



CASE 3: MAGNET HUNGARIAN COMMUNITY BANK

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My money builds

Case study on MagNet Hungarian Community Bank⁴

*„We believe that money is not the aim but a tool.”
(MagNet Hungarian Community Bank)*

⁴Az esettanulmány az ISSUE (Innovative Solutions for Sustainability in Education) Erasmus+ projekt keretében jött létre a MagNet Magyar Közösségi Bank engedélyével. Az esettanulmány a MagNet Bank honlapja, dokumentumai, a bankról megjelent cikkek, videók, valamint a bank vezetőivel és munkatársaival készült interjúk alapján készült. (The case study was drawn up within the framework of the ISSUE (Innovative Solutions for Sustainability in Education) Erasmus + project with the permission of the MagNet Hungarian Community Bank. The case study was based on the website and documents of MagNet Bank, articles and videos about the bank, and interviews with the bank's executives and employees.)

⁵BRIDGE FUND - My decisions as an entrepreneur 2. – Gábor Pozsonyi, MagNet Community Bank)
<https://vimeo.com/270332393>

Friday morning

Gábor Pozsonyi was on his way to work. He loved July and loved getting up early. In the morning, he replied to a few urgent e-mails from home office before leaving for work. According to corporate culture, they dressed casually at the office, but since it was a Friday and the weather was nice, he dressed even more casually than usual. Accepting a job at Magnet Bank was the best decision of his life. He used to work in the banking sector before too, spending about 10 years at “traditional” banks.

“It took about two weeks for me to decide to leave my previous job. I took a leap of faith into the void by accepting this weird “freelance” consulting life and if it hadn’t been for that, I wouldn’t be sitting in MagNet Bank now. Sometimes I also think I might not even be alive. There’s an infamous saying in my generation about this world: he who didn’t have at least one bypass surgery by the age of 35 had not worked hard enough. And this saying pretty much describes the world from which I escaped.”⁵

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His previous workplaces all wanted him back, but it was he who approached MagNet Bank in 2012 with an offering to be a consultant in a cold application. Back then, even he didn't know what MagNet Bank was, but he fell in love with it during the first interview. *"It's great to come to work knowing that we not only make money, but we also make a difference through the things we support with banking tools... Understanding that happiness is a matter of decision was an important milestone in my life. And that can actually be extended to what we do here in MagNet. We are trying to manage this bank in a way that we consider our colleagues our partners, and we have actually established a partnership with them,"* he said in an interview⁶. On the way to the bank, he recapped the achievements of the past 7 years.

He found a space for his bike in the storage area and was glad that MagNet is different from traditional banks in this as well: it doesn't have a car fleet, but makes company bikes available to workers. Entering one of the new branch offices no one would tell that you're in a bank and not a coffee shop. It's no wonder that customers love it.

In the mean time, he reached the inner courtyard of MagNet Bank Community Centre. The plants and the current painting exhibition transformed the courtyard into a fairytale world. He checked his e-mails on arriving in his office. Immediately, he was pulled back from the fairytale world into reality. There was a news item about MagNet Bank: The Hungarian National Bank found irregularities at MagNet Bank⁷.

⁶BRIDGE FUND - My decisions as an entrepreneur 4. – Gábor Pozsonyi, MagNet Community Bank) <https://vimeo.com/270332369>

⁷MNB (2019): MagNet Bank: a fine for violating the rules of project loans. 28. July 2019. <https://www.mnb.hu/sajtoszoba/sajtokozlomenyek/2019-evi-sajtokozlomenyek/magnet-bank-birsag-a-projekthitelezes-szabalyainak-megsertese-miatt>



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The history of MagNet Bank⁸

1995 – The legal predecessor of MagNet Bank, HBW Express Savings Cooperative, was founded by private individuals.

2000 – Introducing Internet-bank (NetBank) services among the first banks in Hungary.

2008 – HBW Express Savings Cooperative was transformed into a commercial bank in October 2008.

Through a significant capital increase, Banca Cívica, a European pioneer in community banking, acquired a 30% minority stake in March 2008. HBW Express was transformed from a savings cooperative to a bank through the capital increase of the new minority owner. The financial and economic crisis of 2008 showed how vulnerable the business solutions and operating methods used until then were. The bank's shareholders and executives contemplated whether the bank's operations could be changed to incorporate social responsibility in a pronounced way, whether the bank's customers could be involved in important decision making, and whether the communities' inherent forces could be brought to surface.

2009 – Establishing the first Hungarian Community Bank.

The management decided to further develop the traditional banking model and create the first Hungarian community bank. The most important principles and values have been developed, and finally the products, too.

⁸Hungarian Banking Association, 2020

<http://www.bankszovetseg.hu/tagreszlet.cshtml?tagId=29&lang=hun> and MagNet Bank, 2020)

<https://www.magnetbank.hu/a-kozossegi-bankrol/kik-vagyunk>

2010 – HBW Express Bank has been operating in the domestic market under the name MagNet Hungarian Community Bank, with unchanged owners, but along new values since 30. April 2010.

The bank's owners, managers and employees worked together to create the new strategy - while maintaining traditional banking values and goals – in early 2010. MagNet Hungarian Community Bank, as the first new-bank in Hungary, has turned over a new leaf in the Hungarian banking sector. The first community deposit and loan products and the Community Donation Program have been established to begin with. As a pioneer in the domestic market, the bank's customers were given the right to decide about the donation of a portion of the profits made with their money.

2013 – MagNet Bank has once again become a 100% Hungarian-owned bank.

The successes of the years following the strategic change in 2010 proved that there is a need for community banking alternatives in Hungary, and MagNet Bank was able to maintain its profitability even in the midst of the economic crisis. The nearly 30% annual increase in the number of customers enabled the domestic owners to buy out the Spanish community bank's share (30%) and thus have the first Hungarian community bank in full Hungarian ownership once again. The bank completed a successful acquisition in 2013, during which it acquired the Hungarian subsidiary of the Italian Banco Popolare Banking Group.

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2014 – MagNet acquires CE Faktor Zrt. in order to expand financing solutions for small and medium-sized enterprises.

2016 – MagNet Bank acquires Korona Kredit Mortgage Credit Zrt

2016 – MagNet Bank has been admitted to the Global Alliance for Banking on Values, GABV (www.gabv.org).

2018 – MagNet Bank acquires 54 percent of the outstanding mortgage credit stock of UCB Property Loan Zrt.

With the acquisitions, the bank doubled its mortgage portfolio and further strengthened its capital-intensive, unbroken profitability in the past 20 years. The success of its value-oriented operation is shown by the fact that MagNet Bank is a proud member of the Global Alliance for Banking on Values.

MagNet Community Bank is Hungary's first new-bank

„MagNet is not selling bank cards, deposits, or credits, but changes people's relation to money.”

(Zsolt Fáy, Chairman of the Board)

MagNet Bank has summarized on its website the facts that best characterize its operation. Core programs of the bank are “Pay as you like” account management, Community Donation Program, Supportive Bank Card and Mentor, Sector program.

Become a part of the MagNet community!

10 facts
you should know about MagNet Bank:

- 1 We have been operating profitably for over 23 years as the largest financial institution in 100% Hungarian private ownership.
- 2 In 2018 we won the Socially Responsible Bank of the Year Award for the seventh time in the MasterCard Bank of the Year competition.
- 3 We calculate our clients' contribution to the bank's annual profit and, uniquely in Hungary, we share this information with them on an annual basis.
- 4 Our clients choose which civil society organizations to support with 10% of the bank's profit. **Community Donation Program**
- 5 Our retail clients decide themselves how much fee they would like to pay for their account management. **"Pay as you like" account management**
- 6 Our clients may support useful social initiatives using the money of the bank by way of their bank card purchases. **Supportive Bank Card**
- 7 Our clients may specify those loan purposes for which their financial deposits can be used by the bank. **Mentor, Sector page**
- 8 By our MENTOR and SECTOR community products and with the participation of our depositors, we reduce the loan burden borne by socially beneficial projects.
- 9 In the course of credit scoring, we apply positive screening measures to those projects which have a beneficial impact on our society and environment.
- 10 Our goals are societal engagement based on transparency and education in order to raise financial awareness.

Source: <https://www.magnetbank.hu/en>

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Pay as you like” account management - „We do believe that each and every service based on human work or technological developments has its own value. However, we also know that the financial circumstances of every individual differ. We offer to our retail clients the possibility to determine the fee they feel appropriate to pay in consideration for their account management between 0 and 1000 HUF. To be transparent, we share the information with our clients that the estimated cost price of their retail account management is 383 HUF per month. We encourage you to take this opportunity to decide, and if possible, consider to set the account management fee at 383 HUF as recommended.”⁹

The Community Donation Program – „CDP is a social educational initiative which mobilizes our entire clientele. The program’s objective is to strengthen the group of employees and clients who commit themselves to civil initiatives actively. Furthermore, it is also our declared goal to make our clients understand and feel that the support amounting tens of millions Hungarian Forints is the result of tens of thousands of votes. Within the framework of the CDP program, the owners of the bank forgo 10% of their after-tax profit each year and subsequently authorize the clients to help with this amount the nonprofit organizations participating in the program. Thus, due to this unique solution in Hungary, the clients of MagNet Bank are given an opportunity to donate money to the objectives that are important to them from the profit of their own bank.”¹⁰

Supportive Bank Card – „Our CDP Card program gives you the opportunity to support important social issues with the help of your MasterCard bank card. In order to support an issue, all you need to do is use your MagNet bank card to make purchases. After your purchase, we automatically support the nonprofit organization of your choice. The usual routine tasks – such as weekend shopping – gain new meaning, since by every bank card purchase you donate money as well.”¹¹

⁹<https://www.magnetbank.hu/en#!en/about-the-community-bank/honor-system-in-our-account-management>

¹⁰<https://www.magnetbank.hu/en/about-the-community-bank/donate-from-the-banks-profit>

¹¹<https://www.magnetbank.hu/en/about-the-community-bank/the-supportive-bank-card>

Mentor and Sector programs – „The world which develops around us is built on loans mostly. With the participation of our clients, we provide resources for initiatives which have a beneficial impact on our society and environment. The depositors of the community bank are entitled to determine and monitor what happens to their money, and whose loan they make more favorable. At the time of placing the deposit, the owners of a MENTOR deposit may select the conditions of which loan, pertaining to one of our loan recipient clients, they wish to make more favorable with their deposit. At the time of placing the deposit, the owner of a SECTOR deposit may choose from the loan purposes which we support (e.g. Bio-agriculture), and the bank will allocate a loan in the specific sector from the deposit. Deposit owners can determine the rate of the interest paid on their deposit within a specified range: they may even choose an interest lower than the market interest if they wish the specific recipient’s loan to have even more favorable conditions.”¹²

In addition to core programs, the bank has had numerous community and volunteer initiatives in recent years. For example, in the context of civilian speed dating, foundations enhancing the employment of people with disabilities met with well-known designers so that products produced by people with disabilities could be sold with a modern, marketable design. Within the framework of the "Give me warmth!" program, the Bank placed special blankets made of insulating foil in each bank branch. In wintertime, anyone could take them from the box and give it to someone who needed them. Since the beginning of 2014, all MagNet bank branches have been operating as Amnesty International Light Spots, helping to promote human rights with information material and fundraising boxes. Within the framework of the Green Office program, special attention is paid to waste management, cleaning, office equipment, travel, water use, energy management (lighting, heating, and cooling).¹³

¹²<https://www.magnetbank.hu/en/about-the-community-bank/community-deposits-and-loans>

¹³MagNet Hungarian Community Bank Zst. (2014): Best Practice Application.)
<http://www.mprsz.hu/wp-content/uploads/2014/12/MagNet.pdf>

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„Employees are not required to participate in community programs, but it is made possible for them to do so. Many of us come here in the first place because of the familiar atmosphere and family-friendly workplace, so it’s worth working here for slightly less than what they would pay at a traditional bank.” (A MagNet Bank employee)

Friday afternoon

The extraordinary Board meeting was scheduled for next Monday. Gábor had time to read the articles and also the press release by HNB:

„HNB imposed a fine of HUF 19 million on MagNet Bank for, among others, deficiencies in customer group formation, risk-taking decision preparations, customer, partner and transaction ratings, and also in bank records of collateral and other credit data.”¹⁴ „The central bank’s investigation revealed that MagNet Bank had not complied with its statutory customer group formation obligations in respect of the examined customer group, and had not taken into account the risk assessor’s opinions and expectations in its decision-making, as a result of which it violated the large exposure limit. HNB also revealed problems in MagNet Bank’s monitoring processes in terms of compliance with procedures and deficiencies in procedures. In determining the amount of the fine, the central bank took into account the risk of the overall impact of the detected infringements, the problems that persisted despite previous decisions, as well as MagNet Bank’s cooperative behavior, and immediate steps to to address the shortcomings.”¹⁵

Gábor remembered all too well that the fine was HUF 47 million in 2018.

„The bank was found to have problems with its credit risk management, data provision, IT protection and remuneration policy, and the credit institution did not comply with regulations to prevent money laundering and terrorist financing. In the management of credit risk, HNB found problems, among others, in the monitoring process, and the existence, evaluation and enforceability of collaterals. For example, the sale of accounts receivables lacked detailed internal regulations, and an adequate customer group creation and customer rating system was not available. According to HNB, MagNet also had to review its IT system supporting data fulfillment.”¹⁶

Zsolt, as an owner, has always stated in the debate over stricter regulation of the financial markets that he is pro-regulatory and hopes that the world will follow suit.¹⁷ Many things were said about that at the management meeting after last year’s case. Gábor opened the meeting minutes file and read it.

¹⁴HVG (2019): HNB found irregularities at MagNet Bank. 28. July 2019.

¹⁵MNB (2019): MagNet Bank: fined for violating the rules of project loans. 28. June 2019.)

<https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2019-evi-sajtokozlemenyek/magnet-bank-birsag-a-projekthitelez-eszabalyainak-megsertese-miatt>

¹⁶Index (2018): MagNet Bank received a HUF 47 million fine https://index.hu/gazdasag/bankesbiztositas/2018/05/28/mnb_magnet_bank_buntetes/

¹⁷Magyar Narancs (2010): „We checked even the cucumber” – says Zsolt Fáy, Chairman of the Board of Directors of MagNet Hungarian Community Bank https://magyarnarancs.hu/lelek/megnezzuk_az_uborkat_is_-_fay_zsolt_a_magnet_magyar_kozossegi_bank_igazgatosaganak_elnoke-73938

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Gábor suddenly remembered the video series made by Bridge Budapest with successful Hungarian entrepreneurs, in which the entrepreneurs sincerely talked about the most difficult decisions they had been faced with. Its motto was something like:

“You can’t always make a good decision, but a decision still has to be made.”¹⁸

How true. On impulse, he searched the net for the interview made with him. The first thing he noticed was the leather couch, then he realised with a half-smile that he was holding his forehead with his left hand just like in the interview. It was always surprising to hear his own voice on recording: *„I believe, you can’t really ruin your life, and you can’t make far-reaching bad decisions if you give yourself time to be alone. In this respect, I probably tend to overdo it which is annoying to my colleagues. For example, on Friday afternoons, I delete all my emails. Many people are surprised by this. But I have to say that nothing bad has happened so far. To be able to make good decisions, we have to have some personal techniques to keep the startling vibrations of reality that obscure the essence away from us.”*

May be it’s not a coincidence that it’s Friday today too. . . ? Before heading home he deleted all his e-mails and knew that a solution would offer itself by Monday.



Source: BRIDGE FUND, 2018 – My decisions as an entrepreneur 4.
(Gábor Pozsonyi, MagNet Community Bank) <https://vimeo.com/270332369>

¹⁸Nagy Zs. (2018): They took a leap with their eyes closed and survived – Hungarian star entrepreneurs talked about their most difficult business decisions (video). Forbes.hu 30. July 2018. <https://forbes.hu/uzlet/csakott-szemmel-ugrottak-de-tuletek-magyar-csucsvallokozok-vallottak-a-legnehezebb-uzleti-donteseikrol-video/>

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Annex 1 - We are GABV members –
Excerpt from the MagNet Bank website

We are GABV members!



MagNet Bank is a member of the Global Alliance for Banking on Values.

What does this membership mean?

Well, a lot more than you think!

We are part of a growing movement of independent banks and financial institutions committed to advancing positive change in the financial sector through sustainable economic, social and environmental development, with a focus on helping individuals fulfil their potential and build stronger communities. The Global Alliance comprises of 54 financial institutions and seven strategic partners operating in countries across Asia, Africa, Australia, Latin America, North - America and Europe.

GABV membership is a sign of continued commitment to values-based banking, diversification, and driving positive change within the industry.

We adhere to GABV standards, follow a GABV approved approach to values-based finance, and regularly undertake a verification process to confirm our compliance.

Learn more about the **Global Alliance for Banking on Values** and the principles of values-based banking.

Source: <https://www.magnetbank.hu/en> ;

More about GABV: <http://www.gabv.org/>

Annex 2 – Key figures for Magnet Hungarian Community Bank

	2018	2017	2016	2015	2014
Total Assets	541	512	421	380	404
Funds Under Management	0	0	0	0	0
Total Assets and Funds Under Management	541	512	421	380	404
Total Assets and FUM Growth (One Year)**	14.00%	7.49%	12.50%	4.65%	-10.87%
Loans (net)	319	258	206	170	160
Loans to Total Assets	59.10%	50.40%	48.90%	44.70%	39.70%
Loan Growth (One Year)**	33.52%	10.82%	23.10%	17.89%	-3.46%
Client Funding	399	372	296	263	288
Client Funding to Total Assets	73.80%	72.60%	70.30%	69.20%	71.50%
Client Funding Growth (One Year)**	15.82%	11.07%	14.26%	1.37%	0.39%
Equity	46	45	32	26	27
Equity to Total Assets	8.40%	8.70%	7.50%	6.80%	6.80%
Tier 1 Capital Ratio	12.80%	13.90%	13.10%	12.80%	12.00%
Total Revenue	33.5	31.6	34.6	22.3	36.9
Net Income	6.5	6.5	5.9	1.6	1
Return on Assets	1.16%	1.35%	1.48%	0.46%	0.24%
Return on Equity	13.72%	15.53%	19.75%	6.82%	3.60%
Cost to Income Ratio	67.10%	106.60%	77.10%	87.80%	81.20%
Co-workers	238	225	226	225	218
Clients	47,750	42,910	39,051	34,322	31,838

* Figures in USD million

** Based on local currency

Source: <http://www.gabv.org/members/magnet-hungarian-community-bank#key-figures>

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Annex 3 - Ranking of Hungarian banks based on their balance sheet total, in HUF million



Rank	Bank	2018	2017	Change 2018/2017 (%)
1.	OTP	8 506 188	7 771 882	9.45
2.	K&H	3 229 244	3 041 317	6.18
3.	UniCredit	3 051 294	2 838 889	7.48
4.	Erste	2 458 763	2 143 845	14.69
5.	Raiffeisen	2 409 761	2 172 339	10.93
6.	CIB	1 902 350	1 677 765	13.39
7.	MKB	1 858 629	2 051 028	-9.38
8.	MFB*	1 227 993	1 185 845	3.55
9.	Budapest Bank	1 221 685	1 024 725	19.22
10.	OTP Jelzálogbank	1 209 239	1 080 051	11.96
11.	Takarékbank*	1 165 183	840 790	38.58
12.	Eximbank*	973 577	939 777	3.60
13.	Takarék Kereskedelmi Bank*	543 895	466 089	16.69
14.	Merkantil	405 466	369 406	9.76
15.	Sberbank	365 977	349 788	4.63
16.	Gránit	353 544	301 761	17.16
17.	Takarék Jelzálogbank*	333 292	303 831	9.70
18.	Commerzbank	289 776	294 528	-1.61
19.	KDB	230 216	212 030	8.58
20.	UniCredit Jelzálogbank	220 127	218 236	0.87
21.	Bank of China	193 896	143 178	35.42
22.	Erste Jelzálogbank	165 572	88 519	87.05
23.	MagNet Magyar Közösségi	151 200	132 343	14.25
24.	Magyar Cetelem	116 367	107 063	8.69
25.	K&H Jelzálogbank	107 311	74 640	43.77
26.	Duna Takarék	88 508	77 969	13.52
27.	Pannon Takarék*	75 419	73 466	2.66
28.	Sopron Bank Burgenland	73 480	64 380	14.13
29.	Mohácsi Takarék*	63 605	38 740	64.18
30.	Porsche	62 375	53 526	16.53
31.	NHB	52 461	58 580	-10.45
32.	Polgári	38 626	37 904	1.90
33.	Kinizsi*	32 282	32 358	-0.23

* According to Hungarian accounting rules. Source: annual reports

Source: <https://mfor.hu/cikkek/vallalatok/osztottunk-szoroztunk-ime-itt-a-friss-ropogos-hazai-banklista.html>

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Annex 4 - Ranking of Hungarian banks based on profit after tax, in HUF million



Rank	Bank	2018	2017	Change 2018/2017 (%)
1.	OTP	173 442	251 550	-31,05
2.	UniCredit	58 669	48 491	20,99
3.	Erste	57 499	52 443	9,64
4.	K&H	57 050	41 669	36,91
5.	MKB	25 274	19 154	31,95
6.	Raiffeisen	23 008	28 545	-19,40
7.	OTP Jelzálogbank	22 802	22 125	3,06
8.	CIB	14 265	22 414	-36,36
9.	Magyar Cetelem	9 802	11 154	-12,12
10.	Budapest Bank	9 343	13 594	-31,27
11.	Merkantil	7 861	9 568	-17,84
12.	Takarékbank*	6 938	5 219	32,94
13.	Gránit	5 633	4 673	20,54
14.	Eximbank*	4 991	4 623	7,96
15.	Takarék Jelzálogbank*	2 271	4 141	-45,16
16.	MagNet Magyar Közösségi	1 753	1 989	-11,87
17.	MFB	1 716	11 936	-85,62
18.	Takarék Kereskedelmi Bank*	1 647	-9 955	116,54
19.	Sberbank	1 347	204	560,29
20.	Erste Jelzálogbank	1 000	224	346,43
21.	KDB	900	1 146	-21,47
22.	Commerzbank	726	970	-25,15
23.	UniCredit Jelzálogbank	657	3 071	-78,61
24.	Sopron Bank Burgenland	443	1 199	-63,05
25.	Bank of China	306	296	3,38
26.	Kinizsi*	273	107	155,14
27.	Pannon Takarék*	265	121	119,01
28.	Duna Takarék	165	331	-50,15
29.	K&H Jelzálogbank	152	92	65,22
30.	Polgári	130	88	47,73
31.	Mohácsi Takarék*	85	-96	188,54
32.	NHB	-82	72	-113,89
33.	Porsche	-258	321	-180,37

* According to Hungarian accounting rules. Source: annual reports

Source: <https://mfor.hu/cikkek/vallalatok/osztottunk-szoroztunk-ime-itt-a-friss-ropogos-hazai-banklista.html>

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Annex 5 – Minutes of Management Meeting, 05/28/2018 (excerpt)



Date and time:

05/28/2018 11:00 a.m. to 05/28/2018 12:00 p.m.

Present:

Zsolt Fáy, Chairman of the Board of Directors; Attila Rostás, Bank Development Deputy CEO; János Salamon, CEO, Member of the Board of Directors; András Mikolasek, Deputy CEO ; Csaba Molnár, Community Development CEO, Member of the Board of Directors; Csákay Mátyás, IT and organization manager, Péter Simon, Branch Director; Barbara Erős, Head of Social Impact and Community Relations

Absent: Anikó Szűcs, Branch Director

Location: MagNet Bank Headquarter, First floor meeting room

Topic: Penalty imposed by the central bank

Zsolt Fáy: *As you know, MagNet Bank received a HUF 47 million fine based on the investigation of Hungarian Central Bank. What do you suggest?*

Csaba Molnár: *We have many positives aspects: the owners are obvious, visible, we have a clear vision, values, dividend policy, but we have to admit that we are not good at policy making. . . But that is what HNB expects from us and it is also important in terms of measurability.*

Mátyás Csákay: *The biggest challenge in the field of IT is legal compliance. We have a huge problem, as both small and large banks have to comply with the same legislation. We have 5 to 6 people working on a project, while other banks have a hundred. We have a thousand ideas, but we are lucky if we can implement one. It would take resources away from customer orientation. On top of all, legislators are making very frequent and very serious changes lately. This is true for all financial institutions. So, when I hear from Raiffeisen, Erste, or CIB that 90% of their IT resources go to regulatory compliance, what should I say? In my case it's 120% ... Not to mention that regulatory requirements are dramatically increasing IT costs.*

Barbara Erős: *"It's hard like that. Whatever we do could be a part of CSR at a large bank - plus here the core business and CSR do not contradict each other. Elsewhere this is a minimum of cognitive dissonance! But yeah, we must comply with the same regulations as large banks."*

Péter Simon: *There is a greater degree of freedom at MagNet, which is basically because there is not that many of us, and things are not so tightly regulated. This gives people more room and creativity can be better experienced. However, in my opinion, the most important thing about a bank is for it to operate like a bank. So, this means that predictability, accuracy, reliability are paramount, as it is a profession of trust to this day. We are much more involved here than, say, at a multinational company with 32 product developers, where if a decision is made it has to be implemented. This is not necessarily the case here. So, here we're pretty much doing it together with the different fields, we really have to build it ourselves from scratch, no one is doing it for us. So, we don't have a foreign parent company, a network whose modules we could take over. We actually operate in DIY mode here.*

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TEACHING NOTE 3: MAGNET COMMUNITY BANK

My money builds - Case study on MagNet Hungarian Community Bank

SYNOPSIS

This teaching case study is about MagNet Bank, Hungary's only values-based bank, a member of Global Alliance for Banking on Value (GABV). The case is designed to teach the principles of values-based banking and show how these can be applied in the practice of a responsible bank. The case study is the application of the Business Model Canvas in the banking sector, illustrated by the example of a responsible bank. The protagonist of the case is a head of the MagNet Bank who faces the bank being punished by the central bank, which, in addition to implementing the idea of values-based banking, highlights the importance of complying with the legal rules, as prudence is one of the basic requirements for operating as a bank. During the processing of the case study, the task for the students is complex, as it includes (1) a research task, as students have to gather information about MagNet Bank's various programs, mainly on the bank's website, (2) to think about the bank's value creation process and compile the bank's business model based on the Business Model Canvas, and (3) to make a proposal to solve the compliance problem that arises.

TEACHING OBJECTIVES

This case is appropriate for Bachelor students in Business Administration and Master students in Management and allows students to engage with business models and responsible and

sustainable companies in the financial sector.

- Teaching Objective 1: Upon completion of the case study discussion successful students are able to criticize the operation of traditional banks and understand the operation of a values-based bank.
- Teaching Objective 2: Students are able to integrate responsibility and values-based way of thinking into the strategy and operation of a bank.
- Teaching Objective 3: Students are familiar with Business Model Canvas.
- Teaching Objective 4: Students are able to analyse, understand and develop the bank's business model
- Teaching Objective 5: Students are able to understand the responsible and conscious financial behaviour of a commercial bank.

In this way, the case study

- contributes to the limited body of knowledge about the responsible and sustainable financial sector, and to pragmatic, managerial issues of a values-based bank's operation,
- encourages responsible financial behaviour and
- contributes to the development of financial awareness and culture.

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RESEARCH METHODS

The case was written using primary research consisting of interviews during July 2019 with 11 bankers (including equity partners) who were from different departments, and 3 customers with different connections to the MagNet Bank. Besides the interviews, secondary data such as website publications, MagNet Bank's annual reports and articles were used to research the case study.

KEY WORDS

values-based banking, ethical banking, financial sector, Business Model Canvas, financial awareness

ASSIGNMENT QUESTIONS

Students should prepare to answer the following questions before they come to class. They should be told they will be expected to both answer the question and to defend their reasoning for their answer.

QUESTION 1:

WHAT ARE THE KEY ELEMENTS OF VALUES-BASED BANKING?

QUESTION 2:

WHAT ARE THE CHARACTERISTICS OF MAGNET BANK'S VALUES-BASED BANKING?

QUESTION 3:

WHAT IS BUSINESS MODEL CANVAS AND HOW DOES IT WORK? WHAT ARE THE AIMS AND REASONS OF BUSINESS MODELLING?

QUESTION 4:

HOW DOES MAGNET BANK CREATE VALUE; HOW CAN THE BANK'S BUSINESS MODEL BE DESCRIBED?

QUESTION 5:

HOW CAN MAGNET BANK SOLVE THE PROBLEM TO AVOID FUTURE PENALTIES?

These questions can be used by instructors in their course outlines/syllabi for individual or group pre-class preparation, or for post-class assessments.



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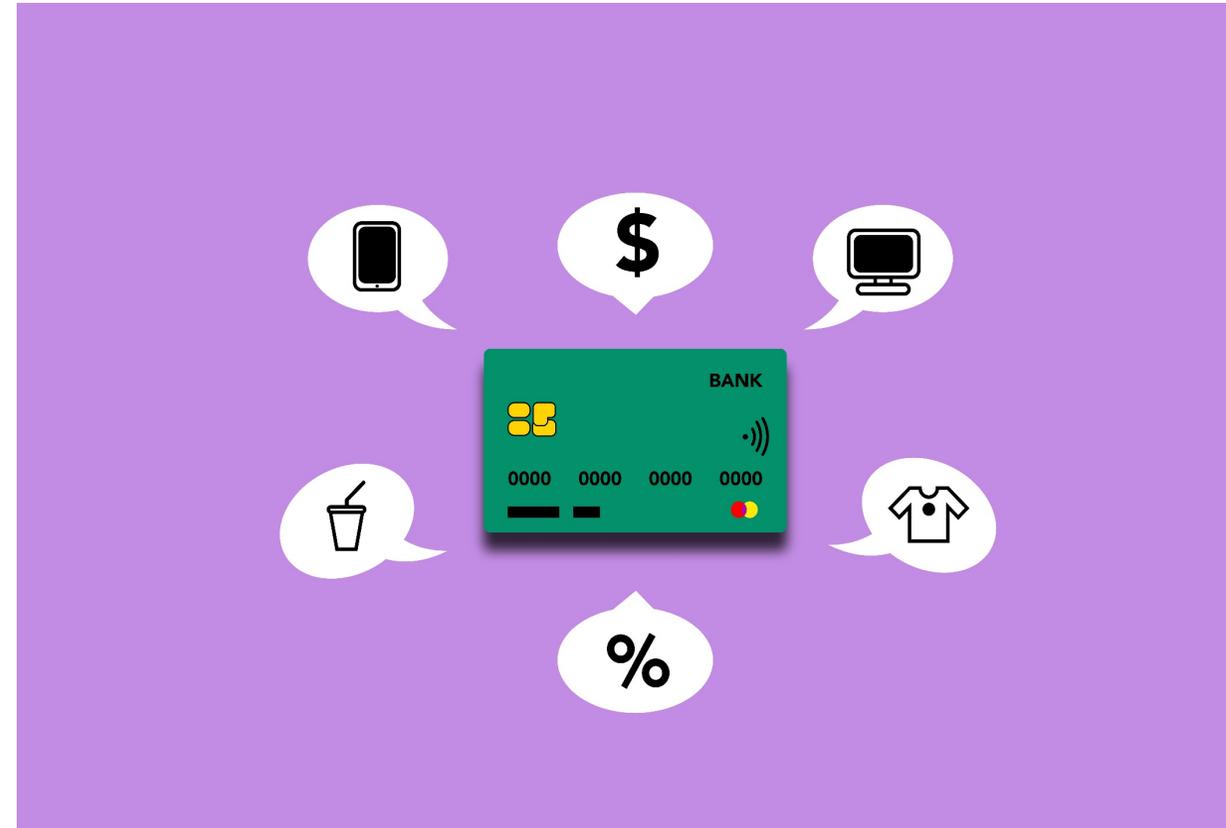


ADDITIONAL MATERIALS

The case is self-contained and can be taught without additional materials. However, the instructor may wish to make use of the following additional materials, which can increase students' engagement with the case.

Students should access the following materials in additional preparation before the lecture:

1. Video: GABV event: [#BankingOnValues](https://www.youtube.com/watch?v=l6LdehtrWts) comes to Melbourne (short version) - <https://www.youtube.com/watch?v=l6LdehtrWts> – 90 second video about Values-based banks
2. Video: “You can still be cool another way!” – 60 second video about MagNet Bank. <https://www.magnetbank.hu/en>
3. Video: “Those who want your problems ...” – 53 second video about MagNet Bank <https://www.magnetbank.hu/en>
4. The Business Model Canvas Design - <https://www.strategyzer.com/canvas/business-model-canvas> or
The instructor can use the following video during the class session to increase the students' engagement with the case during the class:
5. Video: “How far does our responsibility extend?” - Gábor POZSONYI, Deputy CEO of MagNet Bank tedx talk with English subtitles – 12 minutes 11 second video, <https://www.youtube.com/watch?v=UCT4CDh87Mk>



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TEACHING PLAN AND TIMING

THE SCHEDULE FOR A 90-MINUTE CLASS IS AS FOLLOWS:

5 minutes:

Introduction – the instructor asks the participants:

Raise your hands if you recycle. The instructor compares the share of raised hands in class with the data from the recycling statistics (see TN-1)

Raise your hands if you have money you can save (either small or big amount) or even are thinking of placing a deposit in a big bank, buying government paper, placing your money in an investment fund, buying shares, so when you had money and were before an investment decision did you know at least roughly what you contributed with your money. (The proportion of those holding their hands up is likely to be lower than in the previous question.)

The instructor points out that the questions asked were originally asked by the Deputy CEO of Magnet Bank in a tedx video.

15 minutes:

The instructor shows the video: “How far does our responsibility extend?” - Gábor POZSONYI, Deputy CEO of MagNet Bank tedx talk with English subtitles referenced under additional materials illustrating the context of the study.

10 minutes:

Assignment question 1: What are the key elements of values-based banking? – the instructor shows the GABV Principles of Values-based Banking (TN-2) and gets the class to discuss how a values-based bank differs from a traditional bank.

10 minutes:

Assignment question 2: What are the characteristics of MagNet Bank’s values-based banking? – The instructor asks the students to collect the main characteristics of the MagNet Bank as values-based bank's operations, so that each student can only mention a feature/element. The teacher writes those elements on the whiteboard. Finally, it will be finalized together.

10 minutes:

Assignment question 3: What is Business Model Canvas and how does it work? (TN-3 and TN-4) – the instructor shows the Business Model Canvas from the teaching note exhibit and they discuss together what a business model canvas is and how it works.

25 minutes:

Assignment question 4: How does MagNet Bank create value; how can the bank's business model be described? – the instructor gets the class to work in small groups to come up with a suggested business model canvas. If this is possible, the elements of the model can also be determined with the help of an application (see eg the Miro app, <https://miro.com/app/dashboard/>) - the instructor randomly selects one group of students to present their business model canvas. Then, the whole group discusses it.

10 minutes:

Assignment question 5: How can MagNet Bank solve the problem to avoid future penalties? – the instructor ask the students to share their ideas. The group gathers the potential solutions and the group finds the solution.

5 minutes:

Conclusion restating the key learning points or reading the postscript.

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ANALYSIS OF ASSIGNMENT QUESTIONS

Question 1: What are the key elements of values-based banking?

Teaching plan suggestion

The instructor shows the GABV principles (TN-2) and asks what each element could mean. If a term arises that students are unfamiliar with, it is clarified together.

Answer to Question 1

The Global Alliance for Banking on Value (GABV) determined the principles of the values-based banking as follows:

Global Alliance for Banking on Value (GABV) Principles

A triple bottom line approach of people, planet and prosperity being at the heart of the business model.

Being grounded in communities, serving the real economy and enabling new business models to meet the needs of both.

Long-term relationship with clients and a direct understanding of their economic activities and the risks involved.

Self-sustaining organisations with a long-term outlook, resilient to outside disruptions.

Transparent and inclusive governance

Culture – All of these principles being embedded in the culture of the bank.

Triple bottom line: “the triple bottom line is a sustainability framework that examines a company’s social, environment, and economic impact.”¹⁹

“The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet. A TBL seeks to gauge a corporation's level of commitment to corporate social responsibility and its impact on the environment over time. In 1994, John Elkington—the famed British management consultant and sustainability guru—coined the phrase “triple bottom line” as his way of measuring performance in corporate America. The idea was that a company can be managed in a way that not only earns financial profits, but which also improves people's lives and the planet.”²⁰

Business resilience: “Business resilience is the ability an organization has to quickly adapt to disruptions while maintaining continuous business operations and safeguarding people, assets and overall brand equity.”²¹

Organizational culture: “The values and behaviors that contribute to the unique social and psychological environment of an organization. Organizational culture includes an organization's expectations, experiences, philosophy, and values that hold it together, and is expressed in its self-image, inner workings, interactions with the outside world, and future expectations. It is based on shared attitudes, beliefs, customs, and written and unwritten rules that have been developed over time and are considered valid. Also called corporate culture.”²²

¹⁹Elkington, J. (2018): 25 Years Ago I Coined the Phrase 'Triple Bottom Line.' Here's Why It's Time to Rethink It. Harvard Business Review, June 25 2018." <https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it>.

²⁰<https://www.investopedia.com/terms/t/triple-bottom-line.asp#citation-1>

²¹<https://searchcio.techtarget.com/definition/business-resilience>

²²<http://www.businessdictionary.com/definition/organizational-culture.html>

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Question 2: What are the characteristics of MagNet Bank's values-based banking?

Teaching plan suggestion

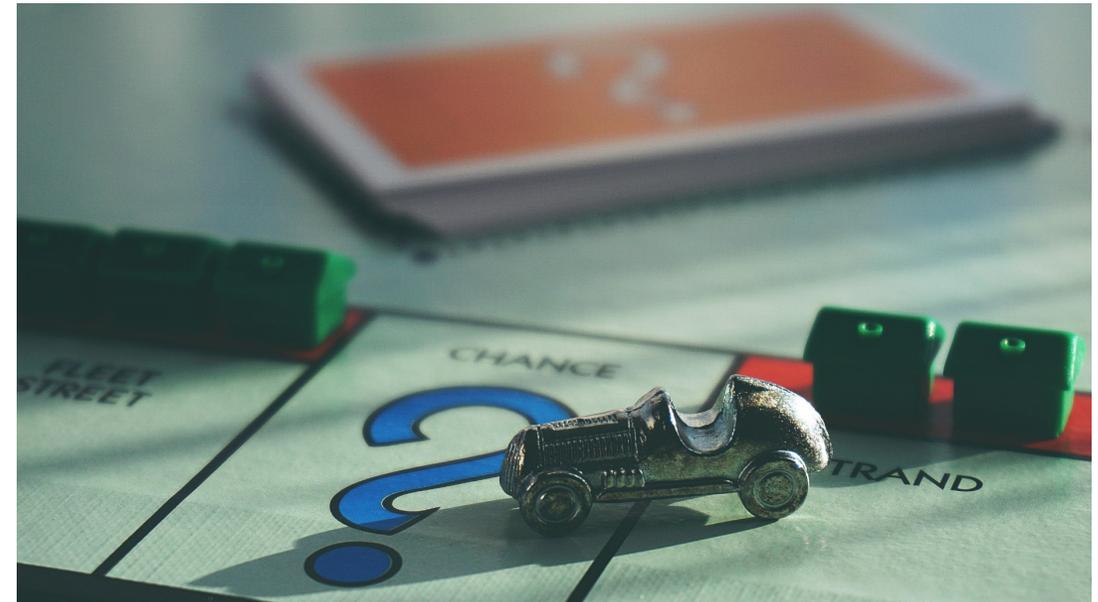
An instructor can open the classroom discussion by asking: "Can banks such as MagNet Bank become commonplace in the banking industry?" This question often divides a class. The instructor can allow the minority position (often the no group) to provide their rationale first, and then balance these views with the majority position rationale. The instructor asks students to briefly summarize the financial position of MagNet Bank. The instructor asks students to list, based on their pre-class research, how the GABV principles are reflected in Magnet Bank's practice.

Answer to Question 2

Financial analysis of MagNet Bank

Annex 3 of the case study depicts that total assets of the MagNet bank grew from \$404 million (USD) recorded in 2014 to \$541 million in 2018, with a total gain of \$137 million in these five years. The loan to assets ratio increased by 19.4% over the period tells the banks to expect a 19.4% growth in net interest income but on the other hand, also increases the liquidity risk at the same rate. The table illustrates that the average tier 1 capital ratio of the bank for the period 2014-2018 was 12.92%, which is two times of the minimum requirement (6%) according to Basel III Accord, which determines that concern bank is well-capitalized. Analysis of the return on assets (ROA) during the studied period determines an average increase of 0.92% in the yield but decrease by 0.32% in 2018 as compared to 2016. Return on equity (ROE) of the concerned bank also increased by 10.12% over the whole period, however, a total decrease of 6.03% has been noticed from 2016 to 2018. The decline in ROA and ROE during 2016-2018 might be due to an increase in loan growth, which is 10.42%.

Similarly, annex 4 illustrates that the balance sheet total of MagNet bank raised from HUF 132,343 million reported in 2017 to HUF 151,200 million in 2018 with a total change of 14.25% and ranked 23rd among other 33 banks operating in Hungary. Whereas, OTP bank ranked 1st followed by K&H bank with a balance sheet total of HUF 8,506,188 million and HUF 3,229,244 million respectively. Moreover, annex 5 shows that the profits after tax of MagNet bank declined by 11.87% during 2017-2018 and ranked 16th, as profit after tax the bank was HUF 1989 million in 2017 and HUF 1753 million in 2018.



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TABLE 1 GABV PRINCIPLES AND THEIR APPEARANCE IN THE OPERATION OF MAGNET BANK

Global Alliance for Banking on Value (GABV) Principles	The appearance of the principle in the operation of MagNet Bank	Global Alliance for Banking on Value (GABV) Principles	The appearance of the principle in the operation of MagNet Bank
A triple bottom line approach of people, planet and prosperity being at the heart of the business model.	<ul style="list-style-type: none"> - Socially Responsible Investment - The bank finances only loans, projects, customer needs that serve sustainable development, protection of the environment, general living conditions, protection, expansion and maintenance of natural and created values. - In the course of credit scoring MagNet Bank also applies positive and negative screening. - MagNet Bank won the Social Responsible Bank of the Year Award for the seventh time in the MasterCard Bank of the Year competition. 	Long-term relationship with clients and a direct understanding of their economic activities and the risks involved.	<ul style="list-style-type: none"> - Good personal relationship with customers - Customer risk analysis in accordance with the rules - “Pay as you like” account management - MagNet Bank offers a fair account management fee to its customers, which they can decide
Being grounded in communities, serving the real economy and enabling new business models to meet the needs of both.	<ul style="list-style-type: none"> - The bank brings together its employees and customers (depositors and borrowers) into a community of shared values. - Community Donation Program - Bank customers can make decisions as responsible members of a community and dispose of 10% of their share of the profits to organizations participating in the program. - Supportive Bank Card - Mentor and Sector Community Deposits and Loans. A unique program on the Hungarian banking market. Individual or corporate customers can determine for themselves which loan purpose or which specific borrower (eg. family member, friend, company or organization) they support by depositing community deposits with their savings placed on the deposit. - Further Community Initiatives – e.g. During civil rapid dates foundations which support the employment of people with disabilities met well-known designers so so that products made by people with disabilities can be sold with a modern, marketable design. 	Self-sustaining organisations with a long-term outlook, resilient to outside disruptions.	<ul style="list-style-type: none"> - MagNet Bank has been operating profitably for 23 years. - Not even the crisis that started in 2008 made it unprofitable.
		Transparent and inclusive governance	<ul style="list-style-type: none"> - Transparent government of the bank - Community Donation Program - Mentor and Sector Community Deposits and Loans - “Pay as you like” account management
		Culture – All of these principles being embedded in the culture of the bank.	<ul style="list-style-type: none"> - Partnership with the equity partners, managers and employees - Partnership with the customers and civil organisations

SOURCE: GYŐRI-KHAN-SZEGEDI (2020): BUSINESS MODEL AND PRINCIPLES OF A VALUES-BASED BANK – CASE STUDY OF MAGNET HUNGARIAN COMMUNITY BANK (FORTHCOMING)

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Question 3: What is Business Model Canvas and how does it work?

Teaching plan suggestion

The instructor should show the Business Model Canvas (TN3), discuss its elements, then show the template (TN-4) and discuss how to complete it. Filling can be done on paper or using a Business Model Canvas application

Answer to Question 3

The business model canvas is a very useful tool for understanding, describing, visualizing, assessing, and changing business models in a structured way. The Business Model Canvas was created by Alexander Osterwalder. It describes the rationale of how an organization creates, delivers, and captures value.

Elements of the Business Model Canvas and their use:²³

- Customer segments - List the top three segments. Look for the segments that provide the most revenue.
- Value proposition - what are your products and services? What is the job you get done for your customer?
- Revenue streams - List your top three revenue streams. If you do things for free, add them here too.
- Channels - How do you communicate with your customer? How do you deliver the value proposition?
- Customer relationships - How does this show up and how do you maintain the relationship?
- Key activities - What do you do every day to run your business model?
- Key resources - The people, knowledge, means, and money you need to run your business.

- Key partners - List the partners that you can't do business without (not suppliers).
- Cost structure - List your top costs by looking at activities and resources.

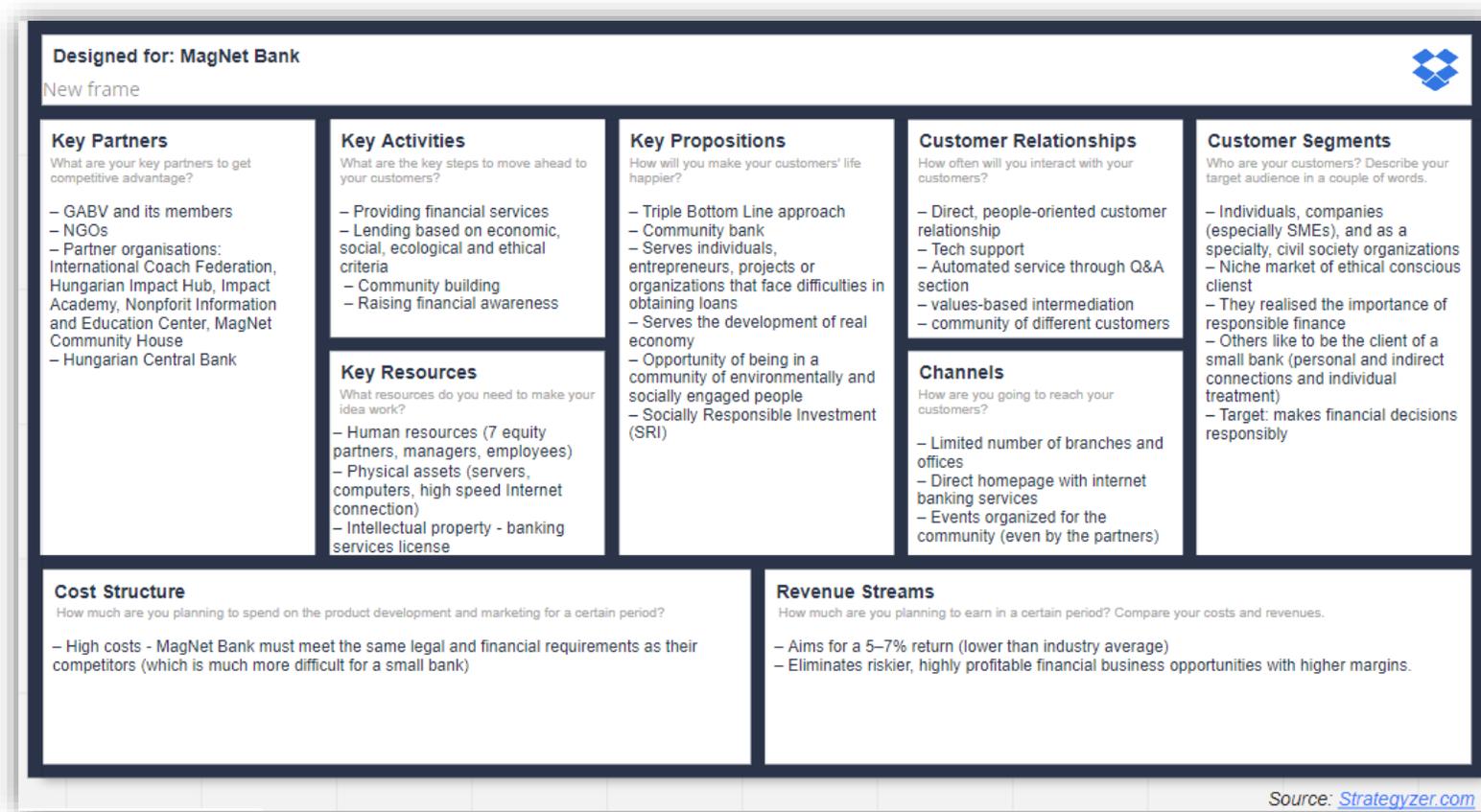
²³<https://www.businessmodelsinc.com/about-bmi/tools/business-model-canvas/>



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QUESTION 4: HOW DOES MAGNET BANK CREATE VALUE; HOW CAN THE BANK'S BUSINESS MODEL BE DESCRIBED?
THE BUSINESS MODELL CANVAS – POTENTIAL SOLUTION:



SOURCE: AUTHORS OWN MADE BY MIRO APP



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Teaching plan suggestion

The instructor should discuss the solutions of the different groups with the students and then the instructor should show a possible solution.

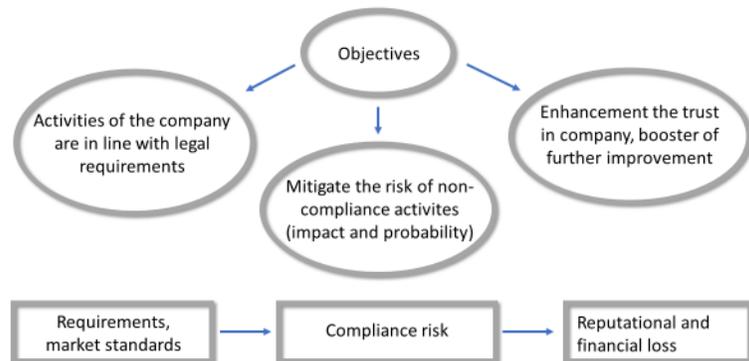
Question 5: How can MagNet Bank solve the problem to avoid future penalties?

Teaching plan suggestion

The instructor discusses with the students what the term compliance means. What are the risks of non-compliance? What are the possible consequences of non-compliance? The instructor may mention banking non-compliance examples. Representing the various executives/departments of MagNet Bank, the students make possible suggestions for solving the compliance problem. They will then discuss a possible solution to the penalty received by MagNet Bank. The class decides what the solution should be. At the end, the instructor tells them what the solution was.

Answer to Question 5

Compliance – what does it mean?



Source: Wieland, Zs. (2020): Responsible behaviour in banking. Presentation at BBS

Consequences of non-compliance

- Revoke the license
- Criminal procedure
- Reputational loss, loss of business partnerships
- Fines

Danske Bank - 2018 <ul style="list-style-type: none">• Probably ~ 200 billion USD AML related money (2007-2015)• CEO resigned• Fall of share price: 32%	ING - 2018 <ul style="list-style-type: none">• 775 million EUR fine• CFO resigned
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Source: Wieland, Zs. (2020): Responsible behaviour in banking. Presentation at BBS

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The solution of the compliance problem is fundamental and primary for MagNet Bank, the reasons for which are:

- In recent years, MagNet Bank has been penalized several times for failing to comply with the stricter Hungarian National Bank rules. Although the amount of the penalty was not huge, through non-compliance, MagNet Bank **endangers the loss of its operating license** and thus its further operation. While large banks are more likely to be penalized, there have been more examples in recent times that a small bank has ceased to exist if it has not complied with stricter rules.
- On the one hand, the image of the bank is positive due to responsible and sustainable banking, at the same time, bank customers who bank elsewhere cite the bank's unreliability as an argument against traditional banks. Failure to resolve the compliance issue can **strengthen the image of unreliability** and **make it more difficult to gain new customers**.
- One of the basic features of an ethical company is compliance with the law. Being non-compliant, on the one hand, can disappoint current customers at the bank **and jeopardize the retention of existing customers**. On the other hand, non-compliance with the rules **does not comply with the GABV principles** (long term resiliency, triple bottom line approach). It does not comply with the triple bottom line approach as it reduces confidence in the banking sector, which is fundamental in the financial sector. At the same time, through non-compliance, MagNet Bank also undermines trust in ethical / values-based banks.

Solution: There are no solution alternatives, there is only one good solution: compliance with the law.

Both traditional and values-based banks must meet this requirement.

Compliance with the law is the minimum requirement from an ethical point of view.

Non-compliance is one of MagNet Bank's main weaknesses. It cannot be the goal to eliminate all weaknesses, but it is essential to eliminate the so-called fatal, i.e., operation endangering weaknesses. MagNet Bank **must ensure** resources to:

- be aware of the legislation they must comply with (ensure human resources to strengthen compliance and/or legal department)
- implement the necessary improvements (development of the IT system)

KEY LEARNINGS

The case study showed that the voluntary responsibility of values-based banks is much greater than that of traditional banks, as they need to comply with the rules for traditional banks and strengthen confidence in the financial sector, as well as contribute to the solutions of sustainability problems. It requires a new approach and innovative tools.

MagNet Bank is a good example of what innovative tools values-based bank can create, but also of the difficulties such banks can face. An important message of the case study for students is that corporate responsibility and sustainability must also apply to the financial sector, and that responsible consumption means responsible financial decisions as well and must also cover the financial activities of individuals and organizations (all of us).

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POSTSCRIPT

MagNet Bank recognized that solving the compliance problem is essential. It has developed its IT system, now it complies with the requirements of the bank legislation.

EXHIBITS

EXHIBIT TN-1: [MUNICIPAL WASTE]

Municipal waste: EU targets and situation in member states

Target for the reuse and recycling for household waste for 2025: **≥55%**

Target for the landfilling of municipal waste by 2035: **≤10%**

Data from 2016	Municipal waste generated (kg/capita)	Share of recycling and composting	Share of landfill disposal
EU28	482	47%	25%
Denmark	777	48%	1%
Malta	647	8%	92%
Cyprus	640	19%	81%
Germany	626	66%	1%
Luxembourg	614	48%	17%
Ireland*	567	42%	22%
Austria	564	59%	3%
Netherlands	520	53%	1%
France	510	42%	22%
Finland	504	42%	3%
Greece	497	17%	82%
Italy	497	51%	28%
United Kingdom*	482	45%	28%
Portugal*	453	30%	49%
Slovenia**	449	58%	24%
Lithuania	444	50%	31%
Spain	443	30%	57%
Sweden	443	49%	1%
Belgium	420	54%	1%
Latvia	410	28%	72%
Bulgaria	404	32%	64%
Croatia	403	21%	78%
Hungary	379	35%	51%
Estonia	376	32%	12%
Slovakia	348	23%	66%
Czech Republic	339	34%	50%
Poland	307	44%	37%
Romania	261	15%	80%

*Data from 2014 **Data from 2015 Other methods of waste disposal such as incineration bring the total to 100%

Sources: Eurostat, EPFR, European Commission

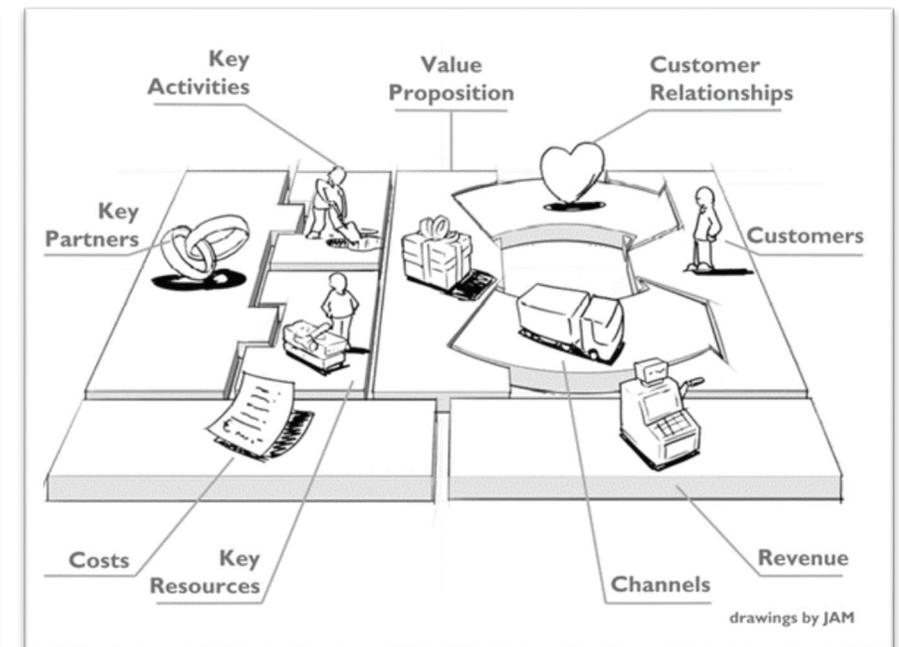
Source: European Parliament (2018). Principles <https://www.europarl.europa.eu/news/en/headlines/society/20180328-ST000751/eu-waste-management-infographic-with-facts-and-figures>

EXHIBIT TN-2: [THE GABV PRINCIPLES OF VALUES-BASED BANKING]



Source: GABV (2020). Principles <http://www.gabv.org/about-us/our-principles>

EXHIBIT TN-3: [THE BUSINESS MODEL CANVAS]

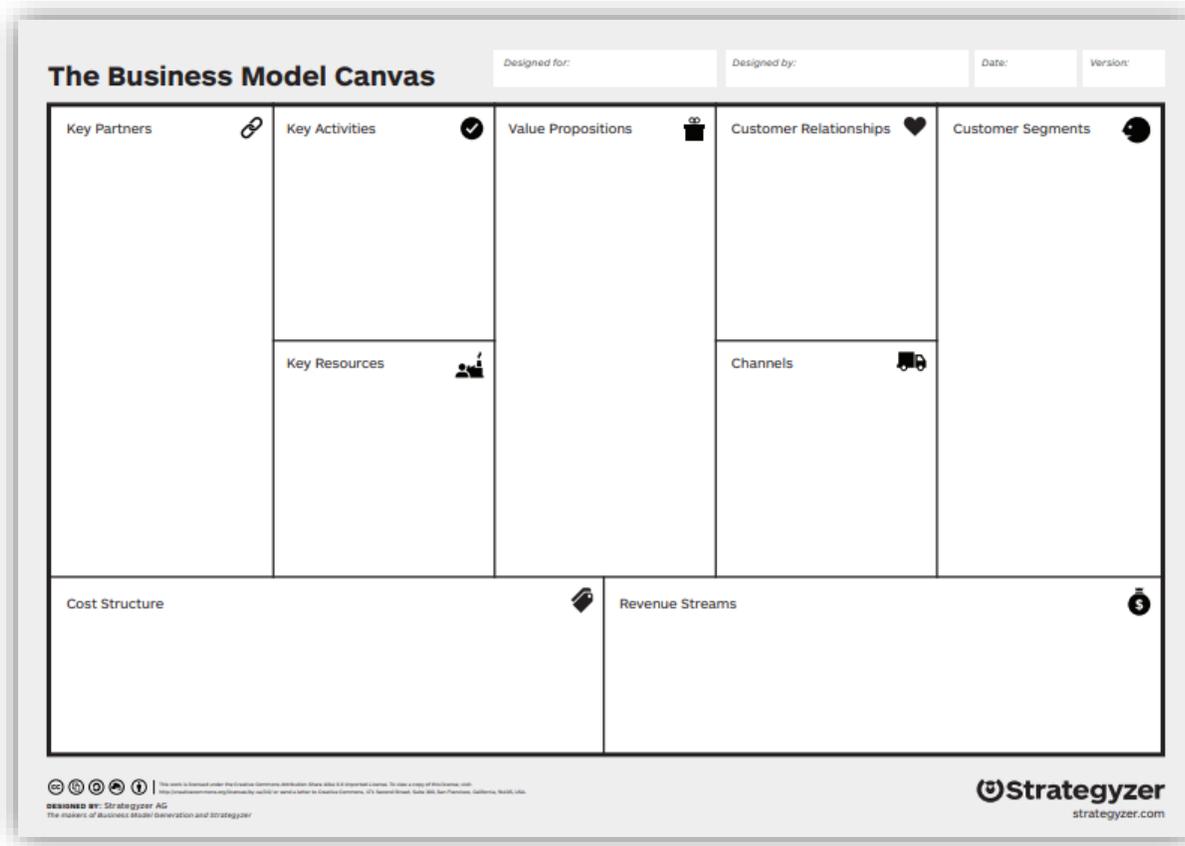


Source: Ching & Fauvel, 2013, p20

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EXHIBIT TN-4: BUSINESS MODEL CANVAS TEMPLATE



Source: strategyzer.com, 2020



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