TD Bank's COLLEEN JOHNSTON

Blazing a Path

By Ramona Dzinkowski

As group head, Finance, and chief financial officer of Toronto-based TD Bank Group, Colleen Johnston has effectively executed seven major acquisitions in the United States, giving TD Bank the largest Canadian presence in the U.S. retail banking sector. It's the second-largest bank in Canada by market capitalization (C$74.4 billion) and, with more than 78,000 employees and 2,535 retail locations, is also one of the 10 largest banks in the U.S.

Last year, Johnston was named Canada's CFO of the Year, an award presented annually by Financial Executives International Canada (FEI Canada), PwC, and Robert Half International. Canada's CFO of the Year award recognizes excellence in financial leadership.

Strategic Finance caught up with Johnston recently in Toronto, where she lives with her husband and two daughters.

On Capturing Market Share in the U.S.

RD: Over the past eight years, TD Bank has made seven major acquisitions of U.S. retail banks. Can you describe the strategy surrounding entering the U.S. market?

CJ: The reality is that Canada is a relatively small banking market. As we looked to the future and for avenues of growth, it was quite natural to look south of the border to the United States. We thought it made sense to move into more of a North American retail banking model. There are lots of natural business advantages to this: proximity, cultural similarity, language. All of those things were important to us. And in our view, we went into the U.S. at a time when we felt there was going to be more consolidation with U.S. retail banks.

RD: How did your risk management strategy see TD Bank through one of the worst downturns in U.S. history?

CJ: In the U.S., we've focused on very-well-run organizations with good business models, very good organic growth potential, and strong balance sheets. I think that the latter point in particular positioned us very well through the downturn. If you look back to 2008, we acquired Commerce Bank. That really brought us strongly into the mid-Atlantic, into big markets like New York and Philadelphia. We were very cautious at that time given the outlook: It was the early days of the financial crisis, and it was fairly clear that a recession would follow. But we looked at the balance sheet. Commerce [banks] were

great deposit generators and had a very conservative risk appetite on the credit side. And they only lent within footprint—in other words, traditional lending products—self-originated, not broker-originated.

RD: For four years running, the World Economic Forum has ranked Canada as having the world's most sound banking system. What characteristics of the Canadian banking climate helped you weather the banking storm in the U.S.?

CJ: For us it was really about sticking to our core principles—managing risks that we can understand and that don't expose us to any significant single loss event. That's where we were a positive outlier during the financial crises. We exited the complex structured products business on our wholesale side. We weren't in subprime and didn't sponsor or distribute any third-party, asset-backed commercial paper in Canada. All of that comes back to our fundamental risk appetite, and that put us in really good shape for entering the U.S. market.

RD: Is the international financial services sector finally back on a firm footing?

CJ: It feels like we're seeing some more positive signs out of the U.S. economy with stronger signs of recovery. So I would say that we're cautiously optimistic on the United States. If we look at Europe, we're seeing reduced risk as a result of the European Central Bank's loan facility, and that really helped with the liquidity crunch. However, looking more broadly, we don't worry about direct exposure to Europe but, rather, the second-order effects—the extent to which you're looking at a recession in Europe and what effect that will have on the global economy. That's something we really think a lot about in terms of our business.

On the Evolving Role of the CFO

RD: You've been in the top finance job with TD Bank going on eight years now. Can you describe how your role as CFO has changed between 2005 and 2013?

CJ: If I look at things that have changed in the last number of years, clearly there has been a lot more intensity around regulation. When I first joined the bank, we were in the early stages of the SOX [Sarbanes-Oxley Act of 2002] certification process, and that was pretty intense, being able to certify publicly and provide investor comfort around the controls over financial reporting. It resulted in a lot more focus on the control environment in finance. Later came the IFRS [International Financial Reporting Standards] conversion, which was a three-year journey for us and a major focus for the finance function. We went through the early stages of what the new standards were going to require, what that was going to mean in terms of how we reported, and what systems and processes were required. The standards were shifting at that time. We had to understand that, help our businesses understand it, and ultimately convert our management reporting systems to IFRS. We had to make sure we could communicate in a clear and transparent way to the market what those impacts would be. I feel our finance team really executed with excellence on that one.

RD: What approach have you taken to investor relations?

CJ: Because we're a growing bank, we knew we had to deepen the demand for our shares, not just in Canada, but outside of Canada as well. About seven years ago, Ed Clark, our CEO, and I decided that we wanted to make investor relations an area of competitive advantage, so we've really intensified our efforts. For us, that's about providing investors and analysts with value-added support and being open and transparent.

RD: With the global economy in a state of flux, cost management must be a great concern of yours these days, is it not?

CJ: Definitely. We're more focused on managing expenses because we're heading into an environment of sustained low interest rates and lower top-line growth generally. But for us at TD it isn't about being short term in nature and just making a bunch of cost cuts. We very much want to continue to invest in our capabilities, new branches in Canada, new stores in the United States, client advisors, sales capability—it's about investing in being a best-run organization. What that really means is if we want to lower our rate of expense growth, we have to look at creating permanent efficiencies in the way we do business. That's something that finance is playing a lead role in: the bank's productivity agenda, making sure we can galvanize the organization around doing what's right for the future while creating a permanent competitive advantage.

To give you an example, strategic sourcing is a function that really does all of our major buying for the organization. If you look at the scale of TD and the fact that we're so big both north and south of the border, we want to be able to leverage our buying power as an organization to make sure we can get the best service from our vendors—and ultimately for our customers—at the lowest cost. The finance team is a tremendous champion of that kind of work.

The Colleen Johnston File

2012: Named Canada's CFO of the Year – Financial Executives International Canada

2011: Voted one of the 25 Most Powerful Women in Banking – *American Banker*

2009: Named Best Chief Financial Officer – *Canadian Business* Magazine

2007: Inducted into Canada's Most Powerful Women: Top 100 Hall of Fame

On Leadership

RD: As Canada's CFO of the Year, you've been chosen not only for your strengths in strategic financial management, but also for a unique style, business acumen, and your ability to lead. What characteristics define successful leadership to you?

CJ: I'm going to cite TD's leadership principles, which really resonate with me and which I think are really applicable to finance leaders as well as to all leaders in our organization. First, you have to be able to *make an impact*. The second is *build for the future*. For me, building for the future is about being able to build a great team and making sure you have the right bench strength in the medium and longer term and also being able to help put a vision and strategy in place for your team. We all know we work hard and work to deadlines all the time, but we have to make sure that we're anticipating the needs of the organization: how we're going to add value, how we're going to get ahead of the curve.

RD: What else?

CJ: *Work effectively in teams, and inspire the will to win.* That means being passionate about what you do, bringing others on board, and having fun with what you do. I think it's really important in a modern workforce that you're not in an authoritarian, "command to control" environment. You need to *show excellent judgment*. You need to *live transparently*. It's about openness and candor—being candid but with respect. So many of us who come through our professional training put such a high value on working in an environment that's truly professional, where people treat each other like colleagues and show respect.

We don't lose our cool when things go wrong.

RD: There are always going to be decisions that you wish you could've made over again. How tough are you on yourself when things don't go as planned?

CJ: I'm the type of person that, if something goes wrong, I punish myself 10 times over! I don't need someone else to reinforce the point. And I think that's very true of the people I work with and have worked with during my career. Regardless, to be successful you need to *demonstrate unwavering integrity*. It's about integrity and the way that we conduct our business, integrity in the way that we behave, so that we're role models for the bank and for other people in the organization. Part of that is managing your own ego and making sure that you're always putting the bank's interests ahead of all else.

On the Keys to Personal Success

RD: What advice would you give to aspiring professionals in finance to achieve the type of success that you have?

CJ: It's always important to be able to put yourself in other people's shoes, and I think that's helped me during my career. When I consider my business partners in the bank and what they're trying to do—how they're trying to run their business—it makes me much more effective. Investor relations is a great example. If you try to think like an investor or an analyst, it can make you more successful in your ability to communicate with them. You also have to nurture your own ability to be able to work in teams, especially in large organizations.

Also, for people who want to move into leadership roles, you have to think of yourself as a leader. You're hired initially because you have technical ability and technical acumen. Part of the challenge is how you evolve as a leader, how you ultimately lead a team and create a vision and strategy as well. The secret to all of that is to have the absolute best people around you, develop those folks, and showcase them during their careers.

On Diversity

RD: The Canadian banking sector traditionally produces some very strong female executives in the finance role, with almost one-third of senior executives overall being women. This compares to less than 20% in the U.S. To what do you attribute the success of women in this historically male dominated industry?

CJ: If I look at TD right now, about a third of our executives are women. In fact, I lead the company's Women in Leadership initiative. We manage diversity as a business imperative at TD, and that's the secret to our success.

You don't want to get into tokenism when you get into any area of diversity. It has to be a meritocracy, and the banks frankly are way ahead of the curve on this. When you get between 30% and 40% of executives in banks being women, the game starts to change.

TD Bank's Six Principles of a World-Class Finance Team

1. Be drivers of shareholder value.
2. Be a valued business partner.
3. Execute with excellence.
4. Lead in reporting, control, and governance.
5. Provide a positive, rewarding work environment.
6. Invest in people.

On Work/Life Balance

RD: You've got a very powerful job, and you've got a family. How do you juggle the pressures of such a demanding career and the pressures of home?

CJ: Part of it for me is that I have a profound sense of my own limitations. I think sometimes women can be guilty of trying to do everything to the max. The reality is you can wear yourself out and can feel quite disappointed that you can't do everything. You have to make some choices, look for balance in a variety of different ways. It isn't necessarily about saying you can achieve balance on a daily basis, but I think you have to look at the notion of balance over a longer time horizon. I get five weeks of vacation a year, and I take those five weeks. I honestly believe that I'm a better executive if I can refresh myself by taking more time with my family.

RD: What does the CFO of the Year award mean to you?

CJ: I know the award is really about recognizing an individual and trumpeting their successes, but, for me, the joy in this is that I really feel I share this with my team. I'm really proud of them and everything they've done, and that makes me feel great about all of this. **SF**

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