Emerging
Markets
Traders
Association

63 Wall Street, 20th Floor
New York, NY 10005
Tel. (212) 908-5000
Fax (212) 908-5039
www.emta.org

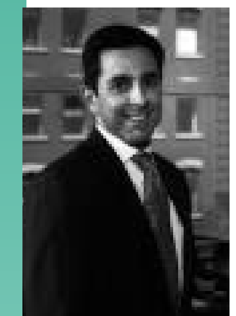
Emerging Markets Traders Association

1998 Annual Report

There's Life in the Emerging Markets

The Emerging Markets Traders Association is dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments and to helping integrate the Emerging Markets into the global capital markets.

LETTER FROM THE CO-CHAIRS



"Economic reform and development has made a promising start, but still requires considerable encouragement and support from both the official and private sectors"

Although 1998 started out as another promising year for the Emerging Markets, the Russian default on GKO debt and sharp depreciation of the ruble in August initiated a new round of Emerging Markets crises. The remainder of the year proved exceedingly difficult, as market forces pummeled the Brazilian economy and eventually led to the devaluation of the Brazilian real in early 1999. Trading volumes slumped almost across the board, the capital markets temporarily shut down, and some financial institutions re-examined their commitment to the Emerging Markets.

By mid-1999, the re-awakening of the new issues market and relative stability in Brazil gives some encouragement that the worst of the latest crisis has passed. As we move ahead, our industry, along with the official sector, shifts from managing the recent turmoil to promoting the long-term goal of growth and stability throughout the Emerging Markets; and we are re-examining our most recent experiences with a view to minimizing future market disruptions. Above all, we recognize that economic reform and development in the Emerging Markets has made a promising start, but still requires considerable encouragement and support from both the official and private sectors.

Recent proposals from the official sector to strengthen the architecture of the international financial system are multifaceted, and taken together, should promote greater stability and growth over the longer term. These proposals include a better flow of higher quality information about economic policies and performance in Emerging Markets countries and stronger financial systems and infrastructure in such areas as accounting standards, bankruptcy law, corporate governance, bank supervision, payments and settlements and securities market regulation. While emphasizing the need for Emerging Markets countries to persevere in their efforts to pursue economic reforms and liberalization, the official sector is also discussing important topics such as different exchange rate regimes, the appropriate role of controls on short-term capital flows and various plans to ease the debt burden of the world's poorest countries. Of great interest to the marketplace have been recent proposals to involve the private sector more effectively in the prevention and resolution of financial crises.

EMTA believes that the key pillars of strong financial architecture in the Emerging Markets are steadfast economic policies (including fiscal reform, the development of domestic capital markets and sustainable debt management); greater transparency in economic policy-making and performance; and stronger regulatory and market infrastructure. Countries that have made substantial progress in these areas have been rewarded with continued access to the capital markets at lower cost and with increased foreign direct investment, and we continue to support the efforts by Emerging Markets governments to reach these goals.

EMTA acknowledges the important role of the private sector's participation in crisis prevention and management, but is concerned that recent signals from the official sector suggest an under-appreciation of the risks, costs and difficulties inherent in forcing such participation. Although rescheduling bonds may be inevitable in some cases, the bond markets are among the most stable source of financing available to Emerging Markets countries, and great care should be taken to ensure that this flow of funds is encouraged, and not driven away. Accordingly, EMTA has expressed its concern that any policy that emphasizes bond rescheduling more than the need for countries to take all measures to avoid them is likely to be counter-productive.

We continue to urge that, in the interest of all concerned, rescheduling must be approached on a case-by-case basis and only as a last resort.

Just as the official sector is striving to build stronger financial architecture for the Emerging Markets, EMTA's principal mission since 1990 has been to help build stronger infrastructure to support the Emerging Markets debt industry. We pledge our continued efforts to identify and reduce market inefficiencies, and to promote a solid and stable marketplace for Emerging Markets debt instruments, so that emerging countries retain access to the capital markets for the medium and long-term funds needed to finance their lasting economic development.

On a more personal level, we note that 1998 EMTA Chair Rick Haller, who recently ended his tenure on EMTA's Board, was its longest serving member and the last of EMTA's original founders still serving on the Board. His departure reminds us of the remarkable vision that EMTA's founders have given us. Rather than focusing solely on their individual businesses, EMTA's founders devoted a great deal of their personal energy and their firms' resources to laying the cornerstone for the orderly development of a marketplace that we all can be proud of. We acknowledge our debt to their vision for our market and reaffirm its relevance as we approach EMTA's second decade.

Paul A. Masco

Guido A. Mosca

LETTER FROM THE EXECUTIVE DIRECTOR

"EMTA will remain committed to providing the best possible forum for the industry to identify needs and develop consensus"

Once again, our marketplace taught us in 1998 to 'expect the unexpected'. As we worked to support the further integration of the Emerging Markets into the global marketplace, many Emerging Markets nearly unraveled. This was not a pleasant or comfortable time for anyone in our industry, and repercussions are still being felt around the marketplace and, indeed, the world.

As the market begins to recover, we are able to learn from our experience. EMTA has been working with market participants to evaluate how effectively the market's infrastructure was able to cope with last year's turbulence. Amidst some concerns, there is considerable good news.

Over the past several years, the Emerging Markets trading industry has invested heavily in the development of stronger market infrastructure – the systems, procedures and documentation used to conduct and to support its trading activities. The integrity of the trading industry depends upon a series of processing steps that reliably culminate in final settlement. This infrastructure, and the people who run it, are sometimes taken for granted, but it and they are never more important than when the market is under unusual stress.

The volatility precipitated by 1998's market events tested this infrastructure mightily. And we are very pleased that, for the most part, the market's systems and procedures held up remarkably well. The inevitable market losses and counterparty concerns were fortunately *not* compounded by serious systems failures or breakdowns in market practices or other conventions. They easily could have been – if the marketplace had not wisely invested so much over the years in sound market infrastructure.

Of course, there is room for improvement and, because we have a long-term view on the prospects of the Emerging Markets trading industry, EMTA is committed to an agenda that permits market participants to identify areas that can be improved and to develop the consensus necessary to do so.

In the year to come, EMTA expects to focus its efforts in the following areas:

(1) Recent market conditions have focused attention on weaknesses in the processing and financial capacity of the inter-dealer brokers (IDB's), as well as on the systemic implications of concentrating so much counterparty and operating risk in private clearing arrangements. The industry has successfully built a clearing corporation that works well to reduce counterparty risk. We now need to encourage greater participation in EMCC, and to expand its use, so that the benefits of its risk reduction and operating efficiencies can be fully realized. An even greater effort must be made to ensure that prompt settlement of all trades can more reliably be made in times of market stress, and the process of building a safer system for the processing and settlement of trades conducted on the IDB screens needs to be completed.

(2) In recent years, the global bond markets have become an indispensable source of capital for Emerging Markets sovereign issuers. As the official sector calls for greater private sector participation in resolving financial crises, EMTA will continue to represent our industry's interests in seeking an appropriate balance between investor and sovereign expectations.

(3) A year ago, the industry completed the first stage in developing derivatives documentation that addresses Emerging Markets issues. This documentation now needs to be fine-tuned so that it better meets the current needs of the Emerging Markets trading and investment communities. We also need to help find ways to speed up the process of confirming derivatives transactions and to make sure that such documents are legally enforceable to the maximum extent possible in key Emerging Markets.

(4) Some market practices and documentation, especially for certain Russian assets, have been revised to reflect current market realities. As the Russian situation continues to evolve, we must be ready to respond to the chang-ing needs of the marketplace.

(5) In the past several years, through a number of market initiatives, including EMCC, the dealer community has developed linkages and other mechanisms that facilitate timely trade settlement. The Emerging Markets trading industry will soon need to prepare for the day when settlement periods are shortened from the current T+3 standard to T+1. This contraction will require better linkages and closer cooperation than ever before between the dealer and investment communities. In the near future, more effort should be focused on these needs.

Most importantly, the structural changes that are occurring throughout the global financial industry present special challenges to the Emerging Markets sector. Looking ahead, it is still necessary to integrate the Emerging Markets more fully into the global financial marketplace, but without sacrificing those special qualities and skills that have shaped our industry and enabled it to adapt and thrive so successfully under market conditions that are often far from ideal. As a former EMTA Director once noted, "the Emerging Markets are a state of mind," and it would be unfortunate to lose or dilute the attitudes, experience and skills that have been so important to the development of the Emerging Markets trading industry.

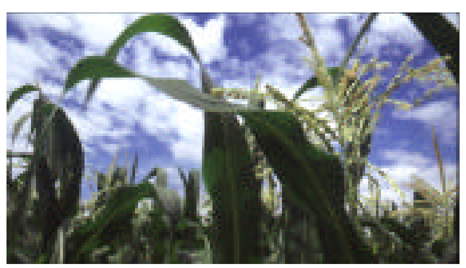
For EMTA's part, we intend to participate in this process of integration without compromising our integrity or effectiveness. We will continue to collaborate with other industry groups with the goal of ensuring that the interests of the Emerging Markets trading industry, and the Emerging Markets themselves, are represented and well-served.

As in the past, there is no clear blueprint for completing these tasks. EMTA will remain committed to providing the best possible forum for the industry to use to identify its needs and to develop the consensus necessary to work out viable solutions.

Michael M. Chamberlin

Greater Size and Diversity for Emerging Markets Instruments

Emerging Markets debt trading has evolved over the 1990's into a global over-the-counter trading market that meets the needs of a diverse and sophisticated investor base. As the Emerging Markets have developed, they have diversified beyond Latin America to include Russia, Central and Eastern Europe, Asia and Africa. Investors have a wider selection of geographically diversified investment opportunities than ever before with a broader spectrum of investment instruments and risk characteristics.



Corn Field, Yucatán, Mexico

Size and Diversity of the Marketplace

The 1990's have seen exceptional growth in the overall size and depth of the trading market for Emerging Markets instruments. Total trading volumes for debt instruments alone have risen from U.S. $734 billion in 1992 to U.S. $4.2 trillion in 1998 (down from nearly U.S. $6 trillion in 1997), a trend that reflects the importance of Emerging Markets debt to the global trading and investment communities.

As Emerging Markets countries and companies have re-entered the capital markets and internal capital markets have become more highly developed, Brady bonds have been supplemented by an ever wider variety of Eurobonds and local currency instruments. At the same time, the increased need for equity investment throughout the Emerging Markets has created a myriad of opportunities in the rapidly developing private sectors. Along with this increase in investment instruments, and in the development of their marketplace, has come greater liquidity and innovation in the use of derivative instruments, including non-deliverable currency forwards and structured products.

Market participants include the world's major commercial and investment banks and various local entities, as well as a wide range of institutional investors.

Risks and Yields

Investors have been drawn to the Emerging Markets by their strong growth potential and by the expectation of higher yields than are generally available in the developed economies. Of course, such yields reflect the different types and higher levels of risks that typically characterize Emerging Markets investments. Volatility in the Emerging Markets debt trading markets can be exceptionally high at times, but market participants have been able to rely upon considerable liquidity, at least in the market's benchmark instruments, even during its occasional periods of stress.

Trading and Settlement

The marketplace for Emerging Markets debt instruments is an OTC market of dealers and investors located worldwide but linked informally through a network of broker screens as well as normal telecommunications channels. Most trading is conducted orally, either directly between dealers and investors or, in the case of Brady bonds and sovereign Eurobonds, often through brokers. Bond settlements are normally made through Euroclear or Cedel.

In general, the trading and settlement of Brady bonds and Eurobonds occurs in accordance with customary international securities practices (including procedures for the U.S. institutional markets). Due to their unique origins and characteristics, EMTA has developed many Market Practices for trading Brady bonds. Electronic trade confirmation and matching has been provided by EMTA's Match-EM system since 1995, and since beginning operations in April 1998, the Emerging Markets Clearing Corporation has helped to reduce counter-party risk and improve efficiency by assuming trades and effecting settlement on behalf of ten major dealers.

Loan trading and settlement generally is conducted in accordance with EMTA Market Practices and Standard Terms.

EMTA Enables Individual Market Participants to Conduct their Activities with Greater Confidence, Efficiency and Safety and Helps to Reduce Systemic Risk

Formed in 1990 in response to the new trading opportunities created by the sovereign debt reschedulings under the Brady Plan, EMTA now has 123* member institutions, including leading financial institutions worldwide. EMTA's 52* Full Members are firms that actively trade Emerging Markets instruments.

EMTA's Board of Directors is composed of leaders in Emerging Markets trading who meet quarterly to set EMTA policies. Most EMTA projects are developed and implemented through Working Groups composed of industry representatives.

Headquartered in New York City, EMTA has a full-time staff of 13* professional and support personnel. EMTA also maintains an informal presence in London and in Paris.

A Forum for Voluntary Self-Regulation

EMTA actively encourages the highest standards of integrity and professionalism by providing a forum for voluntary self-regulation. EMTA's Code of Conduct for the trading of Emerging Markets debt instruments encourages all market participants to ensure that the marketplace remains as professional as possible. Through the adoption of general trading principles and more specific Market Practices, EMTA also strives to develop a better common understanding of market conventions that help ensure an orderly market.

Better Risk Management and Greater Efficiency

Managing risk and improving operating efficiency in the rapidly evolving Emerging Markets trading business is a major challenge. EMTA's efforts have met these needs in the areas of bond, loan and derivatives trading by ensuring that trades are confirmed and settled more quickly and, in the case of its netting facilities, by allowing market participants to reduce their aggregate levels of counterparty exposure. The Emerging Markets Clearing Corporation and EMTA's Match-EM system were developed by EMTA to respond to the need to reduce counterparty risk and improve operational efficiency in the trading of Brady bonds. Other measures to promote greater efficiency include EMTA's Standard Terms for Assignments of Loan Assets and the 1998 FX and Currency Option Definitions, which were developed in collaboration with the International Swaps and Derivatives Association (ISDA) and the Foreign Exchange Committee. By facilitating better risk management, EMTA enables individual market participants to conduct their activities with greater confidence, efficiency and safety and helps to reduce systemic risk.

Lumber mill, San Isidro, Costa Rica

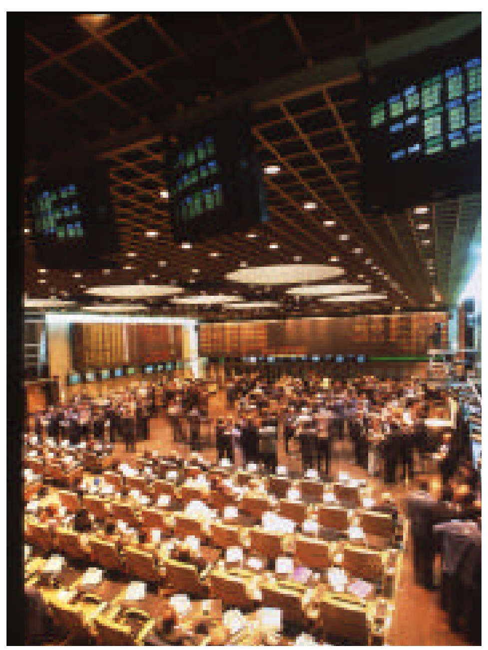
More Transparency

Through a variety of projects, including its annual and quarterly Volume Surveys of debt trading and Month-End Pricing Survey, EMTA promotes greater market transparency for the benefit of investors and other market professionals. By arrangement with EMCC, EMTA also collects and disseminates market volume and price data on a 'next day' basis for the 135 eligible instruments cleared by EMCC.

*as of May 1, 1999

EMCC Provides an Essential Building Block in the Industry's Need to Bring Greater Liquidity, Safety and Soundness to the Operation of its Trading Screens

Several projects that best represent EMTA's recent contributions to the orderly development of the marketplace for Emerging Markets instruments are (a) sponsorship of the Emerging Markets Clearing Corporation (EMCC), (b) helping market participants cope with the Russian devaluation and its aftermath (most notably by developing a mechanism to value the Russian ruble) and (c) an effort to make documentation and settlement of non-deliverable currency forward transactions (NDF's) more efficient.



Bolsa de Comercio Stock Exchange, Buenos Aires, Argentina

EMCC Gets Operational

Most trading of Brady bonds and sovereign Eurobonds in the inter-dealer market occurs through trading screens made available by inter-dealer brokers (IDB's). To support this screen-based trading, and to address concerns about related counterparty risk, EMTA has sponsored the Emerging Markets Clearing Corporation. EMCC, which began operations in April 1998 after two years of development and testing, brings improved efficiency and reduced counterparty risk to the marketplace for Brady bonds and sovereign Eurobonds by assuming and netting matched trades and delivering settlement instructions directly to the Euroclear and CEDEL settlement systems.

The EMCC project provides a good example of EMTA's process of convening industry working groups to identify and address market needs. This process gives market participants the opportunity to be heard, without sacrificing the need for prompt industry action once consensus has been reached.

As of May 1, 1999, EMCC was clearing trades in over 130 eligible instruments by ten participating members (nine leading dealers and one private clearing firm that submits trades on behalf of IDB's). In its first full year of operation, EMCC successfully processed over 178,000 trade inputs and settled trades with an aggregate principal amount of over U.S. $246 billion. By the end of this first operating year, EMCC was consistently achieving a matching rate of 90% or more on trade date.

Even at its current membership level, EMCC amply demonstrated during 1998's traumatic market conditions that it brings greater operating efficiency and reliability and enhanced creditworthiness to the clearance and settlement of Emerging Markets debt instruments. Looking ahead, EMCC provides an essential building block in the industry's need to bring greater liquidity, safety and soundness to the operation of its trading screens.

The Market Copes with Russia and its Aftermath

Less than a year after its long-awaited VEB loan rescheduling of over U.S. $28 billion in bank debt claims, Russia effectively devalued the ruble in mid-August 1998 and announced a moratorium on certain indebtedness. These disappointing events, and the resulting loss of investor confidence, dropped asset values for most Russian instruments to default levels and set off a wave of contagion that swept across the Emerging Markets. Trading strategies were hastily revamped and, after a flurry of activity, trading volumes in most asset classes plummeted.

In addition to serving as a clearing house for information about the effect of these precipitous events on specific assets, EMTA provided a forum that enabled market participants to address one of their most pressing needs – in the absence of normal market mechanisms, how could the ruble's value be determined? Such valuation was important, among other things, in determining settlement obligations under NDF contracts. In response to this need, EMTA worked with the Chicago Mercantile Exchange (CME) and major market participants to create, literally within days after the Russian MICEX rate-fixing was suspended, the CME/EMTA reference rate for valuing the ruble against the U.S. dollar. This rate, published daily on the Reuters "EMTA" screen page, now serves as the back-up valuation for settling the CME's ruble futures contracts and as the primary valuation mechanism for many ruble NDF's.

Negotiations in London between Russia and foreign GKO-holders proved frustrating as the year drew to a close, and by late November it became apparent that VEB would be unable to meet its December 2 interest payment obligations on Restructured Principal. In addition to urging Russia to treat foreign GKO-holders fairly and to keep VEB's Interest Notes (IAN's) current, EMTA acted quickly, in consultation with leading market participants, to revise existing Market Practices for trading Restructured Principal to reflect its default status and, as a result, to eliminate certain pricing distortions shortly before the December 2 due date. Since year-end, EMTA has been in regular contact with representatives of Russia's bank advisory committee and expects to serve as a communications link for the trading community when London Club rescheduling negotiations resume in mid-1999.

Greater Efficiency in the NDF Market

Because swaps and derivatives documentation did not previously address various Emerging Markets risks, EMTA worked in collaboration with the International Swaps and Derivatives Association (ISDA) and the Foreign Exchange Committee to develop the 1998 FX and Currency Option Definitions, which gave the marketplace a variety of provisions for use in documenting foreign exchange trades, including non-deliverable currency forward transactions (NDF's). By mid-year, however, market participants informed EMTA that a substantial backlog of undocumented NDF's had accumulated because, despite the many alternatives provided by the 1998 Definitions, the market lacked standard forms for confirming transactions, even in the most commonly traded NDF currencies.

Building on previous experience in the loan and Brady bond markets, EMTA initiated an effort to bring greater standardization and discipline to the process of documenting and settling NDF trades. As a result, an EMTA working group has surveyed market trading preferences and is currently developing currency-by-currency confirmation templates and Market Practices for the NDF market. The working group is also exploring proposals for determining primary and secondary rate sources for settling NDF's, for amending or supplementing the 1998 Definitions when need be, and for facilitating orderly industry decision-making when market events or changing circumstances require revisions in the templates or related Market Practices or other market guidance. Many of these proposals are expected to be implemented by the end of 1999.

> "There's too much talk about new financial architecture,"observed Mr. Brady.

Market participants in the Emerging Markets gathered at EMTA's 1998 Annual Meeting on December 8 in New York City to hear and discuss presentations by industry leaders, including keynote speaker Nicholas F. Brady, former U.S. Secretary of the Treasury and now Chairman and CEO of Darby Overseas Investments Ltd.

Nicholas F. Brady

Nicholas F. Brady, Michael M. Chamberlin and Rick Z. Haller

Nicholas F. Brady answering reporters' questions at his press conference

EMTA Speakers and Panel Discussions

Despite Russia's effective devaluation and default in August 1998 and widespread contagion from the Asian crisis, Mr. Brady gave a generally upbeat assessment of long-term investment prospects in Latin America. Reviewing the response of policymakers to recent events in the Emerging Markets, Mr. Brady concluded that there was "too much talk about new financial architecture." In his view, such talk would "not get the downward thinking stopped. What is needed is somebody becoming operational."

Discussing the recent turbulence in the Emerging Markets, 1998 EMTA Chair Rick Haller (formerly a member of the Management Committee of Deutsche Morgan Grenfell, Director of Morgan Grenfell and Chief Executive of Emerging Markets, Proprietary Trading) contrasted effective IMF leadership after the Mexican devaluation in late 1994 and during the Korean crisis to its role regarding Russia. He criticized the IMF for sending misleading signals to the international banking community that Russia's financial problems were solvable. "The failure of the IMF and the G-7 to show timely leadership in Russia in August [1998]," Mr. Haller stated, "may prove to be the biggest international policy mistake of the post-Cold War era."

Two panel discussions on the Economic Outlook and Investor Perspectives in 1999 followed Mr. Brady's keynote address. Jose Luis Daza (J.P. Morgan) moderated the Sell-Side panel and research panelists included Richard Gray (Bank of America), Lawrence Brainard (Chase), Paulo Leme (Goldman Sachs), Arturo Porzecanski (ING Barings) and Joyce Chang (Merrill Lynch). The Sell-Side analysts were decidedly less optimistic in their economic predictions for Emerging Markets than in previous years, when countries such as Russia had been touted. Low commodity prices, fiscal deficits, unstable currencies and high local interest rates were among the concerns expressed.

Tom Trebat (Salomon Smith Barney) moderated the Buy-Side panel and investor panelists included Mark Siegel (Mass Mutual), Ashwin Vasan (Oppenheimer Management), Luis R. Luis (Scudder Kemper Investments) and Arminio Fraga (Soros Fund Management). EMTA's Buy-Side Panel was also less optimistic than in previous years. However, several panelists spoke positively about local instruments and noted that earlier fears of a global recession had diminished with developed country interest rate cuts.

> "1998 was a year that we have to put down to experience," Mr. Haller noted. "And experience is what you get when you don't get what you want."

Management's Discussion and Analysis

EMTA's net assets increased by $1,353,262 during 1998 (from $1,380,642 at year end 1997 to $2,733,904 at year end 1998), compared with a 1997 increase of $576,773. EMTA's overall financial results for 1998 reflected sharply reduced expenditures across most expense categories, together with revenues that did not decline as expected, mostly because of greater than anticipated revenues from Multilateral Netting.

Revenue

Total revenue amounted to $4,677,357 in 1998, an increase of $32,169 (or less than 1%) over 1997 revenues of $4,645,188. This increase, which had not been budgeted, was due to several offsetting factors: (a) an increase in the level of Membership dues for Full Members (from $20,000 in 1997 to $25,000 in 1998) increased net Membership dues by $198,920 (11%) to $1,981,337 (despite a decline in overall Membership from 169 to 147 (13%); the decline in the number of Members was mainly confined to the Affiliate level – 39 at the end of 1998, as compared with 65 at the end of 1997); (b) fees for program services increased by $107,819 (8%) to $1,539,856 in 1998 from $1,432,037 in 1997, reflecting (i) an increase of $242,075 in reported revenue from the Multilateral Netting Facility, primarily due to the recovery of $173,775 in receivables previously written off, (ii) a decrease in Match-EM revenue of $266,242, because responsibility for managing Match-EM's operation (including payment of expenses and collection of related accounts receivable) was effectively assumed by EMCC, and (iii) first year revenues of $131,986 from EMCC; and (c) Directors' assessments declined by $187,500 (16%) to $950,000 in 1998 primarily because individual assessments levels were lowered for all Director classes.

Expenses

EMTA's total expenses declined by $744,320 (18%) from $4,068,415 in 1997 to $3,324,095 in 1998, largely as a result of continuing efforts to cut costs in line with anticipated revenues and to deliver membership services more efficiently.

Staff expenses decreased from $2,577,942 in 1997 to $2,110,905 in 1998, a reduction of $467,037 (or 18%). This reduction was primarily due to a decline in EMTA staff from a high of 20 early in 1997 to 15 by the end of 1998. In addition, a portion of the decrease was due to delayed replacement of two departing staff members, resulting in lower staffing costs in 1998.

Communications expenses were reduced by $39,182 (19%) to $165,475 in 1998. This reduction reflected a shift from communications by physical delivery of hard-copies to more electronic forms of communications such as faxing and e-mailing. The individual components of this overall cost reduction were (a) a decrease of $31,226 in shipping and delivery costs, (b) a decrease of $15,475 in printing of Member documents, and (c) an increase of $7,519 in telecommunications costs.

Professional services expenses decreased from $774,080 in 1997 to $608,033 in 1998 (a decrease of $166,047 or 21%). Most of this decrease resulted from a $150,850 reduction in expenses paid to GEIS during 1998; this reduction reflected the effective assumption by EMCC of responsibility for both collections and disbursements of Match-EM expenses.

Expenses relating to conferences, receptions and travel were reduced by approximately $67,724 (42%) to $93,560 in 1998 from $161,284 in 1997, primarily because a refocusing of local markets activities in late 1997 resulted in sharply reduced traveling during 1998 by EMTA staff.

Report of Independent Accountants

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of the Emerging Markets Traders Association and its subsidiaries (the "Association") at December 31, 1998 and 1997, and the changes in its net activities and cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Association's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

March 26, 1999

Highlights

For the Year Ended December 31,

	1998	1997	1996	1995	1994	1993
Marketing Trading Volume (in billions of US.$)	4,174	5,916	5,297	2,739	2,766	1,979
Brady Bonds	1,541	2,403	2,690	1,580	1,684	1,021
Non-Brady Eurobonds	1,021	1,335	568	211	159	177
Loans	213	305	249	175	244	274
Local Markets Instruments	1,176	1,506	1,274	593	524	NA
Derivatives (Options, etc.)	223	367	471	179	142	57
Number of Members at year end:						
Full	60	62	63	60	83	75
Associate	43	36	35	43		
Affiliate	39	65	51	43	69	43
Local Markets	5	6	5			
Total Members	147	169	154	146	152	118
Revenue:						
Membership dues	$1,981,337	$1,782,417	$1,652,167	$1,337,250	$1,364,250	$ 894,500
Fees for program services	1,539,856	1,432,037	1,711,782	2,212,351	1,434,922	—
Directors' support (assessments and donated services, facilities and supplies)	950,000	1,137,500	1,151,250	1,170,000	1,312,500	787,949
Other	206,164	293,234	416,137	148,620	30,675	13,203
Total Revenue	4,677,357	4,645,188	4,931,336	4,868,221	4,142,347	1,695,652
Expenses:						
Staff	2,110,905	2,577,942	2,490,805	1,763,810	1,269,064	366,983
Office	346,122	350,452	372,247	309,775	201,987	91,436
Communications	165,475	204,657	251,085	335,653	260,433	11,241
Professional Services	608,033	774,080	1,198,475	2,153,877	1,945,580	839,169
Conferences, receptions and travel	93,560	161,284	240,713	235,549	196,415	250,707
Total expenses	3,324,095	4,068,415	4,553,325	4,798,664	3,873,479	1,559,536
Increase in net assets	1,353,262	576,773	378,011	69,557	268,868	136,116
Net assets:						
Beginning of year	1,380,642	803,869	425,858	356,301	87,433	(48,683)
End of year	$2,733,904	$1,380,642	$ 803,869	$ 425,858	$ 356,301	$ 87,433

Consolidated Statements of Financial Position

	December 31, 1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 4,094,840	$ 3,771,236
Dues and fees receivable from Members	65,092	211,997
EMCC subscriptions receivable	—	1,441,193
Prepaid expenses and other assets	8,877	17,710
Total current assets	4,168,809	5,442,136
Property and equipment:		
Leasehold improvements	89,112	89,112
Computer equipment and network	119,601	105,618
Furniture and fixtures	80,607	80,607
Telecommunication equipment	38,312	38,000
	327,632	313,337
Less accumulated depreciation	(251,632)	(206,656)
	76,000	106,681
EMCC start-up costs	95,960	95,960
Total Assets	**$ 4,340,769**	**$ 5,644,777**
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 947,312	$ 682,084
Unearned Membership dues	612,000	182,387
Payable to EMCC	—	3,340,000
Total current liabilities	1,559,312	4,204,471
Deferred rent expense	47,553	59,664
Total liabilities	1,606,865	4,264,135
Net assets	2,733,904	1,380,642
Total Liabilities and Net Assets	**$ 4,340,769**	**$ 5,644,777**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Activities

	For the Year Ended December 31, 1998	1997
Revenue		
Membership dues	$ 1,981,337	$ 1,782,417
Fees for program services	1,539,856	1,432,037
Directors' assessments	950,000	1,137,500
Investment income	171,815	119,481
Other	34,349	173,753
Total revenue	**4,677,357**	**4,645,188**
Expenses		
Compensation and benefits	2,110,905	2,577,942
Occupancy	139,299	136,964
Office supplies and administration	161,846	140,487
Depreciation	44,977	73,001
Telecommunications	118,732	111,213
Shipping and delivery	43,369	74,595
Printing of documents for Member services	3,374	18,849
Legal	352,610	313,869
Program contractors	137,446	298,296
Public relations and annual report	71,535	111,751
Audit, tax and computer consultants	46,442	50,164
Conferences, receptions and meetings	11,580	24,905
Travel, lodging, meals and other	81,980	136,379
Total expenses	**3,324,095**	**4,068,415**
Increase in net assets	1,353,262	576,773
Net assets, beginning of year	1,380,642	803,869
Net assets, end of year	**$ 2,733,904**	**$ 1,380,642**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash flows

	For the Year Ended December 31, 1998	1997
Cash flows from operating activities:		
Increase in net assets	$ 1,353,262	$ 576,773
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	44,977	73,001
(Increase) decrease in dues and fees receivable from Members	146,905	6,109
(Increase) decrease in EMCC subscriptions receivable	1,441,193	(524,193)
(Increase) decrease in prepaid expenses and other assets	8,833	(12,510)
Increase (decrease) in accounts payable and accrued expenses	265,228	45,541
Increase (decrease) in unearned Membership dues	429,613	147,388
Increase (decrease) in payable to EMCC	(3,340,000)	1,587,500
Increase (decrease) in deferred rent expense	(12,111)	(1,772)
Net cash provided by operating activities	337,900	1,897,837
Cash flows from investing activities:		
EMCC start-up costs	—	(95,960)
Payments for purchases of property and equipment	(14,296)	(9,990)
Net cash used for investing activities	(14,296)	(105,950)
Increase in cash and cash equivalents	323,604	1,791,887
Cash and cash equivalents, beginning of year	3,771,236	1,979,349
Cash and cash equivalents, end of year	**$ 4,094,840**	**$ 3,771,236**

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

1. Organization

Emerging Markets Traders Association ("EMTA") is a non-profit corporation, formed in 1990 to promote the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments. EMTA's primary sources of revenue are Membership dues, Directors' assessments and, through its subsidiaries, fees for program services.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Operations of Subsidiaries

The consolidated financial statements include the accounts of EMTA and its four subsidiaries described below. Intercompany accounts and transactions are eliminated in consolidation.

The subsidiaries were organized in 1996 to provide services to participating Members, for which they charge fees, in carrying out EMTA's mission. The subsidiaries include: (a) Match-EM, Inc., which operates an electronic post-trade matching and confirmation system, (b) Net-EM, Inc., which operates a multilateral netting and clearing facility for outstanding trades of loans and other instruments, (c) Clear-EM, Inc., which serves as EMTA's interface with Emerging Markets Clearing Corporation (EMCC), and (d) EMTA Black Inc., a holding company that is wholly owned by EMTA and that owns 100% of the common stock of the above three subsidiaries.

Membership Dues and Directors' Assessments

EMTA has four membership categories:

Full Members – active market participants that trade or invest in Emerging Markets instruments;

Associate Members – market participants that trade or invest in Emerging Markets instruments, but which are smaller and less active than Full Members;

Affiliate Members – non-market participants that are nevertheless interested in Emerging Markets trading such as advisors, vendors, law firms, rating agencies and consultants; and

Local Markets Members – locally-based market participants that trade or invest in Emerging Markets instruments.

Membership dues and Directors' assessments for each calendar year are billed in advance and are recorded as unearned Membership dues in the Consolidated Statement of Financial Position at the beginning of such year. The unearned dues and assessments are then amortized to income throughout the year as earned. Members not paying their annual dues within 60 days of billing may be suspended from membership. The Board of Directors may levy special assessments on Members to defray certain expenses. Such special assessments are to be equal for all Members of the same class. Additionally, the Board may agree to levy assessments on Directors (payable by the Members that employ them) to meet working capital deficiencies.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Excess funds are maintained in either: (a) an interest-bearing money market account with a bank that is also an EMTA Member or (b) an income-producing mutual fund managed by the same bank. This mutual fund invests in high quality short-term obligations of corporations, governments and banks and is carried at fair value. Balances in these two accounts are included in cash and cash equivalents in the Consolidated Statement of Financial Position.

Allowance for Doubtful Accounts

The allowance for doubtful accounts provides for the risk of losses arising from non-collection of dues, assessments and fees. Amounts included in the allowance are specifically reserved for, and the offsetting charge is recorded to the applicable revenue caption in the Consolidated Statement of Activities. Any subsequent recoveries are credited to the same caption. The allowance is increased by provisions for doubtful accounts and reduced by write-offs and recoveries of allowances previously provided. Write-offs are recorded when, in the judgment of management, a receivable is considered uncollectible. Such write-offs amounted to $25,232 in 1998 and $17,500 in 1997. The allowance for doubtful accounts amounted to $87,000 at December 31, 1998, $228,170 at December 31, 1997 and $25,670 at December 31, 1996.

Property and Equipment

Amortization of leasehold improvements is provided on a straight-line basis over the shorter of the estimated lives of the improvements or the related lease, beginning at the lease inception date. Depreciation of computer, network and telecommunications equipment is provided on a straight-line basis over estimated useful lives of three years. Depreciation of furniture and fixtures is provided on a straight-line basis over estimated useful lives of five years.

Income Taxes

EMTA is exempt from income tax under Section 501(c)(6) of the Internal Revenue Code and similar provisions of state and city tax codes. However, EMTA is subject to tax on any unrelated business taxable income. An unused net operating loss carryforward of approximately $96,000 was available at December 31, 1998 and can be used to offset future taxable unrelated business income. This carryforward will expire in 2010 if not used before then. The operations of EMTA's subsidiaries are also subject to income tax, but taxable income generated since inception in 1996 has not been material.

3. Summary of Revenue

The individual components of the primary revenue categories are set forth below:

	For the Year Ended December 31, 1998	1997
Membership dues:		
Full	$ 1,496,504	$ 1,216,667
Less provision for doubtful accounts	(50,000)	—
Subtotal Full	1,446,504	1,216,667
Associate	403,333	347,500
Affiliate	113,250	192,000
Less provision for doubtful accounts	(3,000)	—
Subtotal Affiliate	110,250	192,000
Local Markets	21,250	26,250
Total Membership dues	**$ 1,981,337**	**$ 1,782,417**
Fees for program services:		
Multilateral Netting Facility	$ 921,400	$ 1,043,100
Plus recoveries of previously provided doubtful accounts	173,775	—
Less provision for doubtful accounts	—	(190,000)
Subtotal Multilateral Netting Facility	1,095,175	853,100
Match-EM	293,532	608,937
Plus recoveries of previously provided doubtful accounts	29,163	—
Less provision for doubtful accounts	(10,000)	(30,000)
Subtotal Match-EM	312,695	578,937
Clear-EM	131,986	—
Total fees for program services	**$ 1,539,856**	**$ 1,432,037**
Directors' assessments	$ 974,000	$ 1,137,500
Less provision for doubtful accounts	(24,000)	—
Total Directors' assessments	**$ 950,000**	**$ 1,137,500**

The accompanying notes are an integral part of these financial statements.

4. Summary of Expenses

Following is a summary of program and non-program expenses:

	For the Year Ended December 31, 1998	1997
Program expenses:		
Direct:		
Multilateral Netting Facility	$ 12,024	$ 20,600
Match-EM	134,446	307,982
Clear-EM	—	65,893
Documentation and Market Practices	305,351	159,053
Conferences, receptions and meetings	11,581	24,905
Other	—	8,363
Indirect (primarily staff and facilities costs)	1,846,656	2,249,770
Total program expenses	2,310,058	2,836,566
Non-Program expenses:		
Direct:		
Public relations and membership development	71,535	111,751
General administration	84,676	100,439
Indirect (primarily staff and facilities costs)	857,826	1,019,659
Total non-program expenses	1,014,037	1,231,849
Total expenses	**$ 3,324,095**	**$ 4,068,415**

5. Office Space Lease

EMTA's office space lease became effective March 1, 1995 and runs through January 31, 2003, with an option to renew for five additional years at a rate of 95% of the fair market rental at July 31, 2002. The annual payments for rent are $124,614 ("base") plus EMTA's proportionate share of increases in property taxes and other building expenses after the first year ("escalation"), except that EMTA made no payments for six months in 1995 and for three months in 1996. Annual rent expense consists of the year's ratable share of the total base amount to be paid over the life of the lease, plus the escalation amount for the year, which totaled $120,188 in 1998 and $113,704 in 1997. An EMTA Member employing a Director has provided a letter of credit (subject to partial reimbursement by three other Members that also employ Directors) to provide additional security to the landlord of EMTA's performance under the lease.

6. Employee Benefit Plans

EMTA has two Plans, descriptions of which are set forth below:

- a 401(k) Plan, whereby participants are allowed to contribute up to 15% of taxable compensation, subject to statutory limitations. EMTA matches the first 4% of such contributions. All employees are eligible to participate, and balances in participants' accounts are fully vested at all times; and
- a SEP-IRA arrangement, whereby EMTA contributes a certain percentage of eligible compensation each year, at the election of EMTA and subject to statutory limits. All staff employed at year-end are eligible to participate, and balances in participants' accounts are fully vested at all times.

Contributions to the above two Plans totaled $171,548 in 1998 and $170,563 in 1997, which are included in compensation and benefits in the Consolidated Statement of Activities.

7. Commitments — Emerging Markets Clearing Corporation ("EMCC")

In 1996, EMTA entered into an agreement with a subsidiary of National Securities Clearing Corporation ("NSCC") to develop EMCC, which clears trades of Emerging Markets debt instruments. EMTA coordinated industry decision-making regarding EMCC's development. In this connection, EMTA, through its subsidiary Clear-EM, Inc., provided management and legal expertise and certain administrative services, including billing and collection of EMCC's initial funding requirements. These receivables were recorded in 1996 and 1997 as EMCC subscriptions receivable, and the related credit recorded as payable to EMCC, in the Consolidated Statement of Position.

Total subscriptions of approximately $4.8 million were billed, half in each of 1997 and 1996. The proceeds were used for development and implementation of EMCC, of which $750,000 was remitted to NSCC in each of 1997 and 1996, and $2.6 million was remitted in 1998 along with the remaining uncollected receivables of $700,000. In addition, EMCC reimbursed EMTA for certain legal expenses incurred. Such reimbursements amount to approximately $150,000 in each of 1997 and 1996, and are recorded as other revenue in the Consolidated Statement of Activities. In addition, in March 1999 EMTA received a minority interest in EMCC in exchange for various services rendered by EMTA in connection with EMCC's development. The carrying cost of the investment in EMCC will be the 1997 loss of $95,960 generated by Clear-EM, Inc, which was capitalized as EMCC start-up costs in the Consolidated Statement of Financial Position. These costs consist primarily of allocated but unreimbursed staff compensation and benefits.

EMCC began actual operations in the spring of 1998. As part of its commencement of operations, it began paying a royalty to Clear-EM for trades processed through Match-EM and entered into EMCC, which is recorded as fees for program services in the Consolidated Statement of Activities. Additionally, EMCC assumed responsibility for operating Match-EM, for which it reimburses the transaction costs incurred by Match-EM. These reimbursements amounted to $276,869 in 1998 and are recorded as a credit to program contractors expense in the Consolidated Statement of Activities, as if EMCC were legally responsible for liabilities incurred by Match-EM.

EMTA FULL MEMBERS

Full Members Actively Trade Emerging Markets Instruments.

ABN AMRO Bank N.V.
Banco Safra (Bahamas) Limited
Banco Santander
BankBoston
Bank of America
Bankers Trust
Banque Nationale de Paris
BB Securities Limited
Bear Stearns
Caboto Holding
Cantor Fitzgerald
Cargill Financial Services
Chase Manhattan
Credit Agricole Indosuez
Credit Suisse First Boston
Daiwa Securities
Deutsche Bank AG
Dresdner Kleinwort Benson
E.D.&F. Man Global Markets
Euro-American Capital Corp.
Euro Brokers Maxcor Inc.
Fidelity Investments
Goldman Sachs & Company
HBK Investments
Henry Ansbacher
HSBC Midland
ING Barings
Intercapital International
Inverworld Securities
J.P. Morgan
Lehman Brothers
Merinvest
Merrill Lynch
Morgan Grenfell Asset Management
Morgan Stanley
Morgan Stanley Dean Witter Investment Management
Paribas Capital Markets
Prebon Yamane
Refco Securities
Renaissance Capital Group
Republic National Bank of New York
Salomon Smith Barney
Scotia McLeod Inc.
Société Générale
Standard Bank London
State Street Bank
Tradition (North America)
Trigone Capital Finance
Tullet & Tokyo
UBS
Wasserstein Perella
Vnesheconombank

EMTA ASSOCIATE, LOCAL MARKET AND AFFILIATE MEMBERS

Associate Members

AIG Trading Group
Arab International Bank
Bancomer
Bank Austria Creditanstalt AG
Bank Handlowy w Warszawie S.A.
Barclays Bank Plc
Bayerische Hypo-Vereinsbank AG
BCEN Eurobank
BfG Bank
Boavista Banking
CCF Group
Compagnies d'Escomptes Financiers
Credit Lyonnais Securities
Deltec Asset Management Corporation
Donaldson Lufkin & Jenrette
East-West United Bank
Elliott Associates, L.P.
Exprinter International Bank
Farallon Fixed Income Associates
Garban International
Grantham, Mayo, Van Otterloo & Co., LLC
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Lloyds Bank
Moscow Narodny Bank
NatWest Global Financial Markets
Nomura Europe
Pactual Overseas Corporation
Paine Webber
Prudential Securities Inc.
RBC Dominion Securities
Soros Fund Management
TCW Americas
UBAF Asset Trading
Westdeutsche Landesbank Girozentrale

Associate Members trade Emerging Markets instruments but are smaller and less active than Full Members.

Local Market Members

Centre Invest Group

Local Market Members are locally-based market participants that trade or invest in Local Markets instruments.

Affiliate Members

Allen & Overy
Bloomberg Financial Markets
Bridge Information Systems America
Buteler & Peralta Ramos
Carlsmith Ball
Cedel Bank
Chicago Mercantile Exchange
Cleary, Gottlieb, Steen & Hamilton
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Debevoise & Plimpton
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EBSCO Industries
Euroclear
European Inter American Finance
Exis Corporation
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Reuters Information Technology
Shearman & Sterling
Slaughter and May
Telekurs
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United Nations Development Program (UNDP)
Weil, Gotshal & Manges

Affiliate Members do not directly trade Emerging Markets instruments, but have a strong interest in the Emerging Markets trading industry.

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EMTA Staff

Michael M. Chamberlin
Executive Director

Starla Cohen
Legal Counsel & Special Projects

Donald Goecks
Finance & Administration

Rachael Mark
Communications

Brian J. Morrisroe
Latin America/Loan Trading

Jonathan R. Murno
Research

Suzette Ortiz
Office Coordinator

Lisa Palazzola
Accounting

Mandy Sleigh
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Aviva Werner
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Design & Production
Peckolick, Inc. NYC

Photography
Chuck Fishman, Pages 8, 9

Christina Krupka, Pages 1, 2 and inside back cover

FPG, Page 5

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