

Geneva, 22 March 2023

Dear Member,

Following the bankruptcy of the American Silicon Valley Bank (SVB) two weeks ago, the financial markets panicked because of a possible contagion effect this could have on other banking institutions.

Credit Suisse, having accumulated losses over the past few years due, notably, to hazardous investments that have led to a deterioration of its image, was the victim of bankruptcy rumors and speculation on social media networks at the end of last year. Even though the bank was not at risk and had sufficient equity capital at the time, these rumors resulted in massive client withdrawals (CHF 110 billion). SVB's bankruptcy has amplified this movement, and the CHF 50 billion credit line, granted last week by the Swiss National Bank (SNB), has unfortunately not allowed to slow down the withdrawals. The Federal Council was therefore forced to intervene to avoid Credit Suisse's bankruptcy, which would have had catastrophic consequences worldwide.

La Mutuelle has a global custody agreement with Credit Suisse which includes bonds and deposits. While these bonds would not have been affected in case of bankruptcy (they are deposited in the name of La Mutuelle), the same did not hold true for deposits. Our internal risk assessment, conducted in mid-2022, showed that the overall exposure to Credit Suisse was too high, which is why we made significant withdrawals at that time to rebalance the distribution of assets. The UBS takeover is nevertheless a relief as it ensures the preservation of La Mutuelle's deposits with Credit Suisse (7% of the total balance sheet). These deposits have also been declining naturally over the past months due to increased demand for loans to members.

The impact of recent events on the investment portfolio has fortunately been minimal. Although financial bonds are down, the Association's other investments are up since the beginning of the year, resulting in an overall net unrealized gain of CHF 1.60 million (+0.9%). The Association's management has always been prudent with the objective of preserving capital. La Mutuelle's assets are well diversified across various banking institutions, conservative investment vehicles, industry sectors, and of course loans to members. Even though members' deposits are not guaranteed as per statutes, significant reserves have been accumulated over many years to cope with financial crises (CHF 77 million to date).

Regarding the impact of the merger on the Association, it should be noted that the custody agreement with Credit Suisse is due to expire on 31 December 2023. The launch of a new tender for its renewal was initiated before the acquisition of Credit Suisse and the contract will therefore be awarded to another banking institution at the end of the process. As for the deposits and securities transactions, Credit Suisse said that, although the details of the transaction are still being worked out, there should be no disruption in client services. It will continue to operate as usual, working closely with UBS. However, as two of the Association's current banking partners become one, it will be essential from a risk management perspective to work with a new banking partner.

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It would be wrong to assume that the takeover of Credit Suisse by UBS will calm down the financial markets as one of the root causes lies in the rapid increase in interest rates to control inflation. Some banks, especially the US regional banks, can no longer borrow at low rates as in the past and have not prepared for associated risks. We must therefore expect further possible bankruptcies, especially if interest rates continue to rise. The consequences for the world economy are at this stage unpredictable.

In closing this brief update, the Board of Directors remains confident about the current economic situation and its impact on the Association, especially since all central banks are ready to intervene, as demonstrated by recent actions of the US Federal Reserve (FED) and the SNB. However, we can expect market fear and volatility to continue, especially if interest rates and inflation continue to rise. The Board of Directors will keep you informed about the situation and would like to remind you that the undersigned on the right, Mr. Patrick Humair, Head of Investments, is at your disposal should you need additional information. He can be contacted by e-mail at [lamutuelle@un.org](mailto:lamutuelle@un.org).

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