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DETERMINANTS OF ISLAMIC SOCIAL REPORTING IN ISLAMIC BANKS ACROSS ASEAN COUNTRIES

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Abstract

This study investigates the influence of profitability, third-party funds, and the Sharia supervisory board on Islamic Social Reporting (ISR) among ASEAN countries over the period 2022–2024. This study employs a quantitative approach using secondary data from Islamic banks in ASEAN countries during the period 2022–2024. The samples were selected using a purposive sampling technique, resulting in 51 observations, and the data were analyzed using panel data analysis with the assistance of E-Views software. This study found that profitability has no significant effect on ISR, third-party funds have a positive effect on ISR, and the Sharia Supervisory Board has no significant effect on ISR. This study has several limitations, including a short observation period (2022–2024) and a limited set of variables focusing only on financial and governance factors. Additionally, the ISR measurement relies on content analysis of annual reports, which may involve subjectivity and overlook the quality of disclosures. Future research is recommended to extend the study period, include additional variables, and broaden the sample scope to obtain more comprehensive and representative insights into ISR practices across ASEAN. Furthermore, a qualitative approach to examining the role of the Sharia Supervisory Board (SSB) is suggested to better understand its influence on the quality and depth of social reporting.

Keyword: *Islamic Social Reporting, Profitability, Sharia Supervisory Board, Third Party Fund*

INTRODUCTION

According to the *State of the Global Islamic Economy Report 2023/2024* published by Salaam Gateway, the Islamic finance sector in Southeast Asia has shown remarkable progress, with several countries emerging as major players in the global Islamic economy. Malaysia has maintained its top position in the *Global Islamic Economy Indicator* for ten consecutive years, with Islamic financial assets reaching USD 650 billion. Indonesia ranks third globally with Islamic financial assets amounting to USD 139 billion (SGIER, 2023).

Salaam Gateway also highlights Brunei Darussalam as the country with the highest per capita income among the members of the Organization of Islamic Cooperation (OIC), demonstrating its commitment to Islamic economic development, albeit on a smaller scale than Malaysia and Indonesia. Globally, Islamic banking assets grew significantly to USD 2.76 trillion in 2021/2022. The number of fully fledged Islamic banks increased by 36% to 336 in 2022, while conventional banks offering Islamic windows or subsidiaries rose by 84% to 274 in the same year.

The operation of Islamic banking must always be grounded in Islamic principles derived from the Qur'an and Hadith. Consequently, there is a need for a social responsibility reporting framework that aligns with Islamic values. *Islamic Social Reporting* (ISR) serves as a corporate

social responsibility (CSR) disclosure framework based on Islamic principles (Riyanti & Barkhawa, 2021). The *Accounting and Auditing Organization for Islamic Financial Institutions* (AAOIFI) has established ISR as a standard for implementing CSR in Islamic financial institutions, encompassing various disclosure items consistent with Sharia requirements (Sulistyawati & Yuliani, 2017).

Islamic Social Reporting (ISR) represents a disclosure framework that emphasizes not only economic aspects but also social responsibility and adherence to Sharia principles. ISR plays a crucial role in reflecting the extent to which Islamic financial institutions uphold transparency, justice, and accountability in accordance with Islamic values.

Nevertheless, the practice of ISR disclosure across ASEAN countries remains diverse and inconsistent. In Indonesia, the development of ISR disclosure has been relatively slow compared to other Islamic economies (Susbiyani et al., 2022). Several studies reveal that despite the strong normative foundation of Islamic banks in social aspects, the level of ISR implementation in annual or sustainability reports remains low and largely voluntary. This is partly due to the absence of a standardized guideline or regulatory framework that can facilitate effective ISR practices.

In Malaysia, the government through *Bank Negara Malaysia* has initiated the *Value-Based Intermediation (VBI)* approach, which encourages Islamic banks to adopt value-driven reporting. Othman et al., (2009) found that the level of ISR disclosure among Malaysian Islamic banks is relatively high and consistent, ranging between 70–75%, particularly among major institutions such as Maybank Islamic and Bank Islam Malaysia. Conversely, in Brunei Darussalam, although the banking system operates entirely on Islamic principles, ISR-related disclosures remain limited. The annual reports of *Bank Islam Brunei Darussalam (BIBD)* and *Perbadanan TAIB* indicate that social responsibility reporting has yet to adopt a structured ISR framework.

Wijayanti et al., (2023) categorize the determinants of ISR into financial and non-financial factors. Financial factors include profitability, liquidity, leverage, risk, firm size, and zakat funds collected, while non-financial factors include the Sharia Supervisory Board (SSB), board of commissioners, board of directors, audit committee, ownership structure, and firm characteristics, among others.

Several previous studies have investigated the determinants of ISR. Hussain et al., (2021) found that firm size, profitability, firm age, and the number of board members significantly affect the level of ISR disclosure among Islamic banks in Pakistan, whereas board independence has no effect. In Indonesia, Fachrurrozie et al., (2021) revealed that profitability (ROA) and bank size (total assets) significantly influence ISR disclosure levels among Islamic banks. Similarly, Jati et al., (2020) examined the relationship between profitability, liquidity, leverage, and Islamic Governance Score, finding that profitability and leverage have no effect, while liquidity and governance score significantly influence ISR.

The findings of previous research on the determinants of Islamic Social Reporting (ISR) remain limited and inconclusive. Therefore, this study seeks to provide empirical evidence by examining ISR determinants and contributing to the body of knowledge through an expanded research scope. While most ISR studies have focused on a national context, this research extends the analysis to Islamic banks across ASEAN countries. Additionally, this study introduces *Third Party Funds (TPF)* as a novel independent variable. Hence, the objective of

this study is to identify the determinants of Islamic Social Reporting among Islamic banks in ASEAN countries.

Legitimacy serves as an indicator of a company's acceptance by society. As stated by Luo (2017), legitimacy implies that a company conducts its activities in accordance with the norms and values deemed appropriate by society, thereby ensuring the continuity of its operations. The legitimacy theory posits that companies may use their annual reports as a medium to demonstrate concern for environmental and social issues through their activities and performance, in order to gain public acceptance (Siregar et al., 2013).

Islamic teachings provide a comprehensive framework for business entities in managing their relationships with various stakeholders, including the environment, customers, society, and employees. These principles are grounded in ethical and rational perspectives that aim to fulfill stakeholder expectations. Consequently, companies operating under Sharia principles are expected to demonstrate strong social responsibility (Hussain et al., 2021).

Islamic Social Reporting (ISR) refers to a social reporting framework grounded in Islamic values (Azizah et al., 2022). The nature of information disclosure under the ISR framework differs from that of conventional social reporting, as its underlying principles and objectives are derived from Islamic teachings and Sharia values (Hussain et al., 2021). Businesses that claim to adhere to Sharia principles are expected to be more transparent regarding their social role and responsibilities (Jihadi et al., 2021). Haniffa (2002) introduced the *Islamic Social Reporting Index (ISRI)*, which encompasses six dimensions: investment and finance, products and services, employees, community, environment, and corporate governance.

Profitability reflects a company's ability to generate profit through the optimal use of its resources. Fundamentally, the primary objective of any business is to maximize profit (Nirawati et al., 2022). Profitability ratios are used to assess the company's capacity to generate earnings by efficiently utilizing all available resources and elements to achieve optimal performance.

In Islamic banking practice, the relationship between banks and customers is established through contractual agreements (*akad*). Within this mechanism, the fund owner (*sahibul maal* or principal) collaborates with the fund manager (*mudharib* or agent) to conduct productive business activities, with profit-sharing arrangements that are proportional and just (Lewaru, 2015). Accordingly, *Third Party Funds (TPF)* in Islamic banks represent investments provided by *sahibul maal* and managed by Islamic banks under profit-sharing schemes (Hananto et al., 2016).

The core governance structure of Islamic banks consists of the Board of Directors (BOD), the Board of Commissioners, and the *Sharia Supervisory Board (SSB)* (Hudayati et al., 2023). The presence of an SSB is the primary distinguishing feature between Islamic and conventional banks. The SSB plays a strategic role in ensuring that all operational activities comply with Sharia principles through its functions of direction, supervision, and evaluation of policies and practices implemented by management (Arifin et al., 2021). The SSB is an independent body tasked with ensuring that all banking operations align with Islamic principles and regulations (Baklouti, 2022). Its presence serves as tangible evidence that all transactions and products offered by the institution are developed in accordance with Sharia requirements (Prihatiningsih & Hayati, 2021).

Hypothesis Development

The Effect of Profitability on Islamic Social Reporting (ISR)

Profitability indicates a company's ability to generate profit from its operational activities (Jati et al., 2020). Firms with higher profitability generally possess greater resources to engage in social, environmental, and Sharia-compliance activities, as well as to provide more extensive disclosures. From the perspective of legitimacy theory, financially strong companies tend to enhance transparency through social responsibility reporting, including ISR, to maintain a positive image and societal legitimacy. Prior studies by Hussain et al. (2021), Fachrurrozie et al. (2021), Noista et al. (2022), Sahara & Dalimunthe (2023), and Amri & Sovita (2024) have demonstrated that profitability positively influences Islamic Social Reporting.

H₁: Profitability has a positive effect on Islamic Social Reporting (ISR).

The Effect of Third Party Funds (TPF) on Islamic Social Reporting (ISR)

In Islamic banking, *Third Party Funds (TPF)* obtained from the public through savings, demand deposits, and time deposits constitute the primary funding source. The volume of TPF collected reflects the level of public trust in Islamic banks (Jati et al., 2020). To maintain and strengthen this trust, banks must uphold principles of transparency and accountability by broadening information disclosure, including through ISR.

Furthermore, a higher level of TPF requires banks to ensure that public funds are managed in accordance with Sharia principles and contribute to social welfare. This compels Islamic banks to enhance both the quality and quantity of ISR disclosures. Therefore, the greater the amount of TPF collected, the stronger the tendency for Islamic banks to disclose ISR. Prior research by Adawiyah & Suprayogi (2020), Puspitasari et al. (2020), and Maulana et al. (2023) confirmed that TPF positively influences governance and social responsibility disclosures. These findings suggest that higher TPF motivates Islamic banks to provide more comprehensive disclosures, including ISR.

H₂: Third Party Funds (TPF) have a positive effect on Islamic Social Reporting (ISR).

The Effect of the Sharia Supervisory Board (SSB) on Islamic Social Reporting (ISR)

The *Sharia Supervisory Board (SSB)* plays a strategic role in ensuring that all banking operations comply with Sharia principles through guidance, supervision, and evaluation of policies and practices implemented by management (Arifin et al., 2021). Reports prepared by the SSB serve as a form of accountability and transparency to assure stakeholders that all activities are carried out in accordance with Sharia principles (Prihatiningsih & Hayati, 2021). The SSB is also responsible for overseeing disclosure processes to protect the interests of diverse stakeholders (Wijayanti & Setiawan, 2022). A larger SSB is expected to enhance the effectiveness of Sharia compliance monitoring and social responsibility, thereby promoting greater transparency and broader disclosure of social information, including ISR. Prior studies by Prihatiningsih & Hayati (2021), Arifin et al. (2021), and Wijayanti & Setiawan (2022) have empirically shown that the SSB positively influences ISR.

H₃: The Sharia Supervisory Board (SSB) has a positive effect on Islamic Social Reporting (ISR).

RESEARCH METHOD

This study employs a quantitative research design using the documentation method with secondary data sources. The analytical techniques applied include descriptive statistics, model estimation selection, panel data regression analysis, coefficient of determination (R^2) testing, the F-test for simultaneous significance, and the t-test for partial significance. All data were processed using E-Views software. The research model can be mathematically expressed as follows:

$$ISR = \alpha + \beta_1 ROA + \beta_2 TPF + \beta_3 DPS + \varepsilon$$

α = Constant

β = Regression coefficient of the independent variables

ISR = Islamic Social Reporting

ROA = Profitability/Return on Asset

TPF = Third Party Funds

SSB = Sharia Supervisory Board

ε = Error term

The operationalization of variables in this study is presented as follows:

Table 1. Operationalization of Variables

Variable	Measurement	Reference
<i>Islamic Social Reporting</i>	ISR = Total Disclosure	Hussain et al., (2021)
Profitability	ROA = Net Income / Total Assets	Hussain et al., (2021)
Third Party Funds	TPF = ln(TPF)	Maulana et al. (2023)
Sharia Supervisory Board (SSB)	Number of Sharia Supervisory Board Members	Wijayanti & Setiawan (2022)

Table 2. Criteria for Islamic Social Reporting Disclosure

No	Description
Sharia Supervisory Board (SSB)	
1	Disclosure of members' qualifications and experience
2	The board consists of at least three members
3	Existence of a working team assisting the SSB
4	SSB members do not serve as directors and do not hold any shares
5	Disclosure of members' remuneration information
6	The bank has a formal policy on the duties and responsibilities of the SSB
7	Disclosure of each member's attendance at board meetings
8	SSB members are appointed and dismissed in accordance with the bank's established policies and procedures
9	The bank discloses the SSB report regarding the compliance of Islamic banking operations with Sharia principles
Investment Account Holders (IAH)	
1	Disclosure of contractual risks and rights of IAH
2	Strategies related to investment and asset allocation
3	Disclosure of returns for each type of investment account
4	Disclosure of methods used in allocating and distributing profits between shareholders and IAH
Transparency	
1	Disclosure of methods used to determine the zakat base
2	Disclosure of zakat distribution and beneficiaries
3	Disclosure of the report on sources and uses of zakat funds
Disclosure of Clients in Default or Bankrupt	
1	Policy for handling bankrupt clients

2	Amount charged as late payment penalties, if any
3	SSB opinion on the permissibility of imposing additional charges (such as penalties)
Qard Hassan	
1	Sources of funds allocated for Qard Hassan
2	Amount disbursed to beneficiaries
3	Social objectives underlying the provision of the funds
4	Bank policy in granting Qard Hassan
5	Policy for handling defaulting beneficiaries
Charitable and Social Activities	
1	Nature of charitable and social activities financed
2	Amount spent on these activities
3	Sources of funds used to finance such activities
Employees	
1	Wage and remuneration policy
2	Employee education and training policy
3	Equal opportunity policy
4	Work environment policy

Source: (Hussain et al., 2021)

RESULT AND DISCUSSION

The population in this study consists of Islamic banks in ASEAN countries. The sample was selected using a purposive sampling technique based on specific criteria described in the research methodology section. Based on the observations conducted, the research samples are presented as follows:

Table 3. Research Samples

ASEAN Countries with a Muslim-Majority Population	Indonesia	Malaysia	Brunei Darussalam
Number of Islamic Banks as of 2024	14	16	1
Islamic Banks that Published Annual Reports for 2022–2024 on Their Official Websites	13	3	1
Research Samples over a 3-Year Period (2022–2024)	39	9	3
Total Research Samples		51	

Source: Processed Data (2025)

Table 3 presents the number of research samples consisting of Islamic banks from three ASEAN countries with a Muslim-majority population, namely Indonesia, Malaysia, and Brunei Darussalam. Of the total Islamic banks operating up to 2024, only a portion consistently published their annual reports during the 2022–2024 period on their official websites. Based on these criteria, the study identified 13 Islamic banks in Indonesia, 3 in Malaysia, and 1 in Brunei Darussalam as research samples. With an observation period spanning three years, the total number of research observations amounted to 51.

Descriptive Statistical Analysis

Table 4. Descriptive Statistics of the Sample

	ISR	ROA	TPF	SSB
Mean	21.68627	0.00592	26.69681	2.941176
Median	23	0.00967	29.74076	2
Maximum	28	0.084093	33.42237	6
Minimum	11	-0.07618	9.002246	2
Std. Dev.	4.892812	0.026081	6.484577	1.347765
Skewness	-0.69907	-1.01428	-1.47909	0.998641
Kurtosis	2.26571	6.976171	4.048193	2.359251
Jarque-Bera	5.299741	42.34067	20.93029	9.349354
Probability	0.07066	0	0.000029	0.009329
Sum	1106	0.301939	1361.538	150
Sum Sq. Dev.	1196.98	0.034011	2102.487	90.82353
Observations	51	51	51	51

Source: Processed Data (2025)

Based on the results of the descriptive analysis presented in the table above, the Islamic Social Reporting (ISR) variable has an average value of 21.69, with a maximum of 28 and a minimum of 11, indicating variations in the level of ISR disclosure among Islamic banks in the three ASEAN countries. The standard deviation of 4.89 suggests a moderate degree of data dispersion.

The profitability variable, measured by Return on Assets (ROA), has an average value of 0.0059 (approximately 0.59%), with a maximum of 0.084 and a minimum of -0.076, showing a considerable difference in financial performance among the Islamic banks. Meanwhile, the Third Party Fund (TPF) variable has an average value of 26.70, reflecting a relatively large scale of fund mobilization, with high variability (Std. Dev. = 6.48).

For the Sharia Supervisory Board (SSB) variable, the average number of members is 2.94, ranging from 2 to 6. This indicates that most Islamic banks have 2–3 SSB members, in accordance with general regulatory provisions. The normality test results show a probability value of 0.237, which is greater than 0.05, indicating that the data in this study are normally distributed.

Estimation Model Selection

This study employs panel data analysis. According to Gujarati & Porter (2009), panel regression analysis can be conducted using three estimation models: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the most appropriate estimation model, several tests can be used, including the Chow Test, Hausman Test, and Lagrange Multiplier Test. Based on the Hausman Test results using EViews 10, the most suitable model for this study is the Random Effect Model (REM).

Coefficient of Determination (R²)

The results of the coefficient of determination test indicate that the adjusted R² value is 0.06 (6%), meaning that the variation in the dependent variable (Islamic Social Reporting) can be

explained by the independent variables (profitability, third party funds, and sharia supervisory board) by 6%, while the remaining 94% is explained by other factors not included in the model.

F-Test

The results of the F-test show an F-value of 2.12 with a significance level of 0.10. Although the significance level exceeds 0.05, it falls within the 10% significance threshold, indicating that the panel regression model is still statistically acceptable and can proceed to the next stage of analysis.

t-Test

The panel data regression results are as follows:

$$ISR = 10,02 - 11,28 ROA + 0,42 TPF + 0,22 SSB$$

The mathematical model indicates that the constant value (10.02) represents the expected ISR level when all independent variables are held constant (*ceteris paribus*). This implies that, in the absence of changes in profitability, third-party funds, or sharia supervisory board size, the baseline level of Islamic Social Reporting would be approximately 10.

Hypothesis Testing

Table 5. Hypothesis Testing

ISR = 10,02 - 11,28 ROA + 0,42 TPF + 0,22 SSB				
Independent Variabel	Expected Sign	Coefficient	Significance	Decision
ROA	+	-11,28	0,70	H ₁ not supported
TPF	+	0,42	0,04	H ₂ supported
SSB	+	0,22	0,77	H ₃ not supported
R ²			0,12	
Adjusted R ²			0,06	
Prob (F test)			0,10	
N			51	

*Significance at 5%

Source: Processed Data (2025)

DISCUSSION

Effect of Profitability on Islamic Social Reporting (ISR)

The results of the study indicate that profitability (ROA) has a negative coefficient of -11.27 with a significance level of 0.70, suggesting that profitability does not have a significant effect on Islamic Social Reporting (ISR). This negative relationship contradicts the initial hypothesis, which predicted a positive association. These findings are consistent with previous studies by Jati et al., (2020), Nusron & Diansari (2021), Adema et al. (2023), and Susbiyani et al. (2022). This result implies that the magnitude of profits earned by Islamic commercial banks in Indonesia, Malaysia, and Brunei Darussalam does not automatically drive an increase in transparency or social reporting. Companies with higher profits tend to prioritize maximizing earnings, often at the expense of social reporting initiatives. Conversely, firms with lower profits may face resource constraints that limit their capacity to engage in social reporting; however, some of these firms may proactively strengthen ISR disclosure as a strategic effort to build a positive image and demonstrate social responsibility amid financial limitations (Jati et al., 2020).

From the legitimacy theory perspective, these findings suggest that high profitability does not necessarily compel Islamic banks to enhance social disclosures. Highly profitable Islamic banks may feel they have already secured economic legitimacy from shareholders and the market, thus lacking strong incentives to seek social legitimacy through ISR. In contrast, less profitable banks may be more motivated to expand ISR disclosures as a strategy to cultivate a positive reputation and gain public trust. This aligns with Haniffa & Hudaib (2007) view that social disclosure in Islamic financial institutions is not always driven by financial performance but rather by the need to maintain reputation and legitimacy before society.

Effect of Third Party Fund (TPF) on Islamic Social Reporting (ISR)

The Third Party Fund (TPF) variable shows a positive coefficient of 0.42 with a significance level of 0.04, indicating a positive and significant influence on ISR. This means that the greater the third-party funds mobilized by Islamic banks, the higher the level of Islamic Social Reporting disclosure. These results corroborate the findings of Adawiyah & Suprayogi (2020), Puspitasari et al. (2020), and Maulana et al. (2023).

This outcome supports legitimacy theory, as the volume of third-party funds reflects the public's trust in Islamic banks (Jati et al., 2020). Such trust necessitates greater transparency and accountability, one manifestation of which is enhanced disclosure (Puspitasari et al., 2020). Through comprehensive social reporting, Islamic banks can project a positive image. A strong reputation enhances public confidence and concern for the institution.

This positive image fosters a sense of security among depositors, encouraging them to entrust and invest their funds, thereby providing added value and competitive advantage for the bank (Maulana et al., 2023). Additionally, it is an ethical responsibility for every company to disclose all relevant information to employees, shareholders, customers, and regulators so they can make informed decisions and maintain good relationships with the company (Hussain et al., 2021).

These findings align with Farook et al., (2011), who state that Islamic financial institutions with strong community support tend to be more transparent in their Islamic social reporting. ISR disclosure represents a moral and spiritual accountability of the institution to public trust. Therefore, the positive relationship between TPF and ISR reinforces the notion that public legitimacy is a primary driver of increased transparency in Islamic financial institutions.

Effect of Sharia Supervisory Board (SSB) on Islamic Social Reporting (ISR)

The Sharia Supervisory Board (SSB) variable has a positive coefficient of 0.22 with a significance value of 0.77, indicating that its influence on ISR is statistically insignificant. Although the positive direction aligns with the hypothesis, the results suggest that the size of the SSB does not significantly affect the level of ISR disclosure among Islamic banks in ASEAN. This finding is consistent with the studies by Fachrurrozie et al. (2021), Devi et al. (2022), Akbar Nugroho et al. (2022), and Sahara & Dalimunthe (2023).

From the legitimacy theory perspective, the SSB ideally functions as a governance mechanism that assists banks in gaining religious and social legitimacy through oversight of compliance with Sharia principles. However, in practice, the effectiveness of the SSB in influencing the extent of Islamic Social Reporting (ISR) remains limited.

Two possible explanations exist for this. First, the SSB is still perceived as a supplementary organ primarily focused on supervising the compliance of bank activities with Sharia

regulations. Consequently, the role of the SSB has yet to exert a direct impact on the breadth of ISR disclosures (Fachrurrozie et al., 2021). Second, the effectiveness of the SSB may depend more on the quality, independence, and engagement of its members rather than the mere number of members (Nugroho et al.(2022); Sahara & Dalimunthe (2023)

CONCLUSION

This study specifically aims to analyze the influence of profitability, third-party funds, and the Sharia Supervisory Board (SSB) on the level of Islamic Social Reporting (ISR) disclosure in Islamic banks across ASEAN countries. Overall, the findings support legitimacy theory, wherein Islamic banks undertake ISR disclosure as a form of social responsibility towards the community. External factors such as Third Party Funds (TPF), which represent a direct relationship with the public, are shown to have a greater impact in driving ISR disclosure compared to internal factors like profitability (ROA) and the size of the Sharia Supervisory Board (SSB). This indicates that the effort to obtain and maintain social legitimacy from the public serves as the primary motivation for Islamic financial institutions in implementing and reporting their social responsibility.

This research has several limitations, including a relatively short observation period (2022–2024), variables limited to financial and governance aspects, and an ISR measurement method reliant on content analysis of annual reports. These limitations may affect the study’s ability to capture long-term dynamics and the depth of Islamic social reporting practices within ASEAN Islamic banks.

Therefore, future research is recommended to extend the observation period and expand the sample coverage, incorporate non-financial variables such as bank size, foreign ownership, and the degree of Sharia compliance, as well as develop more sophisticated methods to assess disclosure quality. Additionally, a qualitative approach examining the role of the Sharia Supervisory Board should be further explored to better understand its influence on transparency and social legitimacy of Islamic financial institutions.

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