1997 FINANCIAL REVIEW

Highlights

	For the Year Ended December 31,				
	1997	1996	1995	1994	1993
Market trading volume (in billions of U.S.$)	**5,916**	5,297	2,739	2,766	1,979
Brady Bonds	**2,403**	2,690	1,580	1,684	1,021
Other Bonds	**1,335**	568	211	159	177
Loans	**305**	249	175	244	274
Local Markets Instruments	**1,506**	1,274	593	524	NA
Number of Members at year end	**169**	154	146	152	118
Revenue					
Membership dues	**$1,782,417**	$1,652,167	$1,337,250	$1,364,250	$ 894,500
Fees for program services	**1,432,037**	1,711,782	2,212,351	1,434,922	—
Directors' support (assessments and donated services, facilities and supplies)	**1,137,500**	1,151,250	1,170,000	1,312,500	787,949
Other	**293,234**	416,137	148,620	30,675	13,203
Total revenue	**4,645,188**	4,931,336	4,868,221	4,142,347	1,695,652
Expenses					
Staff	**2,577,942**	2,490,805	1,763,810	1,269,064	366,983
Office	**350,452**	372,247	309,775	201,987	91,436
Communications	**204,658**	251,085	335,653	260,433	11,241
Professional services	**774,080**	1,198,475	2,153,877	1,945,580	839,169
Conferences, receptions and travel	**161,283**	240,713	235,549	196,415	250,707
Total expenses	**4,068,415**	4,553,325	4,798,664	3,873,479	1,559,536
Increase in net assets	**576,773**	378,011	69,557	268,868	136,116
Net assets at end of year	**$1,380,642**	$ 803,869	$ 425,858	$ 356,301	$ 87,433

MANAGEMENT'S DISCUSSION AND ANALYSIS

EMTA streamlined its operations and refocused its activities in 1997, resulting in a larger increase in net assets ($576,773) than in 1996 ($378,011).

Revenue

Total revenue declined by $286,000, or 6%, to $4,645,000 in 1997. This was mainly due to: (a) a decrease in revenue from program services of $280,000 (16%) primarily because of the reduced need for Multilateral Netting, (b) a decrease of $186,000 (52%) in Other Income, due to completion of a consulting project in 1996, which together offset (c) an increase in Membership dues of $130,000 (8%) because of a slight increase in the number of Members, primarily at the Affiliate level.

Expenses

Total expenses declined by $485,000, or 11%, to $4,068,000 in 1997. This was primarily due to the continued policy of reducing the reliance on outside consultants in favor of performing work by EMTA staff, and in addition, to streamlining certain operations.

Staff expenses increased by $87,000 (3%) to $2,578,000 in 1997. The total number of staff peaked at 20 for the first half of the year and declined in the second half, as three departing staff were not replaced. Thus, the average number of staff remained roughly constant from 1996 to 1997.

Office costs declined by $22,000 (6%) to $350,000 in 1997. The majority of this reduction resulted from cost-savings in office supplies and administration categories pursuant to management review of office policies and vendor costs.

Communications costs declined by $46,000 (18%) to $205,000 in 1997. This resulted from renegotiation of telephone long distance rates and broadcast fax rates, as well as the elimination of the fee paid to a market data provider in early 1997.

Professional services costs declined by $424,000 (35%) to $774,000 in 1997. The major components of this decline were: (a) a reduction in legal expenses of $169,000, (b) a reduction of $147,000 in development work for the Match-EM system and (c) public relations expenses declined by $74,000 as this function was largely phased out in early 1997.

Conferences, receptions, travel and other expenses declined by $79,000 (33%) to $161,000 in 1997. The largest component of this decline was a reduction of $67,000 in travel costs, due to a refocusing of local markets activities in mid-year.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the Emerging Markets Traders Association

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, 1997 and 1996, and the results of their activities and their 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.

Price Waterhouse LLP

Price Waterhouse LLP

New York, New York
February 9, 1998

Consolidated Statements of Financial Position

	December 31,	
	1997	1996
Assets		
Current assets:		
Cash and cash equivalents	**$3,771,236**	$1,979,349
Directors' assessments receivable	**500**	68,750
Dues and fees receivable from Members	**211,497**	149,357
EMCC subscriptions receivable	**1,441,193**	917,000
Prepaid expenses and other assets	**17,710**	5,200
Total current assets	**5,442,136**	3,119,656
Property and equipment:		
Leasehold improvements	**89,112**	89,112
Computer equipment and network	**105,618**	95,628
Furniture and fixtures	**80,607**	80,607
Telecommunication equipment	**38,000**	38,000
	313,337	303,347
Less accumulated depreciation	**(206,656)**	(133,655)
	106,681	169,692
EMCC start-up costs	**95,960**	—
Total Assets	**$5,644,777**	$3,289,348
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 682,084**	$ 636,543
Unearned Membership dues	**182,387**	35,000
Payable to EMCC	**3,340,000**	1,752,500
Total current liabilities	**4,204,471**	2,424,043
Deferred rent expense	**59,664**	61,436
Total liabilities	**4,264,135**	2,485,479
Net assets	**1,380,642**	803,869
Total Liabilities and Net Assets	**$5,644,777**	$3,289,348

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

Consolidated Statements of Activities

	For the Year Ended December 31,	
	1997	1996
Revenue		
Membership dues	**$1,782,417**	$1,652,167
Fees for program services	**1,432,037**	1,711,782
Directors' assessments	**1,137,500**	1,151,250
Investment income	**119,481**	56,766
Other	**173,753**	359,371
Total revenue	**4,645,188**	4,931,336
Expenses		
Compensation and benefits	**2,577,942**	2,490,805
Occupancy	**136,964**	142,847
Office supplies and administration	**140,487**	157,598
Depreciation	**73,001**	71,802
Telecommunications	**111,213**	183,902
Shipping and delivery	**74,595**	53,047
Printing of documents for Member services	**18,849**	14,136
Legal	**313,869**	483,082
Program consultants	**298,296**	441,112
Public relations and annual report	**111,751**	203,934
Audit, tax and computer consultants	**50,164**	70,347
Conferences, receptions and meetings	**24,905**	78,838
Travel, lodging, meals and other	**136,379**	161,875
Total expenses	**4,068,415**	4,553,325
Increase in net assets	**576,773**	378,011
Net assets, beginning of year	**803,869**	425,858
Net assets, end of year	**$1,380,642**	$ 803,869

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

Consolidated Statements of Cash Flows

	For the Year Ended December 31, 1997	1996
Cash flows from operating activities		
Increase in net assets	**$ 576,773**	$ 378,011
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	**73,001**	71,802
(Increase) decrease in Directors' assessments receivable	**68,250**	(68,750)
(Increase) decrease in dues and fees receivable from Members	**(62,141)**	62,578
(Increase) decrease in EMCC subscriptions receivable	**(524,193)**	(917,000)
(Increase) decrease in prepaid expenses and other assets	**(12,510)**	7,912
Increase (decrease) in accounts payable and accrued expenses	**45,541**	64,136
Increase (decrease) in unearned Membership dues	**147,387**	(262,000)
Increase (decrease) in payable to EMCC	**1,587,500**	1,752,500
Increase (decrease) in deferred rent expense	**(1,772)**	8,967
Net cash provided by operating activities	**1,897,837**	1,098,156
Cash flows from investing activities		
EMCC start-up costs	**(95,960)**	—
Payments for purchases of property and equipment	**(9,990)**	(30,988)
Net cash used for investing activities	**(105,950)**	(30,988)
Increase (decrease) in cash and cash equivalents	**1,791,887**	1,067,168
Cash and cash equivalents, beginning of year	**1,979,349**	912,181
Cash and cash equivalents, end of year	**$3,771,236**	$1,979,349

NOTES TO FINANCIAL STATEMENTS

1. Organization

The 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 it charges 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 for the above three subsidiaries. EMTA Black Inc. owns 100% of the common stock of its three subsidiaries; EMTA owns 100% of the common stock of EMTA Black Inc.

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 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 additional 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.

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, 1997 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 Expenses

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

	Year ended December 31,	
	1997	1996
Program expenses		
Direct:		
Multilateral Netting Facility	**$ 20,600**	$ 31,483
Match-EM	**307,982**	474,826
Clear-EM	**65,893**	212,123
Documentation and Market Practices	**159,053**	173,806
Publications, including Trading Volume Survey and asset price quotes	**—**	400
Conferences, receptions and meetings	**24,905**	78,838
Other	**8,363**	7,033
Indirect (primarily staff and facilities costs)	**2,249,770**	2,223,888
Total program expenses	**2,836,566**	3,202,397
Non-Program expenses		
Direct:		
Public relations and membership development	**111,751**	203,934
General administration	**100,439**	94,871
Indirect (primarily staff and facilities costs)	**1,019,659**	1,052,123
Total non-program expenses	**1,231,849**	1,350,928
Total expenses	**$4,068,415**	$4,553,325

4. Summary of Revenue

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

	Year ended December 31, 1997	1996
Membership dues:		
Full	$1,216,667	$1,156,667
Associate	347,500	317,500
Affiliate	192,000	153,000
Local Markets	26,250	25,000
	$1,782,417	$1,652,167
Fees for program services:		
Multilateral Netting Facility	$ 853,100	$1,141,868
Match-EM	578,937	569,914
	$1,432,037	$1,711,782

5. Office Space Lease

In January 1995, EMTA entered into an agreement to lease independent office space in a new location for a period that started March 1, 1995 and will expire 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 rent is $124,614 plus EMTA's proportionate share of increases in property taxes and other building expenses after the first year. In addition, EMTA paid no rent for six months in 1995 and for three months in 1996. 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

During 1996, EMTA had a non-contributory, defined contribution employee benefit plan for its employees. Employees with at least 1,000 hours of service in the year were eligible to participate. Balances in participants' accounts are fully vested at all times. Employer contributions range from 0% to 15% of eligible compensation, at the election of EMTA each year. The 1996 contributions were 12% of eligible compensation, which amounted to $155,710. This amount is included in compensation and benefits in the Consolidated Statement of Activity. In 1997 this Plan was discontinued, the account balances paid out to participants, and two other Plans adopted to take its place:

- a 401(k) Plan, whereby participants are allowed to contribute up to 15% of taxable compensation to the Plan, 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
- 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 $170,563 in 1997, which is included in compensation and benefits in the Consolidated Statement of Activity.

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 is to clear trades of Emerging Markets debt instruments. EMTA has coordinated industry decision-making regarding EMCC's development. In this connection, EMTA, through its subsidiary Clear-EM, Inc., has provided management and legal expertise and certain administrative services, including billing and collection of EMCC's initial funding requirements. These receivables are recorded as EMCC subscriptions receivable, and the related credit is recorded as payable to EMCC, in the Consolidated Statement of Position.

Total subscriptions of approximately $4.8 million have been billed, half in each of 1997 and 1996. The proceeds are to be used for development and implementation of EMCC, of which $1.5 million has been remitted to NSCC, half in each of 1997 and 1996. The remainder will be remitted to EMCC in 1998 after deducting agreed-upon cost reimbursements to Clear-EM, Inc. 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, it is expected that EMTA will receive a minority interest in EMCC in exchange for various services rendered by EMTA in connection with EMCC's development and for the transfer of Match-EM to EMCC. The transaction is not expected to generate a material gain or loss, as the carrying cost of the investment in EMCC will be the 1997 loss of $95,960 generated by Clear-EM, Inc, which has been 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.