фокусується на впливі Положення про корпоративне управління на фінансові показники системних банків Греції, що вимірюються коефіцієнтами ROA та ROE на основі даних бухгалтерського обліку, основних принципів належного корпоративного управління, таких як подвійність посад голови правління директорів та генерального директора, існування незалежних членів Ради директорів та створення комітетів з корпоративного управління протягом 10 років. Результати нашого дослідження показали позитивну залежність між фінансовими показниками банків, виміряними за показниками ROA та ROE, та

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існуванням незалежних членів Ради директорів та створенням комітетів корпоративного управління, а також негативним взаємозв'язком між фінансовими показниками банків, що вимірюється за показниками ROA та ROE, а також подвійність посад голови ради директорів та генерального директора.

Ключові слова: корпоративне управління, рада директорів, комітети, фінансові показники, дані бухгалтерського обліку, незалежні члени ради, системні банки.

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**ИЗУЧЕНИЕ ВЗАИМОСВЯЗИ МЕЖДУ КОРПОРАТИВНЫМ
УПРАВЛЕНИЕМ И ФИНАНСОВЫМИ ПОКАЗАТЕЛЯМИ:
ДАННЫЕ СИСТЕМНЫХ БАНКОВ ГРЕЦИИ**

В последние годы в деловой среде произошли значительные изменения, как на национальном, так и на международном уровне, во многих случаях без наличия соответствующей нормативно-правовой базы. Эти изменения оказали существенное влияние не только на сам бизнес, но также на рынки и на различных заинтересованных сторон, как внутри, так и за пределами бизнеса, и привели к необходимости создания или укрепления соответствующей нормативно-правовой базы с целью регулирования изменений в деловой среде. В данной статье представлен обзор литературы по корпоративному управлению в банковском секторе. Наше исследование сосредоточено на влиянии Правил корпоративного управления на финансовые результаты системных банков Греции, измеряемых коэффициентами ROA и ROE на основе данных бухгалтерского учета, основных принципов рационального корпоративного управления, таких как двойственность должностей Председателя Правления, директоров и генерального директора, наличие независимых членов в совете директоров и создание комитетов по корпоративному управлению сроком на 10 лет. Результаты нашего исследования показали положительную взаимосвязь между финансовыми показателями банков, измеряемыми индексами ROA и ROE, и наличием независимых членов в Совете директоров и созданием комитетов по корпоративному управлению, а также отрицательную взаимосвязь между финансовыми показателями банков по показателям ROA и ROE, а также двойственности позиций председателя совета директоров и генерального директора.

Ключевые слова: корпоративное управление, совет директоров, комитеты, финансовые результаты, данные бухгалтерского учета, независимые члены совета директоров, системные банки.

1. Introduction. In recent years significant changes have taken place in the business context, both at national and international level, in many cases, without the existence of an appropriate regulatory framework. These changes had had a significant impact not only on the business itself, but also on the markets and on various stakeholders, both within and outside the business, and have led to the need to establish or strengthen relevant regulatory frameworks with a view to regulating changes in the business environment.

Any company that wishes to succeed, to attract investors and to expand must comply with certain rules, both internal and external. These rules are adopted in order to improve companies' efficiency and compliance and to improve the reputation of the company to potential investors and to relevant stakeholders. All of the above are regulated by corporate governance systems, which, among others, sometimes impose or propose specific internal control mechanisms. In addition, investors decide on their investment taking into account many parameters, among which are

corporate governance systems in place by the country the company under review operates, internal control systems of the company, the credibility, the consistency and the size of the disclosed information by the company and so on. Transparency and credibility as well as the protection of shareholders safeguarded by these countries also play an important role. In view of the above, it is clear that corporate governance emerged as a result of ongoing and significant developments in both businesses and investments in recent years. Its evolution is continuous over the years and, of course, commensurate with global changes taking place in business environment.

In this paper, we review the literature on corporate governance and we focus on researches that analysed the relationship between corporate governance practices and financial performance at the banking sector. Our research focuses on whether corporate governance mechanisms affect financial performance of the 4 systemic banks of Greece, deploying accounting data from their financial statements for a period of 10 years (2006-2016). Corporate governance mechanisms under review are the separation of the positions of Chairman of the Board of Directors and the Chief Executive Officer, the existence of Independent members to the Board of Directors, and the existence of corporate governance committee within the bank. As far as the financial performance of banks is concerned, are research uses as dependent variables ROA and ROE performance ratios. Our results indicate that corporate governance has a positive relationship with financial performance of banks. In particular, in alignment with similar researches, we found a positive relationship between the existence of Independent members to the Board and corporate governance committees and financial performance of banks, and negative relationship between the separation of the position of CEO of banks from that of the Chairman of the Board of Directors and financial performance.

Our sample consisted of data from Greek systemic banks constitutes an interesting case of corporate governance and financial performance research. Given the recovery signs of Greek economy from 2009 crisis, it is interesting to explore the effectiveness of corporate governance structures in this setting. Within this context, our research could be useful to Board members, business executives, consultants, official authorities or any other who express interest for the improvement of corporate governance practices in the banking sector of Greece.

2. Literature review and theoretical framework. There are several corporate governance researches, some of which usually analyze a heterogeneous sample that includes both financial and non-financial companies. In 2003, Gompers et al., introduced a corporate governance index for the analysis of the relationship between corporate governance and business value. In fact, they researched a sample of 1.500 large companies during the 1990s in relation to the level of their shareholders' rights. Their research showed that companies in which shareholders had stronger rights, tended to have higher business value and higher profits, and moreover increased sales, lower capital expenditures, and significantly fewer corporate acquisitions. At the same year (2003), Drobetz et al., influenced by various empirical studies, which showed that companies based in countries with a better legal environment had a higher valuation, they created, based on the previous study, a corporate governance index, to assess whether the quality of corporate governance for listed in German Stock Exchange companies in 2001 contributes to improving business performance. In the first part of

the study, they repeated the methodology of Gompers et al. (2003), with respect to equity returns (adjusted to German data) and came to the same conclusions. In the second part, they focused more on governance and its impact on business value and resulted to a positive and statistically significant relationship between corporate governance and business value. Cheung et al., (2007) researched the relationship between corporate governance and the value of Hong Kong listed companies and came to the same conclusion with Drobetz et al. (2003). In more detail, they created another corporate governance index based on the OECD corporate governance principles and its country code of best practice. The empirical results of their research showed that the market value of a company is positively related with the overall rating of its corporate governance index. Baghat & Bolton (2007) focused on how corporate governance is measured and how it relates to business performance. They found, inter alia, that separating the CEO position from that of the Chairman of the Board of Directors leads to better operating performance of the company and that the characteristic of independence to some Board members, is positively related to disciplined business management. Khosa (2017) found an inverse relationship between board independence and firm value of group-affiliated firms in India. Belkhir (2009) analyzed the relationship between the size of the Board of Directors and the financial performance of 174 banks and financial corporations for the period 1995-2002. Using the panel data technique, concluded that increasing the number of executives in banking does not undermine financial performance of banks, so there is a positive relationship between the financial performance and the size of the Board. In contrast, Mayur & Saravan (2006) and Bino & Tomar (2012) argued that the size of the Board does not affect financial performance of banks. Mayur & Saravan researched a sample of Indian banks and analyzed not only the impact of corporate governance on overall financial performance, but also the relationship between the size of the Board and financial performance. They concluded that there is no relationship Indian banks' financial performance and the size of the Board. In their study (2012), Bino & Tomar researched on a sample of 14 listed Jordanian banks on the Amman Stock Exchange for the period 1997-2006, the relationship between corporate governance and financial performance of institutions using linear regression analysis. They used the following two performance ratios: ROA (Return on Assets) and ROE (Return on Equity). The results of their research clearly showed that the ownership structure and the composition of the Board were positively related with financial performance of banks, while the size of the Board was not related at all with financial performance.

Love & Rachinsky (2015) examined the relationship between corporate governance and financial performance on a sample of 107 Russian and 50 Ukrainian banks for the three-year period 2003-2006. They compiled a corporate governance index based on a questionnaire they created. Their research concluded that there is a positive relationship between corporate governance and operational performance and a weak relationship between corporate governance and business value. Grove et al. (2011), researched on a sample of 236 US commercial banks the relationship between various factors that influence corporate governance and financial performance. The factors that they researched were shareholder ownership, structure of the Board and the leverage of executives' pay. Their results showed that the separation of the CEO's position from that of the Chairman of the Board of Directors is negatively related

with financial performance, and that there is no clear relationship between the size of the Board and financial performance. They emphasized, *inter alia*, that the application of agency theory to the banking industry may lead to a negative relationship between corporate governance and financial performance. This is due to established regulatory and business environment of banks, so they suggested that other theories could be more useful to explain the relationship between corporate governance and financial performance. Peni & Vahamaa (2012), using as a sample large US commercial banks trading in the UK Stock Exchange, focused on whether banks with sound corporate governance mechanisms have higher profitability and better performance in the midst of a crisis. Their results were mixed. While banks with strong corporate governance mechanisms appeared to be more profitable, they found negative relationship between those strong corporate governance mechanisms banks' valuation during the financial crisis. However, they pointed out that banks with strong corporate governance practices had significantly higher returns after the market collapsed, which suggests that a sound corporate governance system can mitigate the negative impact of the crisis on bank credibility.

3. Research approach and sample selection. Our research is based on similar researches by Belkhir (2009), Baghat & Bolton (2007), Grove et al. (2011), Bino & Tomar (2012), Bubbico et al. (2012), but also on a research by Syriopoulos & Tsatsaronis (2011), who used as sample the Greek shipping companies listed on the US stock market and examined the relationship between corporate governance and financial performance. Their study evaluated the presence of executives related to the founding family, the concentration of ownership by Board members, and the existence of Independent Board members. They concluded that shipping companies follow their own corporate governance model that is quite different from conventional management approaches. Our research focuses on the Greek banking sector and examines the relationship between corporate governance and financial performance of financial institutions in Greece, and specifically of the 4 systemic banks of Greece. We chose to examine banks' financial performance by processing relevant accounting data from their financial statements in order to calculate financial ratios, rather than to base our results on stock market data which, because of the financial crisis in Greece existed during the years of our sample, had many fluctuations.

3.1. Sample and Data Collection. Our research uses as a sample the 4 systemic banks of Greece for the period 2006-2016. Accounting data that we retrieved from each bank's published financial statements are: total assets, total liabilities, total equity, earnings before and after taxes, and in some cases previous dividends. Also, we retrieved data like: number of shares, composition of the Board, whether exists or not a corporate governance committee, and the closing prices of stocks for each year under examination, for each institution by accessing the Athens Stock Exchange website (helex.gr). Data like the percentage of shares owned by members of the Board, who is the major shareholder, other than HFSF, or the percentage of shares held, were not publicly available and excluded from our research.

3.2. Econometric methodology. We deployed panel data analysis in order to select the appropriate econometric model for our research. Panel data has also been deployed by similar researches such as that of Belkhir (2009). Panel data has two dimensions, the cross-sectional and the time series. These are data in multidimen-

sional tables, which usually include measurements over time. Such tables includes measurements of many different data, which refer to different time periods for each business. The cross-sectional unit in this research is the 4 systemic banks and the period under review is from 1/1/2006 to 31/12/2016, i.e. annual observations are used. The estimation of linear regression with panel data was done by deploying least squares method (OLS).

The purpose of this empirical research is to examine the relationship between certain key elements of corporate governance and banks' financial performance. Key elements of corporate governance are: the separation of the position of CEO from that of the Chairman of the Board, the number of Independent members of the Board, and the existence of a corporate governance committee.

3.3. Measurement. In order to find the relationship between corporate governance and financial performance, two regression econometric models were deployed, with independent variables and two performance indicators (ROA and ROE) as dependent variables. The models that we will use in our research are:

$$\begin{aligned} ROA &= a + b_1 * DIVID + b_2 * LEVER + b_3 * PER + \\ &+ b_4 * CEODUAL + b_5 * INDM + b_6 * COMM + \varepsilon \\ ROE &= a + b_1 * DIVID + b_2 * LEVER + b_3 * PER + \\ &+ b_4 * CEODUAL + b_5 * INDM + b_6 * COMM + \varepsilon \end{aligned}$$

Where:

- ROA, is a performance indicator, namely the return of assets. It is presented as a percentage and is calculated as follows: ratio of Net Income after Taxes to Total Assets.
- ROE, is a performance indicator, namely the return on equity. It is presented as a percentage and is calculated as follows: ratio of Net Income after Taxes to Equity.
- DIVID, (Dividend) is derived from the ratio of Dividends to the sum of Liabilities and Equity Book Value.
- LEVER, is the leverage ratio, and is derived from the ratio of Liabilities to the sum of Liabilities and Equity Book Value.
- PER, is the ratio earnings and is derived from the ratio of Equity Market Value to Net Profit after Taxes.
- CEODUAL, is about separating the position of Chairman of the Board from the position of CEO. This variable will take the values 0 or 1 for no separation or separation of the position respectively.
- INDM, is the number of Independent Board members. This number will be used as a percentage.
- COMM, is about the existence or not of a corporate governance committee within the bank. This variable will take the values 0 or 1, for no existence or for existence respectively.
- ε , is the error term

Three independent variables related to corporate governance will be used. As shown above, these variables are CEODUAL, which relates to the separation or not of the positions of the Chairman of the Board of Directors and the CEO, INDM which represents the percentage of Board members that are Independent and the COMM which relates to the presence or absence of a corporate governance commit-

tee within the systemic banks. In addition, we will use two dependent variables, ROA and ROE, which show the return on assets and equity respectively. All other three variables of the models will be used as control variables.

3.4. Hypotheses setting

Hypothesis 1. Due to separation of ownership and control, owners of companies cannot manage their investments solely, and control mechanisms must be in place. Shareholders can appoint Independent members at Board of Directors (Huang, 2008). The majority of researches on corporate governance consider very important the separation of the positions of CEO and Chairman of the Board of Directors (e.g. Bhagat & Bolton, 2007). Separation of these two positions is a component of sound corporate governance practices, according to many regulatory frameworks. It is considered that this separation is necessary for the sharing of responsibilities at decision making process and for no concentration of power at the top levels of hierarchy. Non-separation of these two positions could lead, according to relevant theories on corporate governance, to misuse of power, which in turn could adversely affect companies. Separation of the two positions achieves the avoidance of uncontrolled action, often motivated by self-interest. This ensures that there is a balance between power and authority within the business. All this leads to the formulation of the following hypothesis:

Hypothesis 1: "The separation of the position of CEO from that of the Chairman of the Board of Directors is expected to positively affect the financial performance of banks".

Hypothesis 2. Existence of Independent, non-executive members of the Board of Directors play an important role in applying sound corporate governance practices (Bhagat & Bolton, 2007). The Board of Directors of each company decides and controls the activities of the company and at the same time supervises the executives and oversees the internal control system of the company. It is responsible for the implementation of appropriate policies, for overseeing the effective functioning of internal controls, but also for the proper management of emerging risks. Board of Directors is responsible for adopting those corporate governance rules that are necessary for implementing sound corporate governance within the business. Decisions of the Board of Directors must be transparent and must serve the interests of both shareholders and other stakeholders related to the business. For this reason, the Board of Directors, as defined by many regulatory frameworks, must have Independent non-executive members. An important element of sound corporate governance is the existence of Independent, non-executive directors (Daily et al., 2003, Dalton et al., 1998). In fact, fully independent audit committee members are associated to increased effectiveness and improved governance, which in turn, increases the effectiveness of strategic management decision-making (Defond & Francis, 2006). Following this argument, along with recent regulatory requirements, we observe that an audit committee should comprise with a sufficient number of Independent members. States that the existence of Independent non-executive members in audit committees reduces the likelihood of financial problem (McMullen & Raghunanda, 1996). All this leads to the formulation of the following hypothesis:

Hypothesis 2: "The existence of Independent non-executive members on the Board of Directors, as well as their number relative to the other members of the Board

of Directors, are very important parameters for the existence and maintenance of sound corporate governance practices. Therefore, is expected to positively affect the financial performance of banks".

Hypothesis 3. Existence of corporate governance committees is very recent to our country, as the majority of them exist since the last decade. It should be noted that some banks, even today, do not have a corporate governance committee. This committee, designated by the Board of Directors, shall consist of non-executive members, the majority of whom shall be independent. It plays a key role in the compliance of companies with corporate governance regulatory frameworks, as it is responsible for updating and implementing the Corporate Governance Code. Another important responsibility is to oversight the composition and efficiency of the Board of Directors. It is therefore clear that the existence of such committees favors the interests of the shareholders, as well as of other stakeholders. All this leads to the formulation of the following hypothesis:

Hypothesis 3: "Corporate governance committees need to exist so as to ensure better results both in terms of corporate governance and in the company's financial performance. Therefore, a positive relationship is expected between the existence of corporate governance committees and financial performance of banks".

Following, is a summary table of the expected impact of the independent variables on the models, in accordance with the above assumptions and corresponding researches, which analyzed the relationship between corporate governance and financial performance of banks.

Table 1. Expected relationship between corporate governance variables and banks' financial performance, author's

Corporate Governance Variables	Expected relationship
Separation of CEO position from that of Chairman of the Board of Directors	+
Existence of Independent members in the Board of Directors	+
Corporate Governance Committees	+

Below are the tables with the results from the e-views. These tables summarize the results obtained from the two models created for this task in relation to the financial performance of banks.

Our results show that the variable of the existence of Independent members to the Board has a positive relationship with financial performance both in cases of ROA and ROE. This confirms Hypothesis 2, according to which the existence of Independent non-executive members on the Board of Directors, as well as their number relative to the other members of the Board of Directors, positively affect the financial performance of banks.

Our results also show that the variable of the existence of corporate governance committees has a positive relationship with financial performance both in cases of ROA and ROE. This confirms Hypothesis 3, according to which the existence of corporate governance committees positively affect the financial performance of banks.

As far as the variable of separation of the position of CEO from that of the Chairman of the Board of Directors is concerned, our results show that there is no

clear relationship with financial performance of banks, either measured by ROE or ROA, so, Hypothesis 1, which stated that the separation of the position of CEO from that of the Chairman of the Board of Directors is expected to positively affect the financial performance of banks, cannot be confirmed.

Table 2. Time series analysis results of the dependent variable ROA, author's

Variables	Expected Relationship	Estimation
Corporate Governance Variables		
CEO Duality	+	-0.015310
Independent Members	+	0.000345
Committee of Corporate Governance	+	0.002944
Control Variables		
Dividend		4.374874
Leverage		0.004583
Ratio Earnings		-2.74E-09

Time	2006-2016
No of banks	4
No of observations	44
R-squared	0.126139
S.E. of regression	0.034978
Akaike info criterion	-3.742059
Schwarz info criterion	-3.498761
Hannan-Quinn criterion	-3.651832

Table 3. Time series analysis results of the dependent variable ROE, author's

Variables	Expected Relationship	Estimation
Corporate Governance Variables		
CEO Duality	+	7.091390
Independent Members	+	0.038013
Committee of Corporate Governance	+	17.65957
Control Variables		
Dividend		-2607.208
Leverage		13.33336
Ratio Earnings		3.01E-06

Time	2006-2016
No of banks	4
No of observations	44
R-squared	0.016902
S.E. of regression	84.34993
Akaike info criterion	11.83395
Schwarz info criterion	12.07725
Hannan-Quinn criterion	11.92418

Because of this discrepancy, we found appropriate to conduct a further research. For this reason, we deployed our ROE regression model once again, but this time we used a different ratio between equity and total funds, and in particular we increased

equity so as to reach, for each of the 4 systemic banks, a 40% percentage of the total funds. We justify this decision, due to the fact that banks use extremely low equity relative to the total volume of funds, something that influences ROE. The table below presents the results.

Table 4. Time series analysis results of the modified dependent variable ROE, author's

Variables	Expected Relationship	Estimation
Corporate Governance Variables		
CEO Duality	+	-0.038274
Independent Members	+	0.000862
Committee of Corporate Governance	+	0.007361
Control Variables		
Dividend		10.93718
Leverage		0.011456
Ratio Earnings		-6.85E-09

Time	2006-2016
No of banks	4
No of observations	44
R-squared	0.126139
S.E. of regression	0.087446
Akaike info criterion	-1.909478
Schwarz info criterion	-1.666179
Hannan-Quinn criterion	-1.819251

Our results show that the variable of the separation of the position of CEO from that of the Chairman of the Board of Directors has a negative relationship with financial performance of banks, both in cases of ROA and ROE.

5. Conclusions. The present study examined the relationship between corporate governance and financial performance of the 4 systemic banks of Greece for the period between 2006 and 2016. Overall, the results indicate that corporate governance has a positive relationship with financial performance. In particular, in alignment with similar researches, we found a positive relationship between the existence of Independent members to the Board and corporate governance committees and financial performance of banks, as measures by ROA and ROE ratios. The negative relationship between the separation of the position of CEO of banks from that of the Chairman of the Board of Directors and financial performance of banks, as measures by ROA and ROE ratios, undermined the positive relationship we expected, based on the majority of similar researches, something that might be explained due to differences on sample, location and time periods deployed. In addition, it should be noted that the forthcoming changes in regulatory framework of corporate governance in Greece, enforcing the increase of the minimum number of Independent Board members is in alignment with the results of our research.

It should also be noted that there are few studies that specifically focus on Corporate Governance in the Greek banking sector, despite the important role that financial institutions play in economic developments. It is very important, therefore,

to fill this gap in the literature, because this way we could gain deeper understanding of the operation of banks and to set up sound Corporate Governance practices at Greek financial system. The objective is not to "copy" a regulatory framework for corporate governance from other countries, but to create a new one, tailored to the needs and particularities of Greece.

This study is subject to a limitation related to financial performance ratios selected. Even though our selected financial ratios represent a ratio from each main category of financial ratios, other researches could deploy banks stock market data as indicators of financial performance. Another limitation is the conducting of a country-specific study which probably restricts the possibility of generalizing our findings.

Our research results could be proven useful to Board members, business executives, consultants, official authorities or any other who express interest for the improvement of corporate governance practices in Greece. Future research efforts could be directed to the comparison of our research results with similar researches that used different sample, different time period, and different accounting data for financial performance.

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