



COMMERZBANK

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Transcript

Jörg Hessenmüller
COO



The bank at your side

Transcript

Jörg Hessenmüller, COO

Ladies and Gentlemen,

My colleagues have just given you a brief overview of our strategic priorities within our core business units. What I want to do now is lay out my role, as COO, in facilitating this transformation. Clearly, I need to deliver on the technical needs in order to lead the bank into its new phase. Equally, I need to ensure the execution and delivery of our strategic priorities, namely efficiencies.

Since 2016 we have placed technology, and in particular, digitisation, at the heart of our business model. As a result, we've focused investments into our IT infrastructure towards building a modern banking platform. With our campus approach we have successfully introduced a new organizational model where we assemble tech, product and channel expertise. And where we develop products for our customers, explore technology ideas, streamline and digitalise the core processes of the bank. We've also successfully established a state-of-the-art platform for compliance, finance and risk management. This gives us scope for further investment to better serve our clients.

By and large, we've made significant progress. But it is not fully visible yet.

First of all, the structures and processes in our Head Office as well as in Operations are not yet comprehensively optimised. Despite some considerable IT achievements, our overall IT infrastructure is not yet where we want it to be. Over the past few years we've all seen the accelerated progress of IT in the banking world, take, for example, the emergence of online challenger banks. Our business model no longer defines which technology we use. It's the other way round: Technology is determining our business model. Consequently, technology know-how is critical for us. In some areas we're still too dependent on external support. So, we're working hard to build our respective know-how internally so that we can reduce costs and expenses.

As a result of this, two strategic priorities emerge for the COO area: ensuring efficiency and building a new bank.

With regards efficiency: Technology plays a major role in reaching the bank's efficiency and cost reduction targets. We have committed to delivering €700 million in cost reduction by the end of 2024

The three main levers to reach this target are:

- First, we're downsizing and adapting functions in the Head Office such as finance, risk management, communications and Human Resources.
- Second, we are consolidating and streamlining processes in Operations.
- Third, we will increase efficiency in the Delivery Organization, not least due to simplifying our IT systems.

What do we mean by "Building a new bank"? The mantra of customer-centricity is the reality. This will require further enhancement in our tech stack and our culture. We need to:

- ... reduce complexity,
- ... modernise our IT platform and our services as well as
- ... increase speed in innovation and product delivery.

We need a higher degree of flexibility in our product suite and services so that they can be adapted to the ever-changing customer requirements. And while executing on all these objectives we need to always focus first and foremost on the needs and desires of our customers. This will require a significant IT investment. We estimate to spend a total of €1.7 billion to create the state-of-the-art IT platform for Commerzbank that we need. I will explain the details of this in a moment.

Above all, providing operational stability at all times is a fundamental principal in our transformation process. In 2020, we achieved our operational stability goal which we closely measured in IT incidents. During the pandemic we have proven that our operations are resilient against external shocks. We will continue to strictly monitor any deviation and we have a clear plan on how to reach our goals and milestones.

Let me start by focusing on efficiency. On the slide you can see, at a glance, in which areas we want to achieve the cost reductions and how staff reductions will be distributed. In operations and corporate functions we will save roughly €700 million through efficiency gains. This represents half of the overall cost savings for the group of €1.4 billion. Almost 60% of this reduction will be realised in the Delivery Organisation. Manfred told you about an overall headcount reduction of approximately 10,000 full time employees. We will contribute to the reduction with nearly a third - or 3,200.

The digital transformation has been impacting our activities already for years. The pandemic, that we're now living through, is accelerating these changes more radically than we could ever have imagined. We expect to reduce occupancy expenses by more than €100 million by reducing staff numbers and cutting the number of locations we operate in. Moreover, we will enhance the use of our workspace as we adapt to new remote working approaches. The pandemic has greatly accelerated the trend towards working from home. It has become the new normal.

Flexible and adaptable working will be an integral part of Commerzbank's everyday life - even after the pandemic. We were astonished to see how focused and efficient this way of working can be. Additionally, we will achieve cost reduction through a variety of optimization measures in operations & central functions.

We'll do this:

- by streamlining organisational structure to reduce complexity and flatten the hierarchy
- by transferring admin processes from sales to operations
- by further digitising and automating processes

For example, we will further automate risk management processes through the use of AI. Accordingly, many manual process steps will be eliminated. As a result, we have identified synergistic benefits of approximately €200 million in direct costs. Our headcount will be reduced by 2,900 employees net in operations and corporate functions.

Our Delivery Organisation will contribute a further €400 million to the overall cost saving target. This will require us achieving our objectives to transform our IT programme and promoting our technology enablers. We will reduce the number of employees here by 300. The gross number is far higher as the reduction includes a release of roughly 1,000 employees in high-cost locations. This will be somewhat offset by hiring 700 employees in low-cost nearshoring locations, solely focusing on tech knowledge. A very important lever is internalization of our processes and intelligence. In light of our IT driven business model we want to be less dependent on external staff and to further internalise our know-how. The external resources will be reduced by 60% which equals 1,300 FTE

Let me now move to the investment required to achieve our aims. Over the last few years we have set the course for building a new bank. We now want to build on this position. In order to be flexible and to meet new customers' requirements quickly, we've been rebuilding the Bank's technology foundation. As I've already said, to complete the Commerzbank digital transformation will require approximately €1.7 billion of investment. We've already made a lot of regulatory investments over the past four years. Now, we need to focus investment on the necessary steps so that we can reach the state-of-the-art IT architecture that our customers demand.

The largest share will be invested in the digitisation of our business with private and business clients. Equally, we will finalise the technical integration of Comdirect, which will benefit us by integrating their expertise. We will also invest a large sum in the digitisation of the corporate client business. The strict execution of these investments is key for building the new bank and I am committed to our plans.

We will invest in these strategic projects in order to cement the technology foundations of Commerzbank. It's not that we're about to flick the switch on here. We set the course last year and we've already started the initiatives in our delivery organization. We are continuing along this path.

The main focus of my COO division will be to enable our journey, modularise our IT and automate processes, thereby focusing on technologies such as cloud computing, continuous deployment, and extension of APIs. Overall, the Architectural Transformation forms the base for our program. It comprises major architectural steps driving

- cost efficiency,
- flexibility,
- stability and
- customer experience.

We will radically modernise our Application Infrastructure. In addition, we will further standardise and modernise our software, strengthening security and enabling state-of-the-art features for our applications. We will industrialise our Software Development Process. The so-called Continuous Integration and Continuous Deployment, CI/CD, automates the process wherever possible, from development to testing to sales. In such a route, it can take less than 15 minutes between the change of a source code and its commissioning.

A good example for fast time-to-market delivery is our virtual debit card: Last year we were one of the first German banks to launch, within 8 weeks, our virtual debit card. Nearly 350,000 virtual cards have been downloaded since then.

The key to success has been – and will be even more in future – to create a superior customer experience: simple, automated, and available in seconds.

With CI/CD, all development steps from request to production are fully automated. By 2024 about 95% of our applications will use the CI/CD pipeline. This will enable our teams to bring new features to our customers, get instant feedback and continuously improve our digital offerings.

Innovation will play an important role in our future bank. We have prioritised six main technologies as the building blocks for our new bank. First and foremost, it's about – as mentioned – automating processes. The use of cloud technology plays a decisive role. We announced a few weeks ago that we will build on a co-operation with Microsoft, but, as you know, we also partner to the same level with Google Cloud.

Let me briefly explain the importance of two key technologies for our business:

- First, Open Banking – as we believe in open platforms. By offering standardised APIs, we aim to become part of the business models of our clients and selected partners. We will provide services that seamlessly integrate into their systems. As a basis for our open banking journey we have built 150 APIs for central services so far. And we're aiming for more than 300 interfaces by 2024. In addition, we've developed far more internal interfaces that have helped optimise processes within the bank. Overall, this effort will enable us to reuse functionality much more effectively and quickly.
- Second: Big Data. The evaluation and targeted use of data will become one of the decisive competitive factors in the coming years. In respect of Big Data – which internally we call BDAA – a lot has happened at Commerzbank, especially with regard to risk management. We use BDAA where we want to analyze the various industries, networks and dependencies in real time and create transparency with the help of automatic risk signals. Especially in a time of complex risks and unpredictable effects for supply chains – such as those we've seen in the Covid crisis – BDAA is of great importance for the predictive analysis. Already, we have largely automated the transaction data processing pipeline—right up to the dashboards.

The relentless focus on execution remains my top priority over the coming years. We have a clear roadmap ahead. This year we will focus on driving our efficiency measures and reducing FTE numbers. Additionally, we will start to execute our organizational target structure and scaling our nearshoring locations.

In 2022 and 2023 we will achieve milestones by finalising the comdirect integration and by realising additional sourcing and nearshoring projects. By 2024 we aim to have achieved our goals and KPIs. I am convinced, our roadmap will keep us on track towards our targets and beyond.

As Commerzbank, we've already gone through quite some change, and we will continue to evolve. To be successful on a long-term basis, we want to create a real customer experience

- by always being one step ahead of our customers' needs
- by providing simple, fast, and secure solutions and
- by delivering real value to our customers.

Thank you very much.

Disclaimer

This transcript contains forward-looking statements. Forward-looking statements are statements that are not historical facts. In this release, these statements concern inter alia the expected future business of Commerzbank, efficiency gains and expected synergies, expected growth prospects and other opportunities for an increase in value of Commerzbank as well as expected future financial results, restructuring costs and other financial developments and information. These forward-looking statements are based on the management's current plans, expectations, estimates and projections. They are subject to a number of assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from any future results and developments expressed or implied by such forward-looking statements. Such factors include the conditions in the financial markets in Germany, in Europe, in the USA and other regions from which Commerzbank derives a substantial portion of its revenues and in which Commerzbank holds a substantial portion of its assets, the development of asset prices and market volatility, especially due to the ongoing European debt crisis, potential defaults of borrowers or trading counterparties, the implementation of its strategic initiatives to improve its business model, the reliability of its risk management policies, procedures and methods, risks arising as a result of regulatory change and other risks. Forward-looking statements therefore speak only as of the date they are made. Commerzbank has no obligation to update or release any revisions to the forward-looking statements contained in this release to reflect events or circumstances after the date of this release.

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