

FINAL PROSPECTUS

RELATING TO THE PUBLIC OFFER OF

1,000,000,000 Shares
COMMON STOCK

First Metro Save & Learn Fixed-Income Fund, Inc.
AN OPEN-END INVESTMENT COMPANY
ISSUER

The number of securities that was previously offered inclusive of what had already been subscribed to upon incorporation is Three Hundred Million (300,000,000) shares. The offer price for the additional Seven Hundred Million (700,000,000) shares will be based on the NAV per share computed on a daily basis. The shares to be offered are unlisted and will be traded through the over-the-counter market.

FIRST METRO ASSET MANAGEMENT, INC. (FAMI)
INVESTMENT COMPANY ADVISER, FUND ADMINISTRATOR AND
PRINCIPAL DISTRIBUTOR

THIS PRELIMINARY PROSPECTUS IS DATED
30 SEPTEMBER 2012

The number of shares to be offered, inclusive of what has already been subscribed to upon incorporation is Seven Hundred Million (700,000,000) shares. Three Hundred Million (300,000,000) shares have been subscribed based on the prevailing net asset value per share. On May 18, 2012, the Securities and Exchange Commission (SEC) approved the amendment to the Articles of Incorporation of First Metro Save and Fixed Income Fund, Inc., increasing its authorized capital stock from Three Hundred Million (300,000,000) to One Billion (1,000,000,000) common shares. Said amendment was approved by the Board of Directors on March 10, 2008 and ratified by the stockholders on June 18, 2008.

The price at which the Seven Hundred Million (700,000,000) shares are to be offered is based on the NAV per share computed on a daily basis plus a front end sales load fee. Using the Net Asset Value per share of P1.7086 as of June 30, 2012 for the 700 million shares, the total estimated gross proceeds to be raised by the offering is P1,196,020,000.00. The gross proceeds from the sale of the shares of stock of the registrant shall be held by the Issuer's Custodian Bank which is The Hong Kong and Shanghai Banking Corporation. The shares to be offered are unlisted and will be traded through the over-the-counter market.

The proceeds from the offering will be primarily invested in government securities, SEC-registered commercial papers, among other debt instruments. The assets of the Fund shall be structured based on the level of interest rates, market conditions, and liquidity needs of the Fund, where its investments, denominated in Philippine Pesos or foreign currencies, are to be of above-average credit quality and minimal risk, and the average maturity are to take into account any expectation of any changes in interest rates.

Risks of Investing-Summary

Various risk factors can affect the market value of the assets of the Fund and cause the Fund's net asset value to vary. Consequently, there are instances where the redemption price of redeemed shares may be less than the price at which the shares were originally purchased. Investors who redeem their shares during this time may not recover the full cost of their investment. The Company has exposures to credit risk, liquidity risk, market risk from the use of financial instruments, and fair value interest rate risk. More details on these risk factors are found in this prospectus under the heading "Risks of Investing".

The Issuer is a domestic corporation, incorporated on June 3, 2005 as First Metro Save & Learn Fixed-Income Fund, Inc. (the "Fund"), with principal business office address at 18th Floor, PS Bank Tower, 777 Paseo de Roxas corner Sedeno St., Makati City, Philippines, and Telephone Numbers: (632) 8912860 to 65; Fax No.(632)8160467.

It was registered on September 5, 2005 with the Securities and Exchange Commission as an Open-End Investment Company or "mutual fund". It is engaged primarily in the business of investing, reinvesting and trading in securities and the sale of its shares of stock. As a licensed Mutual Fund, it offers to the public, on a continuous basis, redeemable shares of stock, at a price related to the net asset value of the Fund's portfolio.

While the Fund aims to provide a high level of current income that is consistent with the preservation of capital and liquidity, various risk factors can affect the market value of the assets of the Fund and cause the Fund's net asset value to vary. Consequently, there

can be instances where the redemption prices of redeemed shares will be less than the prices at which the shares were originally purchased. Investors who redeem their shares during this time may not recover the full cost of their investment.

First Metro Asset Management, Inc. (FAMI) is the Investment Manager, Fund Administrator and Principal Distributor of the Fund.

The Fund intends to invest the proceeds from the sale of its shares in different fixed income instruments. The Fund's investments shall be guided by guidelines and restrictions under the heading "Investment Guidelines and Restrictions".

The total fee payable to First Metro Asset Management, Inc. (FAMI) as compensation for its management services and provision of facilities is a monthly fee equivalent to one-and-three-fourths percent (1.75%) per annum of the average net asset value of the Fund's assets, computed on a daily basis. The "net asset value" shall be determined by computing the total value of the Fund's assets less its liabilities in accordance with the procedure used in computing the net asset value of each share of the Fund. Depending on its performance as the Investment Manager, FAMI shall also be paid an incentive fee equivalent to one-tenth (1/10) of the realized appreciation in value of the Fund's net assets in excess of the "hurdle rate" defined as: 5-year PDSTF 5 plus 1%.

FAMI will also receive from the Fund a sales load fee based on the following schedule:

| Investment Amount (in Php) | Sales Load |
|-----------------------------------|-------------------|
| 5,000 to less than 100,000 | 2.0% |
| 100,000 to less than 500,000 | 1.5% |
| 500,001 to less than 2,000,000 | 1.0% |
| 2,000,000 and above | 0.5% |

The Fund is authorized under its By-Laws to issue cash, property and stock dividends out of its unrestricted retained earnings whenever the condition of the Fund's finances will render it expedient to declare said dividends.

No dealer, selling agent and any other person has been authorized to give information or make any representation not contained in this Prospectus. This Prospectus does not constitute an offer to sell or a solicitation of an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The delivery of this Prospectus at any time does not imply that the information herein contained is correct as of any time subsequent to this date.

The information contained in this Prospectus has been supplied by First Metro Save & Learn Fixed-Income Fund unless otherwise stated. First Metro Save & Learn Fixed-Income Fund accepts full responsibility for the accuracy of the information given herein, and confirms that there are no omissions of fact that would make any statement in this Prospectus misleading. First Metro Asset Management, Inc., the Fund Administrator of First Metro Save & Learn Fixed-Income Fund, has exerted reasonable efforts to verify the information herein and does not make any representations or warranties as to the accuracy or completeness of the materials contained herein.

First Metro Save & Learn Fixed-Income Fund has filed Registration Statements with the Securities and Exchange Commission in accordance with the Investment Company Act and the Securities Regulation Code. The SEC has issued on September 5, 2005 an Order rendering effective the Registration Statement of the Company covering all of the common shares of the authorized capital stock and a Certificate of Permit to offer these securities for sale.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT

HECTOR C. DE LEON
President

SUBSCRIBED AND SWORN to before me this ___day of November 2012 affiant exhibiting to me his Community Tax Certificate no. 0146865852 issued on January 6, 2012 in Manila.

NOTARY PUBLIC

Doc. No. _____ ;
Page No. _____;
Book No. _____;
Series of 2012.

SUMMARY OF FINANCIAL INFORMATION

STATEMENTS OF ASSETS AND LIABILITIES

| | As of | As of December 31 | |
|-----------------------------------|------------------------------|-------------------|------------------|
| | June 30, 2012 (Unaudited) | 2011 (Audited) | 2010 |
| Total Assets | PhP1,569,133,206 | Php1,070,223,890 | Php1,014,737,145 |
| Total Liabilities | 3,964,232 | 12,265,548 | 12,208,188 |
| Net Assets | PhP1,346,760,404 | Php1,057,958,342 | Php1,002,528,957 |
| Net Asset Value per Share (NAVPS) | 1.7086 | Php1.6619 | Php1.4767 |

STATEMENTS OF OPERATIONS

| | For the Period Ended | For the Year Ended December 31 | |
|--------------------------|------------------------------|--------------------------------|---------------|
| | June 30, 2012 (Unaudited) | 2011 (Audited) | 2010 |
| Realized Trading Gain | Php27,924,769 | Php93,821,050 | Php38,116,467 |
| Interest Income | 25,914,146 | 26,272,913 | 16,107,798 |
| Other Income | 3,772,347 | - | - |
| Gross Income | 57,611,262 | 120,093,963 | 54,224,265 |
| Less: Expenses | 19,665,799 | 25,344,722 | 13,214,485 |
| Net Income Before Tax | 37,945,463 | 94,749,241 | 41,009,780 |
| Provision for Income Tax | 4,701,790 | 3,532,905 | 1,887,449 |
| Net Income | Php33,243,673 | Php91,216,336 | Php39,122,331 |

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RISK DISCLOSURE STATEMENT***I. General Risk Warning***

1. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses maybe incurred rather than profit made as a result of buying and selling securities.
2. Past performance is not a guide to future performance.
3. There is an extra risk of losing money when securities are bought from smaller companies. There may be a big difference between the buying price and the selling price of these securities.
4. An investor deals in a range of investments each of which may carry a different level of risk.

II. Prudence Required

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in those securities. An investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He/she may request information on the securities and issuer thereof from the Commission which are available to the public.

III. Professional Advice

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities specially those high risk securities.

Risks of Investing

The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

The following are the risks factors that affect the performance of the Fund in the order of importance:

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Fund's market risk policy restricts the amount of investment in any single enterprise to 10% of the Fund's NAV, except for government securities. Conversely, the total investment of the Fund in any one investee company must not exceed 10% of the outstanding securities.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund invests in government securities wherein the risk of default is considered minimal. Also, management policies include not engaging in lending operations without prior review and approval of its Board of Directors. Another policy of the Fund directed at managing credit risk is that all sales of the Fund's capital stock shall be on cash basis only. Installment sales are prohibited.

Credit risk exposure is limited to the carrying amount of the financial assets referred to above. The maximum exposure to credit risk is represented by the carrying amounts of the financial assets that are carried in the statement of assets and liabilities and the related notes.

The Fund manages credit risks (risks due to uncertainty in counterparty or an obligor's ability to meet its obligation and cause the other party to incur a financial loss) by transacting with the sovereign and accredited counterparties only. A credit analysis is a standard operational procedure in order to assess the credit quality and the credit worthiness of the counterparty. Transactions may also be structured to include collateralization or various credit enhancements when necessary. Credit exposures are closely monitored so as to ensure that payments are made on time.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Fund is exposed to daily cash redemptions of its redeemable shares. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. The Fund has the ability to borrow within a short period to ensure settlement of due amounts. No such borrowings have arisen during the year.

The Fund's policy prescribes that at least ten percent of its total assets is invested in any of the following:

- Government securities such as treasury bills, fixed rate treasury notes, retail treasury bonds, progress bonds and small-denominated treasury bonds;
- Certificates of deposit;
- SEC-registered commercial papers and bonds with a rating of at least Philippine Rating System (PRS) 2 for short-term and PRS Aaa for long-term tenors;
- Bankers' acceptance; and
- Other allowed fixed income instruments

The Fund shall not incur any further debt or borrowing, unless at the time it is incurred or immediately thereafter, there is asset coverage of at least 300% for all its borrowings. In the event that such asset coverage shall at any time fall below 300%, the Fund shall within three days thereafter, reduce the amount of borrowings to an extent that the asset coverage of such borrowings shall be at least 300%.

Financial liabilities consists of accruals on management fee, retainer's fee, sales fee, payable to participants, and subscription payable having maturities of 30 to 60 days.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund's fixed income securities are exposed to such risk.

Risks to the financial instruments shall be managed by (a) closely monitoring investment objectives and constraints on investment by its Fund Manager; (b) detailed market observation and analysis; (c) setting of limits as to investment diversification i.e. issuer, industry or sector, index; and (d) establishment of profit and/or loss tolerance.

The Fund's objective is to achieve medium-term capital growth through investing in a selection of fixed-income instruments. The Fund seek to provide as high a level of current income as is consistent with the preservation of capital and liquidity by observing regulatory guidelines and applying risk mitigating controls.

All securities investments present a risk of loss of capital. The Investment Manager, FAMI, moderates this risk through a careful selection of securities and other fixed-income financial instruments within specified limits. The Fund's overall market positions are monitored on a daily basis by the Fund's Investment Manager and are reviewed on a quarterly basis by the BOD.

The operations of the Fund are subject to the regulatory requirements of the SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

Investments in mutual funds are also covered by the Anti-Money Laundering Law.

Prospectus Summary

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Prospectus.

Issuer

First Metro Save & Learn Fixed-Income Fund, Inc.

Investment Objective

The investment objective of the Fund is categorized under the SEC rules governing investment companies as conservative or low-risk. The Fund seeks to provide as high a level of current income as is consistent with the preservation of capital and liquidity. The valuation method to be used to value the investments shall be mark-to-market consistent with Philippine Accounting Standards (PAS) 39. Mark-to-market valuation, assesses debt instruments on the current market price for that particular instrument so that any profit or loss is reflected immediately and the fund assets start the next day with a net position.

Type of Issue

Open-end investment company

Shares Offered

Common stock

Par Value

One Peso (Php1.00) per share

Offering Price

At Net Asset Value (NAV) per share for the banking day, if payment is made within the daily cut-off time, plus a front-end sales load fee.

Sales Load Fee

| Investment Amount (in Php) | Sales Load |
|-----------------------------------|-------------------|
| 5,000 to less than 100,000 | 2.0% |

| | |
|--------------------------------|------|
| 100,000 to less than 500,000 | 1.5% |
| 500,000 to less than 2,000,000 | 1.0% |
| 2,000,000 and above | 0.5% |

Minimum Investment

The minimum initial investment shall be 5,000.00 and the minimum additional investments shall be P1,000.00. All sales shall be on cash basis and installment sales are prohibited.

Redemption Price

The price of securities surrendered for redemption within the daily cut-off time shall be the NAV per share of the next banking day while those surrendered after the daily cut-off time shall be deemed to have been received on the next banking day and will be processed accordingly. Payment shall be made no later than seven (7) banking days from receipt of redemption request.

Daily Cut-Off Time

12:00 Noon

Redemption Charge

| <u>Retention Period</u> | <u>Fee</u> |
|-------------------------|------------|
| Less than 6 months | 1.0% |
| 6 months and beyond | nil |

Glossary

The following words or expressions used in this Prospectus, unless the context otherwise requires, shall have the corresponding meanings:

| | |
|---|---|
| Act | Investment Company Act, Republic Act No. 2629 |
| Board of Directors | Refers to the members of the Board of First Metro Save & Learn Fixed Income Fund, Inc. |
| BSP | Bangko Sentral ng Pilipinas |
| Catholic Educational Association of the Philippines | An association of private catholic schools in the Philippines |
| Close-end Company | An investment company other than an open-end company |
| Custodian Bank | The Hongkong and Shanghai Banking Corp. Ltd. |
| First Metro Asset management, Inc. | The duly licensed Fund manager, principal distributor and administrator of the Issuer |
| First Metro Investment Corporation | The parent company of First Metro Asset Management, Inc. and a shareholder in First Metro Save & Learn Fixed Income Fund, Inc. |
| First Metro Save & Learn Fixed Income Fund, Inc. | The issuer of securities which are the subject of this prospectus |
| Investment Application Form | The forms to be used by the Principal Distributor for investors to purchase the shares of stock of the Fund in accordance with the terms and conditions of the Fund as described in this Prospectus. |
| Investment Company | Any issuer which is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, re-investing or trading in securities, as defined in Section 4 of the Act. |
| Fund Manager | First Metro Asset Management, Inc. or (FAMI) |

| | |
|--|---|
| Fund Administrator and Principal Distributor | First Metro Asset Management, Inc. or (FAMI) |
| Investor | Any person, association, or corporation with the intention of investing in the shares of the Fund. |
| NAV | Net Asset Value |
| Open-end Company | An investment company which is offering for sale, or has outstanding, any redeemable security, of which it is the issuer. |
| P or Pesos | Philippine Pesos, lawful currency of the Republic of the Philippines |
| PSE or Stock Exchange or the Exchange | The Philippine Stock Exchange, Inc. |
| R.A. 2629 | Republic Act No. 2629 or the Investment Company Act of 1960 |
| SEC | Securities and Exchange Commission |
| Securities Regulation Code | The law that covers listed or public companies in the Philippines |
| Shareholder or Stockholder | Any natural or juridical person who has subscribed to the shares of the Fund. |
| Transfer Agent | Metrobank Trust Banking Group |
| VAT | Value Added Tax |

Fund Features

| | |
|---------------|--|
| Issuer | First Metro Save & Learn Fixed-Income Fund, Inc. |
| Type of Issue | Open-End Mutual Fund |

| | |
|----------------|--|
| Shares Offered | Common Stock |
| Par Value | One Peso (1.00) per share |
| Purchase Price | At NAV per share for the banking day, if payment is made within the daily cut-off time, plus a sales load fee. |

Sales Load Fee

| Investment Amount (in Php) | Sales Load |
|--------------------------------|------------|
| 5,000 to less than 100,000 | 2.0% |
| 100,000 to less than 500,000 | 1.5% |
| 500,000 to less than 2,000,000 | 1.0% |
| 2,000,000 and above | 0.5% |

Daily Cut-Off Time 12:00 noon

Minimum Investment Minimum initial Investment of Php5,000.00 and a minimum of Php1,000.00 worth of shares for additional purchases. All sales shall be on cash basis and installment sales are prohibited.

Redemption Price The price of securities surrendered for redemption within the daily cut-off time shall be the NAV per share of the next banking day while those surrendered after the daily cut-off time shall be deemed to have been received on the next following day and will be processed accordingly. Payment shall be made by the Custodian Bank no later than seven (7) banking days from receipt of redemption request.

Redemption Charge

| <u>Retention Period</u> | <u>Fee</u> |
|-------------------------|------------|
| Less than 6 months | 1.0% |
| 6 months and beyond | nil |

The Fund

Background and Purpose

First Metro Save & Learn Fixed-Income Fund is an open-end investment company, which was incorporated on June 3, 2005 and subsequently registered under R.A. 2629 on September 6, 2005. It is principally engaged in the sale of its shares of stock and in the investment of the proceeds from these sales in a variety fixed-income instruments and securities. The Fund's main objective is to provide investors with the opportunity to access the capital markets and enable them to reap modest but satisfactory returns on

their investments through a selection of fixed income instruments and securities, and the professional management and supervision of the Fund.

Competition

There are currently ten (10) peso-denominated fixed-income mutual funds in the country today with a combined assets under management of over P54 billion. This represents about 43% of the total industry. First Metro Save & Learn Fixed-Income Fund's market share as of June 30, 2012 is only about 3% of the industry size belonging to this category. It is the fourth largest bond fund with an asset under management of about P1.6 billion. The three big players in this segment of the industry are ALFM Peso Bond Fund, Philam Bond Fund, and Sunlife Prosperity Bond Fund, and hold about 91% share of this market segment as of June 30, 2012. ALFM Peso Bond Fund's market share is 73%. These three companies have good distribution channels because they are able to tap the agents of their affiliate life insurance companies.

The competitive environment for the company's products includes not only the products and services offered by other Mutual Fund players, but all other investment instruments that the target markets have access to. The institutional funds of this market (especially the bigger ones) evidently have access to almost all types of instruments locally available such as unit investment trusts, pre-need plans, universal life products and other traditional bank products. The retail funds and smaller institutional funds, however, are limited to simple bank products. There is also an opportunity for the company to tap both the institutional and retail funds of the CEAP market.

The company's marketing and sales strategies can be boosted by the strategic partnership of CEAP, Marist Brothers, and First Metro Investment Corporation. This competitive advantage will be further strengthened by FMIC's good track record as an investment house, expertise and experience, and position as the largest investment bank and backed-up by one of the largest universal banks in the country.

Effect of existing governmental regulation

On PAS39. Mark-to-market method of valuation, assesses debt instruments based on the current market price of those instruments. Therefore, the interplay of demand and supply of those instruments and the level of prevailing interest rates will affect the price of the instruments. The changes in the price will be reflected in the valuation of these instruments, hence reflected in the value of the net assets of the Fund. The Fund's net asset value per share (NAVPS) is thus affected.

Despite this kind of risk, however, bonds and other debt instruments are still more senior than stocks and are more conservative investment vehicles. This kind of risk can be managed partially by proper portfolio diversification in different instruments. Interest rate risks in general, can be further managed by spreading out the schedule of maturities. Additionally, the Investment Company Act requires that not more than 10% of the Fund's assets may be invested in one issuer.

The Registrant has no employees because all aspects of its operations and administration are subcontracted with FAMI and other service providers.

*Description of Securities**Capitalization and Ownership*

The Fund's authorized capital stock had been increased from THREE HUNDRED MILLION SHARES (300,000,000) TO ONE BILLION SHARES (1,000,000,000) with a par value of Php1.00 per share. The Seven Hundred Million (700,000,000) shares which represent the recent increase in the authorized capital stock was approved by the Securities and Exchange Commission on May 18, 2012.

There are no other material rights that common stockholders have nor there is any provision in the charter or by-laws of the issuer that would delay, deter or prevent a change in control of the registrant.

As of June 30, 2012 and December 31, 2011, the percentage contributions of the various sources of income are as follows:

| | For the Period Ended June 30, 2012 (Unaudited) | | For the Year Ended December 31, 2011 (Audited) | |
|-----------------------|--|-----|--|-----|
| | Amount | % | Amount | % |
| Realized Trading Gain | 25,914,146 | 45% | 93,821,050 | 78% |
| Interest Income | 27,924,769 | 48% | 26,272,913 | 22% |
| Other Income | 3,772,347 | 7% | 0 | 0% |
| | 57,611,262 | | 120,093,963 | |

The Company had an initial paid-up capital of FIFTY MILLION PESOS (Php50,000,000.00), which was originally subscribed by the following:

| Name | Nationality | Number of shares subscribed | Amount subscribed (Php) | Percentage (%) |
|---------------------------------|-------------|-----------------------------------|-------------------------------|-------------------|
| 1. First Metro Investment Corp. | Filipino | 49,999,991 | 49,999,991.00 | 100.00 |
| 2. Victor C. Macalincag | Filipino | 1 | 1.00 | 0 |
| 3. Antonio M. Bernardo | Filipino | 1 | 1.00 | 0 |
| 4. Francisco G. Co | Filipino | 1 | 1.00 | 0 |
| 5. Roberto Juanchito T. Dispo | Filipino | 1 | 1.00 | 0 |
| 6. Manuel V. De Leon, FMS | Filipino | 1 | 1.00 | 0 |
| 7. Gloria C. Garrovillo | Filipino | 1 | 1.00 | 0 |
| 8. Eduardo A. Mendoza | Filipino | 1 | 1.00 | 0 |
| 9. Nimfa B. Pastrana | Filipino | 1 | 1.00 | 0 |
| 10. Edwin B. Valeroso | Filipino | 1 | 1.00 | 0 |
| TOTAL | | 50,000,000 | 50,000,000.00 | 100.00 |

Pursuant to Article IV, Section 4.4 of the SEC's rules and regulations governing R.A. 2629, the incorporators of the Fund agreed not to sell, transfer, convey, encumber or

otherwise dispose of their shares in the Fund within twelve (12) months from the registration date of the Fund.

Each share of stock of the Fund is a voting stock with voting rights equal to every other outstanding shares of stock and subject to the following:

- **Right of Redemption** – The holder of any shares of stock of the Fund, upon presentation to the Fund or to any of the Fund's duly authorized representatives of the Confirmation Receipt or stock certificate, and upon filing of the duly accomplished redemption form, shall receive by way of redemption approximately his proportionate share in the Fund's current net assets or the cash equivalent thereof, i.e., the net current asset value per share, subject to existing laws and the By-Laws of the Fund.
- **Waiver of Pre-emptive Rights** – No stockholder shall, because of his ownership of stock, have a pre-emptive or other right to purchase, subscribe for, or take any part of any stock or of any other securities convertible into or carrying options or warrants to purchase stock of the Fund. The Fund's Articles of Incorporation further provide that any part of such stock or other securities may at any time be issued, optioned for sale, and sold or disposed of by the Fund pursuant to the resolution of its Board of Directors, to such persons and upon such terms as the Board may deem proper, without first offering such stock or securities or any part thereof to existing stockholders.
- **Restrictions on Transfer** – No transfer of stock of the Fund's stock, which would reduce the stock ownership or equity interest of Filipino citizens to less than the percentage required by applicable laws or regulations shall be caused or allowed to be recorded in the books of the Fund.
- **Distribution of Dividends** - As provided for in the Fund's By-laws, the Board of Directors may make arrangements with its stockholders whereby dividends and/or other distributions may be reinvested in the Fund's securities in lieu of cash to be paid to the stockholders. The arrangement with shareholders shall be such that the dividends to be reinvested shall be valued at the net asset value per share of the Fund at the time said dividends are paid.

Properties

The Registrant does not own any properties (such as real estate, plant and equipment, mines, patents, etc.) and it does not intend to acquire any property/ies in the next twelve (12) months.

Market Information

There is no principal market where the Fund's shares will be traded, not even in the Philippine Stock Exchange due to its nature as an open-end investment company. The Fund's shares shall be sold through its appointed Principal Distributor and sub-distributors. As of June 30, 2012, the Issuer has approximately 367 shareholders.

Market Price

| <u>Year</u> | | <u>1st</u> <u>Quarter</u> | <u>2nd</u> <u>Quarter</u> | <u>3rd</u> <u>Quarter</u> | <u>4th</u> <u>Quarter</u> |
|-------------|---------|------------------------------|------------------------------|------------------------------|------------------------------|
| 2012 | Highest | 1.7168 | 1.7080 | | |
| | Lowest | 1.6577 | 1.6955 | | |
| 2011 | Highest | 1.4719 | 1.4952 | 1.5498 | 1.6589 |
| | Lowest | 1.4662 | 1.4684 | 1.4953 | 1.5470 |
| 2010 | Highest | 1.3337 | 1.3587 | 1.4157 | 1.4744 |
| | Lowest | 1.3200 | 1.3336 | 1.3588 | 1.4105 |

Holdings

The following are the top 20 shareholders of the Fund as of June 30, 2012:

| | Name of Stockholder | No . of Shares Held | % of Ownership* |
|----|---|--------------------------------|----------------------------|
| 1 | FIRST METRO INVESTMENT CORPORATION | 106,696,268 | 36.7% |
| 2 | CATHOLIC EDUCATIONAL ASSOC. OF THE PHILS. - RETIREMENT FUND | 43,999,681 | 15.1% |
| 3 | RAM-LINES RESOURCES, INC. | 17,329,821 | 6.0% |
| 4 | PADILLA, NATHANIEL OR PADILLA, MICHELLE PATRICIA | 8,311,869 | 2.9% |
| 5 | ALVAREZ JR., ALICIO C. OR ALVAREZ, MA. LOURDES G. OR ALVAREZ | 8,220,876 | 2.8% |
| 6 | LIM, FRANCISCO OR KEVIN LIM OR KELLY LIM | 7,497,140 | 2.6% |
| 7 | NOTRE DAME OF MARBEL UNIVERSITY, INC./ RETIREMENT FUND | 5,395,988 | 1.9% |
| 8 | MENDOZA, MARILOU C. AND/OR | 5,074,637 | 1.7% |
| 9 | LIM, MARIA VICTORIA C. OR LIM, MARY JANE C. | 4,861,015 | 1.7% |
| 10 | ST. THERESA'S COLLEGE OF QUEZON CITY | 4,321,302 | 1.5% |
| 11 | CATHOLIC EDUCATIONAL ASSOCIATION OF THE PHILS.,INC. | 3,869,082 | 1.3% |
| 12 | EDUCATIONAL CAPITAL CORPORATION | 3,702,225 | 1.3% |
| 13 | NOTRE DAME OF DADIANGAS UNIVERSITY-MTTP TRUST FUND | 3,369,858 | 1.2% |
| 14 | TUAZON,ALEXANDER O.OR JOSEFINA/ANNA CRISTINA/ALEJANDRO JOSE | 2,342,927 | 0.8% |
| 15 | NOTRE DAME OF COTABATO, INC. C/O BRO JOHN Y. TAN | 2,270,491 | 0.8% |
| 16 | PBC CAPITAL INVESTMENT CORP. | 2,135,731 | 0.7% |
| 17 | GO, EMMELINE OR LUMAKANG, ANGELINE | 2,130,881 | 0.7% |
| 18 | FIRST METRO ASSET MANAGEMENT INC. | 2,038,756 | 0.7% |
| 19 | TIU, MARIA THERESA OR TIU, ROBERT L. | 2,016,941 | 0.7% |
| 20 | TAN, DANNY L.OR TAN, JUSTIN RYAN Y. | 1,975,566 | 0.7% |

The Board of Directors of the Fund may decide to declare dividends from the unrestricted retained earnings of the Fund at a time and percentage as the same Board may deem proper and in accordance with law.

The Fund may declare or pay dividends but limits those dividends to come from the Fund's accumulated undistributed net income, determined in accordance with good accounting practice and including profits or losses realized upon the sale of securities; or from the Fund's earned surplus so determined for the current or preceding fiscal year. There were no dividend declarations for the years 2010 and 2011.

Affiliated Companies

First Metro Investment Corporation (FMIC) is affiliated with the Registrant, being its majority founding shareholder. Being a dealer and broker in securities, FMIC may also assist the registrant in terms of selecting and offering investment securities from time to time. On the other hand, FMIC, Catholic Educational Association of the Philippines, and Marist Brothers own First Metro Asset Management, Inc. (FAMI) 70%, 15% and 15%, respectively.

Management's Discussion and Analysis of Financial Condition and Results of Operations

2011

Total resources of the Fund rose by 5% or ₱ 55.4 million from December 31, 2010 balance of ₱1.015 billion to ₱1.070 billion as of December 31, 2011.

Out of the ₱778.4 million cash and cash equivalents balance, ₱3.0 million represents savings and current deposits and ₱775.4 million represents time deposit. Time deposits have terms ranging from 4 to 50 days and earn interest ranging from 1.75 % to 4.875% p.a. The decrease from the December 31, 2010 balance was mainly due to the utilization of funds for payment of redemption proceeds and shifting of investments from time deposit to AFS investment and loans.

As of December 31, 2011, AFS investments consist of government securities with annual interest rates ranging from 6.00% to 8.25%. The carrying value of AFS investments includes a net unrealized fair value gain of ₱4.31 million as of December 31, 2011.

Loans and receivables is comprised unquoted debt securities, long term negotiable certificate of deposit and accrued interest receivable. The increase was mostly attributed to the increase in investments in unquoted debt securities. This account consists of:

| | 2011 | 2010 |
|---|--------------------|--------------------|
| Unquoted debt securities | 211,601,672 | 107,106,627 |
| Long-term negotiable certificate of deposit | 15,000,000 | 15,000,000 |
| Accrued interest receivable | 4,128,705 | 2,077,587 |
| Accounts receivable | 1,654,482 | - |
| | 232,384,859 | 124,184,214 |

Unquoted debt securities is further broken down as follows:

| | 2011 | 2010 |
|-----------------------------|--------------------|--------------------|
| FMIC Bonds | 80,000,000 | - |
| SMC Bonds | 15,997,882 | 15,997,882 |
| TDI Bonds | 14,000,000 | 14,000,000 |
| AYC Bonds | 1,000,000 | 1,000,000 |
| MERALCO Corp. Notes | 24,196,932 | 27,304,039 |
| CitySavings Bank Corp Notes | 26,075,234 | 26,486,623 |
| Pro Friends Corporate Notes | 50,000,000 | - |
| NPC Bonds | 331,624 | 345,094 |
| | 211,601,672 | 107,106,627 |

For the year ended December 31, 2011, First Metro Save & Learn Fixed Income Fund, Inc. posted a net income of ₱91.2 million, a return on equity of 8.9% and 156% higher than the net income in 2010.

The highlights of the results of operations are as follows:

1. Trading gains of ₱ 93.8 million represent income earned from the sale of government securities and unquoted debt securities classified as loans. The increase was due to the increased sale of government securities resulting in gain. The Fund sold ₱28.1 billion worth of government securities for the period ended December 31, 2011 as compared to the ₱ 7.2 billion worth of government securities sold in 2010.
2. Interest income for the period amounting to ₱26.2 million was derived from bank deposits, loans and receivables and investment in government securities, net of premium amortization.
3. Operating expenses increased by 92% mainly due to the increase in documentary stamps tax relative to the increase in subscriptions to the Fund for the year, increase in management fees due to increase in net assets and accrual of incentive fees payable to the Fund Manager as the Fund's performance exceeded the hurdle rate set in the prospectus .

A resolution increasing the authorized capital stock of the Fund to ₱1,000,000,000 divided into 1,000,000,000 shares with a par value of ₱1 had been unanimously approved by the members of the Board of Directors and subsequently, by the shareholders owning at least 2/3 of the outstanding capital stock of the Fund at a meeting held on March 10, 2008 and June 18,2008, respectively.

SEC approved on May 18, 2012 the amendment to the Articles of Incorporation of SALFIF increasing its authorized capital stock from 300 Million to 1 Billion shares. The registration of the 700 million increase in capital stock is in process.

Finally, the net asset value per share (NAVPS) of the Fund rose to ₱1.6619 per share on December 31, 2011 from ₱ 1.4767 at the beginning of the year or an increase of ₱0.1852 giving the investors a 12.54% return on investment..

DISCUSSION OF KEY PERFORMANCE INDICATORS

FMSALFIF has identified the following as its key performance indicators for 2011:

- *Net Asset Value Per Unit.* Net Asset Value per share increased from ₱1.4767 at the end of December 2010 to ₱1.6619 at the end of December 2011, representing a 12.5% return on investment over a one-year period.
- *Sales for the year 2011.* The Fund had total sales of ₱ 1.23 billion for the year ended December 31, 2011. This represents a 338.3% increase from ₱ 280.6 million sales last year.
- *Redemptions for the year 2011.* The Fund had total redemptions of ₱1.43 billion for the year ended December 31, 2011. This represents 329.7% increase from ₱332.8 million redemptions last year.
- *Net Income vs. Benchmark.* The net income of the Fund, on a year-on-year basis, increased from ₱39.1 million in 2010 to ₱91.2 million in 2011 or an increase of 133.1%.
- *Share vs. Benchmark.* As of December 31, 2011, the Fund held a 2.29% share in the Bond Funds category while 1.02% share among all mutual funds in terms of net assets. On the basis of account holders, the Fund has 317 outstanding accounts or 1.15% of the total number of accounts in the Bond Funds category.

OTHER FINANCIAL INFORMATION

1. UNQUOTED DEBT SECURITIES/ PERCENTAGE OF INVESTMENT IN SINGLE ENTERPRISE TO NET ASSETS

| | December 31 2011 | | December 31 2010 | |
|-----------------------------|--------------------|-----------------------|--------------------|-----------------------|
| | Amount | Percent to Net Assets | Amount | Percent to Net Assets |
| FMIC Bonds | 80,000,000 | 7.56% | - | 0.00% |
| Pro Friends Corporate Notes | 50,000,000 | 4.73% | - | 0.00% |
| CitySavings Bank Corp Notes | 26,075,234 | 2.46% | 26,486,623 | 2.64% |
| MERALCO Corp. Notes | 24,196,932 | 2.29% | 27,304,039 | 2.72% |
| SMC Bonds | 15,997,882 | 1.51% | 15,997,882 | 1.60% |
| TDI Bonds | 14,000,000 | 1.32% | 14,000,000 | 1.40% |
| AYC Bonds | 1,000,000 | 0.09% | 1,000,000 | 0.10% |
| NPC Bonds | 331,624 | 0.03% | 345,094 | 0.03% |
| Aboitiz Power Corporation | - | 0.00% | 21,972,989 | 2.19% |
| | 131,601,672 | | 107,106,627 | |

2. TOTAL INVESTMENT OF THE FUND TO THE OUTSTANDING SECURITIES OF AN INVESTEE

| | December 31 2011 | | December 31 2010 | |
|-----------------------------|--------------------|--|--------------------|--|
| | Amount | Percent to Outstanding Securities of an Investee Co. | Amount | Percent to Outstanding Securities of an Investee Co. |
| FMIC Bonds | 80,000,000 | 1.60% | - | |
| Pro Friends Corporate Notes | 50,000,000 | 3.33% | - | |
| CitySavings Bank Corp Notes | 26,075,234 | 2.61% | 26,486,623 | 2.65% |
| MERALCO Corp. Notes | 24,196,932 | 0.89% | 27,304,039 | 1.01% |
| SMC Bonds | 15,997,882 | 0.12% | 15,997,882 | 0.12% |
| TDI Bonds | 14,000,000 | 0.35% | 14,000,000 | 0.35% |
| AYC Bonds | 1,000,000 | 0.01% | 1,000,000 | 0.01% |
| NPC Bonds | 331,624 | 0.01% | 345,094 | 0.01% |
| Aboitiz Power Corporation | - | 0.00% | 21,972,989 | 0.73% |
| | 131,601,672 | | 107,106,627 | |

3. FINANCIAL SOUNDNESS INDICATORS

| Financial Soundness Indicators | As of December 31 (Audited) | |
|--|-----------------------------|-----------|
| | 2011 | 2010 |
| Current Ratio ^{1/} | 8,725.45% | 8,311.94% |
| Acid Test Ratio ^{2/} | 8,722.93% | 8,310.87% |
| Total Debt Ratio ^{3/} | 1.15% | 1.20% |
| Asset to Equity Ratio ^{5/} | 101.16% | 101.22% |
| Interest Rate Coverage Ratio ^{6/} | 100.00% | 100.00% |
| Net Profit Percentage ^{7/} | 96.27% | 95.40% |
| Return on Common Equity ^{8/} | 31.08% | 13.42% |

^{1/} Current Assets divided by Current Liabilities

^{2/} Quick Assets divided by Current Liabilities

^{3/} Total Liabilities divided by Total Assets

^{4/} Total Assets divided by Equity

^{5/} Earnings Before Interest and Tax divided by Interest Expense

^{6/} Net Income divided by Net Sales

^{7/} Net Income minus Preferred Dividends divided by Average Common Equity

4. OTHER RELEVANT RATIOS

| | As of December 31 (Audited) | |
|---|-----------------------------|-----------|
| | 2011 | 2010 |
| Liquid/semi liquid Assets to Total Assets | 99.97% | 99.97% |
| Total Operating Expenses to Total Net Worth | 2.40% | 1.32% |
| Total Assets to Total Borrowing | 8,722.93% | 8,311.94% |

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Fund has transactions with related parties. Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are related if one party has the ability, directly or indirectly, to control the other parties or exercise significant influence over the other party in making financial and operating decisions and for the parties are subject to common control or common significant influence, which include affiliates.

Details of investments in the Funds by affiliates are set out below:

| | Number of Shares Held at 1 January | % Interest Held at 1 January | Number of Shares Acquired During the Year | Number of Shares Disposed During the Year | Number of Shares Held at 31 December | % Interest Held at 31 December |
|--|--|------------------------------------|---|---|---|--------------------------------------|
| 2011 | | | | | | |
| FMIC ¹ | 365,041,499 | 53.77% | 69,110,775 | 258,345,231 | 175,807,043 | 27.60% |
| PBC Capital Investment Corporation (PBC) | 2,135,731 | 0.31% | 11,217,560 | – | 13,353,291 | 2.10% |
| FAMI ² | 2,038,756 | 0.30% | 1,607,304 | – | 3,646,060 | 0.40% |
| First Metro Securities Brokerage Corporation (FMSBC) ³ | 1,610,306 | 0.24% | 2,585,623 | – | 4,195,929 | 0.66% |
| 2010 | | | | | | |
| FMIC | 158,266,634 | 65.76% | 281,546,811 | 74,771,946 | 365,041,499 | 53.77% |
| PBC | 7,642,339 | 3.18% | – | 5,506,608 | 2,135,731 | 0.31% |
| FAMI | 2,038,756 | 0.85% | – | – | 2,038,756 | 0.30% |
| FMSBC | 1,610,306 | 0.67% | – | – | 1,610,306 | 0.24% |
| 2009 | | | | | | |
| FMIC | 158,266,634 | 65.31% | – | – | 158,266,634 | 65.76% |
| PBC | 7,642,339 | 3.15% | – | – | 7,642,339 | 3.18% |
| FMSBC | 1,610,306 | 0.66% | – | – | 1,610,306 | 0.67% |
| FAMI | – | – | 2,038,756 | – | 2,038,756 | 0.85% |

¹Includes deposits for future shares subscriptions of 69,110,775 shares in 2011, 281,546,811 shares in 2010 and 81,724,852 shares in 2009.

²Includes deposits for future shares subscriptions of 1,607,304 shares in 2011.

³Includes deposits for future shares subscriptions of 2,585,623 shares in 2011

The Fund currently has a Management and Distribution Agreement with FAMI and a Stock and Transfer Agency Agreement with MBTC-TBG (the Agreements). The Agreements cover the services to be rendered by FAMI and MBTC-TBG, and the payment of fees based on the Fund's average NAV computed on a daily basis, except for stock and transfer agency fee, as follows

| Service | Account | Rate | 2011 | 2010 | 2009 |
|----------------------------------|----------------|--|--------------------|-------------------|-------------------|
| Fund management and distribution | Management fee | 1.75% of the Fund's average net asset value computed on a daily basis | ₱14,247,383 | ₱6,612,521 | ₱6,229,364 |
| Fund management and distribution | Incentive fee* | 10% of realized appreciation in the value of net assets in excess of hurdle rate** | 4,420,000 | 1,949,761 | – |
| Stock and transfer agency | Retainer's fee | ₱8,000 per month accrued daily | 96,000 | 96,000 | 96,000 |
| | | | ₱18,763,383 | ₱8,658,282 | ₱6,325,364 |

*Included in management fees in the statements of comprehensive income.

**Calculated as the 5-year PDST fixing rate plus 1% spread.

The management and retainer's fee are paid on a monthly basis while the incentive fees are paid annually. These agreements shall remain in effect from year to year, unless otherwise terminated by the parties in accordance with specified terms and conditions.

The following table shows other related party transactions included in the financial statements:

| Related Party | Relationship | Account | Elements of Transactions | | | | |
|--|-----------------------------|-----------------------------|--|--------------|--|------------|------------|
| | | | Statements of Financial Position Amounts | | Statements of Comprehensive Income Amounts | | |
| | | | 2011 | 2010 | 2011 | 2010 | 2009 |
| MBTC | Ultimate parent company | Cash and cash equivalents | ₱667,020,724 | ₱834,903,048 | | | |
| | | Accrued interest receivable | 77,542 | – | ₱6,429,370 | ₱3,010,897 | ₱2,989,821 |
| | | Interest income | | | | | |
| Philippine Savings Bank | Affiliate | Cash and cash equivalents | 30,786,269 | 3,624,532 | | | |
| | | Accrued interest receivable | 38,492 | – | | | |
| | | Interest income | | | 2,281,854 | 418 | 429 |
| FAMI | Asset manager and affiliate | Payable to FAMI | 6,182,763 | 3,216,947 | | | |
| MBTC-TBG | Affiliate | Accrued expenses | 8,084 | 16,085 | | | |
| FMIC | Parent company | Unquoted debt securities | 80,000,000 | – | | | |
| | | Accrued interest receivable | 373,289 | – | | | |
| | | Interest income | | | 1,855,044 | 483,993 | 1,947,537 |
| Orix Metro Leasing and Finance Corporation | Affiliate | Interest income | | | 434,452 | – | – |
| First Metro Save and Learn Balanced Fund, Inc. | Affiliate | Accounts payable | – | 1,700,000 | | | |
| First Metro Save and Learn Equity Fund, Inc. | Affiliate | Accounts receivable | 1,542,482 | – | | | |
| Directors and officers | Directors and officers | Accounts payable | 8,500 | 20,000 | | | |
| | | Directors and officers fees | | | 212,000 | 252,000 | 201,500 |

2010

Total resources of the Fund rose by 214% or ₱ 691.6 million from December 31, 2009 balance of ₱323.2 million to P1.015 billion as of December 31, 2010.

Out of the ₱838.5 million cash balance, ₱5.1 million represents savings and current accounts maintained in Metrobank and PSBank. The balance of ₱833.4 million represents time deposit with MBTC which has a term

of less than one week and earns 2 % interest p.a. The increase was due to the additional placement in time deposits as the Fund sold 262.8 million shares amounting to ₱381.5 million towards the end of November.

As of December 31, 2010, financial assets at FVPL comprise of government securities which bear an annual interest rate of 5.88%. The carrying value of financial assets at FVPL included unrealized gain of ₱1.90 million.

Loans and receivables is comprised unquoted debt securities, long term negotiable certificate of deposit and accrued interest receivable. The increase was mostly attributed to the increase in investments in unquoted debt securities.

Other assets represent creditable withholding tax on interest on unquoted debt securities.

For the year ended December 31, 2010, First Metro Save & Learn Fixed Income Fund, Inc. posted a net income of ₱39.1 million, a return on equity of 5.9% and 156% higher than the net income in 2009.

The highlights of the results of operations are as follows:

4. Trading gains of ₱ 38.1 million represent income earned from the sale of government securities. The increase was due to the increased sale of government securities resulting in gain. The Fund sold ₱7.2 billion worth of government securities for the period ended December 31, 2010 as compared to the ₱ 3.2 billion worth of government securities sold in 2009.
5. Interest income for the period amounting to ₱16.1 million was derived from bank deposits, loans and receivables and investment in government securities, net of premium amortization.
6. Operating expenses increased by 68% mainly due to the increase in documentary stamps tax relative to the increase in subscriptions to the Fund for the year and accrual of incentive fees payable to the Fund Manager as the Fund's performance exceeded the hurdle rate set in the prospectus.

DISCUSSION OF KEY PERFORMANCE INDICATORS

FMSALFIF has identified the following as its key performance indicators for 2010:

- *Net Asset Value Per Unit.* Net Asset Value per share increased from ₱1.3179 at the end of December 2009 to ₱1.4767 at the end of December 2010, representing a 12.05% return on investment over a one-year period.
- *Sales for the year 2010.* The Fund had total sales of ₱ 280.6 million for the year ended December 31, 2009. This represents a 1,384.6 % increase from ₱ 18.9 million sales last year.
- *Redemptions for the year 2010.* The Fund had total redemptions of ₱332.8 million for the year ended December 31, 2010. This represents 1,469.8% increase from ₱21.2 million redemptions last year.

- *Net Income vs. Benchmark.* The net income of the Fund, on a year-on-year basis, increased from ₱15.3 million in 2008 to ₱39.1 million in 2010 or an increase of 155.5%.
- *Market Share vs. Benchmark.* As of December 31, 2010, the Fund held a 2.45% share in the Bond Funds category while 1.04% share among all mutual funds in terms of net assets. On the basis of account holders, the Fund has 240 outstanding accounts or 0.97% of the total number of accounts in the Bond Funds category.

2009

First Metro Save & Learn Fixed Income Fund, Inc. (FMSALFIF) total resources grew by only 6% this year from ₱304.5 million at the end of 2008 to ₱323.2 million this year. This includes investment in corporate notes booked under Loans and receivables of ₱79.9 million, investments in government securities and private bonds booked under Available-for-sale investments of ₱65.9 million and cash and cash equivalents of ₱159.5 million which includes placement in Time Deposits.

Available-for-sale Securities pertain to government securities and private bonds that earn annual interest ranging from 4.2% to 8.25%.

Loans and receivables consist of Unquoted debt securities, Long-term negotiable time deposit and Accrued interest receivable. Increase from the 2008 audited balance is mostly attributable to additional investment in unquoted debt securities.

Total liabilities amounting to ₱6.4 million at the end of December 2009 as compared to ₱0.7 million at the beginning of the year, consist primarily of derivative liability. At the date of inception and as of December 31, 2009, the fair values of the embedded call options shown as 'Derivative liabilities' in the statements of financial position amounted to ₱5.85 million and ₱5.05 million, respectively.

FMSALFIF ended the year with a ₱15.3 million net income which came primarily from trading gains/interest from investment in government securities as well as from the interest earned from corporate notes, bank deposit and placements in time deposits. Interest income for 2009 amounting to ₱15.8 million is higher by ₱1.3 million from the previous year's interest income of ₱14.5 million. This is due to increase in placement in government securities, corporate notes and time deposits.

The outstanding shares for the year closed at 158,943,730, lower by 1.04% than last year's 160,623,834 shares.

Finally, the net asset value per share (NAVPS) of the Fund rose to ₱1.3179 per share on December 31, 2009 from ₱1.2536 at the beginning of the year or an increase of ₱ 0.0643, giving the investors a 5.13% return on investment.

A resolution increasing the authorized capital stock of the fund from ₱200,000,000, divided into 200,000,000 shares with a par value of ₱1 to ₱ 300,000,000, divided into 300,000,000 shares, have been unanimously approved by the members of the bod and subsequently, by the shareholders owning at least 2/3 of the outstanding capital stock of the fund at separate meetings held on April 27, 2006 and June 21, 2006, respectively. The increase in capital stock was approved by the sec on April 27, 2009. Subsequently, the additional 100,000,000 shares were registered on March 3, 2010.

DISCUSSION OF KEY PERFORMANCE INDICATORS

FMSALFIF has identified the following as its key performance indicators for 2009:

- *Net Asset Value Per Unit.* Net Asset Value per share increased from ₱1.2536 at the end of December 2008 to ₱1.3179 at the end of December 2009, representing a 5.1% return on investment over a one-year period.
- *Sales for the year 2009.* The Fund had total sales of ₱ 18.9 million for the year ended December 31, 2009. This represents a 52.4 % increase from ₱ 12.4 million sales last year.
- *Redemptions for the year 2009.* The Fund had total redemptions of ₱21.2 million for the year ended December 31, 2009. This represents 86.0% increase from ₱11.4 million redemptions last year.
- *Net Income vs. Benchmark.* The net income of the Fund, on a year-on-year basis, increased from ₱10.3 million in 2008 to ₱ 15.3 million in 2009 or an increase of 48.5%.
- *Market Share vs. Benchmark.* As of December 31, 2009, the Fund held a 1.07% share in the Bond Funds category while a 0.46% share among all mutual funds in terms of net assets. On the basis of account holders, the Fund has 169 outstanding accountholders or 0.78% of the Bond Funds category.

The following basic ratios measure the financial performance of the Fund for the years ended 2011, 2010 and 2009:

| PERFORMANCE INDICATORS | As of December 31 (Audited) | | |
|--|-----------------------------|--------|--------|
| | 2011 | 2010 | 2009 |
| Return on Assets ^{1/} | 8.75% | 5.85% | 4.86% |
| Return on Equity ^{2/} | 8.85% | 5.93% | 4.92% |
| Cost-to-Income Ratio ^{3/} | 21.10% | 24.37% | 30.49% |
| Net Asset Value per Unit ^{4/} | 1.6619 | 1.4767 | 1.3179 |
| Earnings per share ^{5/} | 0.33 | 0.16 | 0.09 |

^{1/} Average assets for period ended December 31 were computed based on the average of the beginning and ending balances, over the net income for the year.

^{2/} Likewise, average equity for period ended December 31 was computed based on the average of the beginning and ending balances, over the net income for the year.

^{3/} Operating expenses for the cost-to-income ratios do not include provision for probable losses and provision for income taxes.

^{4/} Net asset value per unit by deducting total liabilities from total assets to come up with the Net Assets and dividing with the outstanding number of shares for the period.

^{5/} Net income divided by weighted average number of common shares.

FIRST METRO SAVE AND LEARN FIXED-INCOME FUND, INC.

(An Open-End Mutual Fund Company)

STATEMENTS OF FINANCIAL POSITION

| | D E C E M B E R 3 1 | |
|--|-----------------------|-----------------------|
| | 2 0 1 1 | 2 0 1 0 |
| ASSETS | | |
| Cash and Cash Equivalents | ₱778,376,674 | ₱838,527,580 |
| Financial Assets at Fair Value Through Profit or Loss | — | 51,895,393 |
| Available-for-Sale Investments | 59,153,402 | — |
| Loans and Receivables | 232,384,859 | 124,184,214 |
| Other Assets | 308,955 | 129,958 |
| TOTAL ASSETS | ₱1,070,223,890 | ₱1,014,737,145 |
| LIABILITIES | | |
| Derivative Liabilities | ₱3,138,280 | ₱5,182,900 |
| Accounts Payable and Accrued Expenses | 9,127,268 | 7,025,288 |
| | 12,265,548 | 12,208,188 |
| EQUITY | | |
| Capital Stock | 295,474,987 | 291,447,596 |
| Additional Paid-in Capital | 93,693,559 | 87,970,230 |
| Deposits for Future Shares Subscriptions | 531,292,479 | 568,840,811 |
| Net Unrealized Gain on Available-for-Sale Investments | 4,312,799 | — |
| Retained Earnings | 133,184,518 | 54,270,320 |
| | 1,057,958,342 | 1,002,528,957 |

| | | |
|-------------------------------------|-----------------------|-----------------------|
| TOTAL LIABILITIES AND EQUITY | ₱1,070,223,890 | ₱1,014,737,145 |
|-------------------------------------|-----------------------|-----------------------|

FIRST METRO SAVE AND LEARN FIXED-INCOME FUND, INC.

(An Open-End Mutual Fund Company)

STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|-------------------------|-------------|-------------|
| | 2011 | 2010 | 2009 |
| INCOME | | | |
| Trading gain - net | ₱93,821,050 | ₱38,116,467 | ₱10,045,477 |
| Interest income | 26,272,913 | 16,107,798 | 15,759,290 |
| | 120,093,963 | 54,224,265 | 25,804,767 |
| EXPENSES | | | |
| Management fees | 18,763,383 | 8,658,282 | 6,325,364 |
| Taxes and licenses | 4,611,339 | 3,423,250 | 492,354 |
| Professional fees | 253,680 | 117,040 | 163,072 |
| Directors and officers fees | 212,000 | 252,000 | 201,500 |
| Custodian and clearing fees | 60,099 | 60,299 | 60,024 |
| Miscellaneous | 1,444,221 | 703,614 | 624,326 |
| | 25,344,722 | 13,214,485 | 7,866,640 |
| INVESTMENT INCOME BEFORE INCOME TAX | 94,749,241 | 41,009,780 | 17,938,127 |
| PROVISION FOR INCOME TAX | 3,532,905 | 1,887,449 | 2,675,542 |
| NET INVESTMENT INCOME | 91,216,336 | 39,122,331 | 15,262,585 |
| OTHER COMPREHENSIVE INCOME | | | |
| Gain on redemption of available-for-sale investments taken to profit or loss | - | (22,114) | - |
| Changes in fair values of available-for-sale investments | 4,312,799 | - | 22,114 |
| Income tax effect | | 6,634 | (6,634) |
| | 4,312,799 | (15,480) | 15,480 |
| TOTAL COMPREHENSIVE INCOME | ₱95,529,135 | ₱39,106,851 | ₱15,278,065 |
| Basic/Diluted Earnings Per Share | ₱0.33 | ₱0.17 | ₱0.09 |

FIRST METRO SAVE AND LEARN FIXED-INCOME FUND, INC.

(An Open-End Mutual Fund Company)

STATEMENTS OF CHANGES IN EQUITY

| | Number of Shares Outstanding (Note 10) | Capital Stock (Note 10) | Additional Paid-In Capital (Note 10) | Deposits for Future Shares Subscriptions (Note 10) | Net Unrealized Gain on Available- for-sale Investments (Note 7) | Retained Earnings (Note 10) | Total Equity |
|---|---|----------------------------|---|---|--|-----------------------------------|-----------------------|
| Balance at January 1, 2011 | 291,447,596 | ₱291,447,596 | ₱87,970,230 | ₱568,840,811 | ₱– | ₱54,270,320 | ₱1,002,528,957 |
| Total comprehensive income for the year | – | – | – | – | 4,312,799 | 91,216,336 | 95,529,135 |
| Subscriptions during the year | – | – | – | 157,815,854 | – | – | 157,815,854 |
| Shares issued during the year | 963,498,788 | 963,498,788 | 459,463,919 | (189,001,983) | – | – | 1,233,960,724 |
| Shares redeemed during the year | (959,471,397) | (959,471,397) | (453,740,590) | (6,362,203) | – | (12,302,138) | (1,431,876,328) |
| Balance at December 31, 2011 | 295,474,987 | ₱295,474,987 | ₱93,693,559 | ₱531,292,479 | ₱4,312,799 | ₱133,184,518 | ₱1,057,958,342 |
| Balance at January 1, 2010 | 158,943,730 | ₱158,943,730 | ₱14,419,976 | ₱100,000,000 | ₱15,480 | ₱43,429,039 | ₱316,808,225 |
| Total comprehensive income for the year | – | – | – | – | (15,480) | 39,122,331 | 39,106,851 |
| Subscriptions during the year | – | – | – | 698,878,786 | – | – | 698,878,786 |
| Shares issued during the year | 306,777,861 | 306,777,861 | 108,580,144 | (134,780,787) | – | – | 280,577,218 |
| Shares redeemed during the year | (174,273,995) | (174,273,995) | (35,029,890) | (95,257,188) | – | (28,281,050) | (332,842,123) |
| Balance at December 31, 2010 | 291,447,596 | ₱291,447,596 | ₱87,970,230 | ₱568,840,811 | ₱– | ₱54,270,320 | ₱1,002,528,957 |
| Balance at January 1, 2009 | 160,623,834 | ₱160,623,834 | ₱15,014,945 | ₱100,000,000 | ₱– | ₱28,166,454 | ₱303,805,233 |
| Total comprehensive income for the year | – | – | – | – | 15,480 | 15,262,585 | 15,278,065 |
| Shares issued during the year | 14,730,168 | 14,730,168 | 4,215,941 | – | – | – | 18,946,109 |
| Shares redeemed during the year | (16,410,272) | (16,410,272) | (4,810,910) | – | – | – | (21,221,182) |
| Balance at December 31, 2009 | 158,943,730 | ₱158,943,730 | ₱14,419,976 | ₱100,000,000 | ₱15,480 | ₱43,429,039 | ₱316,808,225 |

FIRST METRO SAVE AND LEARN FIXED-INCOME FUND, INC.

(An Open-End Mutual Fund Company)

STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|--|-------------------------|-----------------|-----------------|
| | 2011 | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Investment income before income tax | ₱94,749,241 | ₱41,009,780 | ₱17,938,127 |
| Adjustments for: | | | |
| Trading gains on sale of available-for-sale investments | (92,282,467) | (36,351,567) | (9,250,170) |
| Fair value loss (gain) on call options | (105,121) | 130,493 | (795,307) |
| Fair value gain on financial assets at fair value through profit or loss | – | (1,895,393) | – |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in the amounts of: | | | |
| Financial assets at FVPL | 51,895,393 | (50,000,000) | – |
| Loans and receivables | (110,140,144) | (26,436,029) | (26,706,937) |
| Other assets | (178,997) | (133,207) | – |
| Increase in accounts payable and accrued expenses | 2,101,980 | 6,141,616 | 179,928 |
| Net cash used in operations | (53,960,115) | (67,534,307) | (18,634,359) |
| Income taxes paid | (3,532,905) | (2,301,852) | (2,257,890) |
| Net cash used in operating activities | (57,493,020) | (69,836,159) | (20,892,249) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments on acquisition of available-for-sale investments | (23,328,281,119) | (7,217,940,525) | (3,609,796,305) |
| Proceeds from sale of available-for-sale investments | 23,365,722,983 | 7,320,204,235 | 3,554,083,755 |
| Net cash provided by (used in) investing activities | 37,441,864 | 102,263,710 | (55,712,550) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from: | | | |
| Deposits for future shares subscriptions | 157,815,854 | 698,878,786 | – |
| Shares issued | 1,233,960,724 | 280,577,218 | 18,946,109 |
| Payments for shares redeemed | (1,431,876,328) | (332,842,123) | (21,221,182) |
| Net cash provided by (used in) financing activities | (40,099,750) | 646,613,881 | (2,275,073) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (60,150,906) | 679,041,432 | (78,879,872) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 838,527,580 | 159,486,148 | 238,366,020 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ₱778,376,674 | ₱838,527,580 | ₱159,486,148 |
| OPERATIONAL CASH FLOWS FROM INTEREST | | | |
| Interest received | ₱24,221,795 | ₱16,880,105 | ₱14,052,353 |

Management's Discussion of Plan of Operations

FAMI is the principal distributor of the Fund's shares, and as such, it receives from the Fund a sales load fee which is currently not more than 2% of the amount of investment.

FAMI also distributes and administers other mutual funds belonging to a family of funds. With FAMI's pool of seasoned professionals and the strategic partnership with the Catholic Educational Association of the Philippines (CEAP) and Marist Brothers, it plans to tap principally CEAP member-schools and its constituents, including some religious congregations and dioceses.

The Fund will rely on the services of third party service providers to run its operations (i.e., management, distribution, administration, custodianship, transfer agency, and others). Most of these services entail expenses and fees based on the Fund's net assets. The total operating cost of any mutual fund, by law, shall not exceed ten percent of its net assets as of its previous year's audited financial statements. The Fund does not expect any significant changes in the number of its employees due to the fact that third parties run its operations.

As of June 30, 2012, the total net assets of the Fund is P1,564,838,526. With 290.4 million shares subscribed and paid-up, the net asset value per share is P1.7086.

INTERIM FINANCIAL STATEMENTS

FIRST METRO SAVE AND LEARN FIXED INCOME, FUND, INC.
STATEMENTS OF ASSETS AND
LIABILITIES

| | As of | |
|---|------------------------|-----------------|
| | June 30, 2012 | Dec. 31, 2011 |
| ASSETS | | |
| Cash and Other Cash Items | P 925,087,022 | P 778,376,674 |
| Available-for-Sale Financial Securities | 60,393,025 | 59,153,402 |
| Loans and Receivables | 582,947,568 | 232,384,859 |
| Other Assets | 375,143 | 308,955 |
| | P 1,568,802,758 | P 1,070,223,890 |
| LIABILITIES | | |
| Accounts Payable & Accrued Expenses | P 3,964,232 | P 9,127,268 |
| Derivative Liability | - | 3,138,280 |
| | P 3,964,232 | P 12,265,548 |
| NET ASSET VALUE | 1,564,838,526 | 1,057,958,342 |
| COMPOSITION OF NET ASSET VALUE | | |
| Capital Stock - Common | P 290,411,543 | P 295,474,987 |
| Deposit for future subscription | 1,022,521,432 | 531,292,479 |
| Additional Paid-in Capital | 94,439,573 | 93,693,559 |
| Net unrealized gain on AFS financial securities | 5,622,311 | 4,312,799 |
| Retained Earnings | | |
| Balance at beginning of the year | 133,184,518 | 54,270,320 |
| Net Income | 33,243,673 | 91,216,336 |
| Shares redeemed during the year | (14,584,524) | (12,302,138) |
| NET ASSET VALUE | P 1,564,838,526 | P 1,057,958,342 |
| NET ASSET VALUE PER SHARE | P 1.7086 | P 1.6619 |

FIRST METRO SAVE AND LEARN FIXED INCOME, FUND, INC.
STATEMENTS OF INCOME AND EXPENSES

| | For the Quarter Ended June 30 | | For the Period Ended June 30 | |
|---|-------------------------------|--------------------|------------------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| INCOME | | | | |
| Interest Income | P 17,566,313 | P 6,163,671 | P 27,924,769 | P 11,115,556 |
| Trading Gains | 879,227 | 3,396,824 | 25,914,146 | 3,607,802 |
| Other Income | 3,513,280 | - | 3,772,347 | |
| | 21,958,820 | 9,560,495 | 57,611,262 | 14,723,358 |
| EXPENSES | | | | |
| Management Fees | 7,193,386 | 2,781,084 | 13,255,568 | 5,904,020 |
| Taxes and Licenses | 2,586,598 | 371,828 | 5,467,522 | 2,363,779 |
| Transaction Charges | 33,290 | 151,820 | 690,146 | 317,921 |
| Professional Fees | 41,250 | 27,425 | 77,880 | 54,548 |
| Custodian & Clearing Expenses | 37,807 | 14,959 | 54,113 | 29,853 |
| Directors and Officers' Fees | - | 60,500 | 50,500 | 121,000 |
| Retainer's Fees | 23,934 | 23,934 | 47,868 | 47,605 |
| Membership Fees | - | - | 20,000 | 20,000 |
| Miscellaneous Expenses | (256) | 5,856 | 2,202 | 15,952 |
| | 9,916,009 | 3,437,404 | 19,665,799 | 8,874,678 |
| Net Investment Income before Income Tax | 12,042,811 | 6,123,091 | 37,945,463 | 5,848,680 |
| Provision for Income Tax - Final | 2,783,856 | 566,635 | 4,701,790 | 1,251,184 |
| Net Investment Income | P 9,258,955 | P 5,556,457 | 33,243,673 | 4,597,496 |
| Other Comprehensive Income | | | | |
| Changes in fair value of available-for-sale investments | (251,222) | - | 5,622,311 | - |
| Total Comprehensive Income | 9,007,733 | 5,556,457 | 38,865,984 | 4,597,496 |
| Earnings per share | P 0.1159 | P 0.0193 | P 0.0320 | P 0.0168 |

FIRST METRO SAVE AND LEARN FIXED INCOME, FUND, INC.
STATEMENTS OF CHANGES IN NET ASSETS

| | As of June 30 | |
|---|------------------------|----------------------|
| | 2012 | 2011 |
| CAPITAL STOCK - P 1.00 par value | | |
| Authorized - 300,000,000 shares | | |
| Issued and outstanding - 290,411,543 shares in June 2012 and 287,093,410 shares in 2011 | P 290,411,543 | P 287,093,410 |
| CAPITAL PAID IN EXCESS OF PAR VALUE | 94,439,573 | 88,459,325 |
| DEPOSIT FOR FUTURE SUBSCRIPTION | 1,022,521,432 | 155,863,311 |
| RETAINED EARNINGS | | |
| Balance at beginning of year | 133,184,518 | 54,270,320 |
| Net Income | 33,243,673 | 4,597,496 |
| Shares redeemed during the year | (14,584,524) | (3,740,053) |
| Balance at end of quarter | 151,843,667 | 55,127,763 |
| NET UNREALIZED GAIN ON AFS | 5,622,311 | - |
| | P 1,564,838,526 | P 586,543,808 |

FIRST METRO SAVE AND LEARN FIXED INCOME, FUND, INC.
STATEMENTS OF CASH FLOWS

| | For the Period Ended June 30 | |
|--|------------------------------|----------------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income (Loss) before Income Tax | P 37,945,463 | P 5,848,680 |
| Adjustment to reconcile income before tax to net cash generated from (used) in operations: | | |
| Interest Income | (27,924,769) | (11,115,556) |
| Changes in operating assets and liabilities: | | |
| Decrease/(Increase) in: | | |
| Financial Assets at Fair Value thru Profit and Loss | - | 51,895,393 |
| Available- for-Sale Securities | 69,889 | - |
| Loans and Receivables | (346,313,455) | (46,993,365) |
| Other assets | (66,188) | (55,543) |
| Increase/(Decrease) in: | | |
| Accounts Payable & Accrued Expenses | (5,163,036) | (5,619,029) |
| Derivative Liability | (3,138,280) | - |
| Net cash generated from (used in) operations | (344,590,376) | (6,039,420) |
| Interest income received | 23,675,515 | 11,129,800 |
| Income taxes paid | (4,701,790) | (1,251,184) |
| Net cash provided by (used in) operating activities | (325,616,651) | 3,839,196 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of capital stock | 1,358,821,752 | 679,704,326 |
| Payment of redemption proceeds | (886,494,753) | (1,100,286,970) |
| Net cash provided by (used in) financing activities | 472,326,999 | (420,582,644) |
| NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS | 146,710,348 | (416,743,448) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning balance | 778,376,674 | 838,527,580 |
| Ending balance | P 925,087,022 | P 421,784,132 |

Management's Discussion and Analysis of Financial Condition and Results of Operations

2012 –Interim

Total resources of the Fund grew by 46.6% or ₱ 498.6 million from the ₱ 1.07 billion beginning of the year balance to ₱ 1.57 billion as of June 30, 2012 on account of the following:

Cash and Cash Equivalents

This account consists of:

| | June 30, 2012 | Dec. 31, 2011 |
|----------------------|--------------------|--------------------|
| Cash in banks | 2,730,190 | 2,989,007 |
| Time deposits | 781,697,128 | 775,387,667 |
| Short-term placement | 140,659,705 | - |
| | 925,087,023 | 778,376,674 |

Time deposits bear annual interest rates ranging from 1.75% to 4.3% as of June 30, 2012 and 1.75% to 4.875% in 2011. The time deposit placements have terms of 3 - 49 days as of June 30, 2012 and 4 - 50 days as of December 31, 2011 to provide for the Fund's liquidity requirements.

AFS Investments

AFS investments consist of government securities with annual interest rate of 6.975% as of June 30, 2012 and 6.00% to 8.25% as of December 31, 2011. The carrying value of AFS investments includes net unrealized fair value gain of P5.62 million and ₱4.31 million as of June 30, 2012 and December 31, 2011 respectively.

Loans and Receivables

This account consists of:

| | June 30, 2012 | December 31, 2011 |
|---|--------------------|--------------------|
| Unquoted debt securities | 574,440,000 | 211,601,672 |
| Long-term negotiable certificate of deposit | - | 15,000,000 |
| Accrued interest receivable | 8,377,959 | 4,128,705 |
| Accounts receivable | 129,609 | 1,654,482 |
| | 582,947,568 | 232,384,859 |

Unquoted Debt Securities

This account represents investments in commercial papers issued by various companies which earn annual interest rates ranging from 5.675% to 8.4135% as of June 30, 2012 and 5.675% to 9.5907% as of December 31, 2011. The account consist of :

| | June 30, 2012 | December 31, 2011 |
|------------------------------------|--------------------|--------------------|
| Ayala Land Inc. Bonds | 125,000,000 | - |
| Meralco Corp. Notes | 105,000,000 | 24,196,932 |
| AYC Bonds | 100,440,000 | 1,000,000 |
| Filinvest Land Inc. Bonds | 100,000,000 | - |
| First Metro Investment Corp. Bonds | 80,000,000 | 80,000,000 |
| Pro Friends Corporate Notes | 50,000,000 | 50,000,000 |
| Tanduay Distillery Inc. Bonds | 14,000,000 | 14,000,000 |
| San Miguel Corp. Bonds | - | 15,997,882 |
| CitySavings Bank Corp Notes | - | 26,075,234 |
| National Power Corp. Bonds | - | 331,624 |
| | 574,440,000 | 211,601,672 |

Unquoted debt securities amounting to ₱50.27 million in 2011 have embedded call options which allow the issuers to redeem these instruments prior to their maturities, but subject to prepayment penalties ranging from 1.50% to 2.50% of the outstanding principal. The call options were separated from their host instruments and were measured at fair value. The loans were prepaid in February (₱24.20 million) and April (₱26.07 million) 2012. Also, ₱16.3 million corporate bonds matured during the period ended June 30, 2012.

Long-term Negotiable Certificate of Deposit

As of December 31, 2012, long-term negotiable certificate of deposit has a term of 5 years and bears an annual interest rate of 6.125%. The loan matured on June 28, 2012.

Accounts Payable and Accrued Expenses Payable

This account consists of:

| | June 30, 2012 | Dec . 31, 2011 |
|-------------------------------|------------------|----------------|
| Payable to FAMI | 2,638,452 | 6,182,763 |
| Accounts payable | 553,209 | 2,173,153 |
| Accrued expenses | 141,891 | 185,585 |
| | 3,333,552 | 8,541,501 |
| Nonfinancial liabilities | | |
| Documentary stamp tax payable | 277,272 | 370,494 |
| Withholding taxes payable | 353,408 | 215,273 |
| | 630,680 | 585,767 |
| | 3,964,232 | 9,127,268 |

Payable to FAMI includes management fees, incentive fees, sales load fees and redemption fees. The decrease is due to the payment of 2011 incentive fees payable.

Accounts payable represents amounts payable to shareholders for the uncollected redemption proceeds as well as subscriptions without confirmation from clients. A subscription is confirmed by submitting the required subscription documents. Once confirmed, these subscriptions are

reclassified to equity. The decrease is due to decline in uncollected redemption proceeds.

Accrued expenses include professional fees, custodianship fees and retainer's fees.

Equity

The authorized capital of the Fund is ₱300.00 million divided into 300.00 million redeemable shares of ₱1.00 par value with each share carrying one vote. As of June 30, 2012 and December 31, 2011, issued and fully paid shares totaled 290.41 and 295.47 million shares, respectively. The Fund's capital is represented by these redeemable shares. The shares are entitled to dividends when declared and to payment of a proportionate share of the Fund's NAV on the redemption date or upon winding up of the Fund. The Fund's issued shares are redeemed at their NAV calculated in accordance with redemption requirements. The total expected cash outflow on redemption of all the shares equals the Fund's equity.

Total stockholders' equity reached ₱1.56 billion, about 47.9% or ₱506.88 million higher than the December 31, 2011 balance of ₱1.06 billion. The increase is largely attributed to the ₱33.2 million net income for the period and ₱348.6 million additional deposit for future subscription.

RESULTS OF OPERATION

For the first semester ended June 30, 2012, First Metro Save & Learn Fixed Income Fund, Inc. posted a net income of ₱33.24 million, a return on equity of 5.10%. This is ₱28.64 million higher compared to last year's net income of ₱4.60 million for the same period.

The highlights of the results of operations for the period ended June 30, 2012 are as follows:

Trading Gain amounting to ₱25.91 million consists of:

| | June 30 | |
|----------------------------------|-------------------|-----------|
| | 2012 | 2011 |
| Realized gains from the sale of: | | |
| AFS investments | 25,883,660 | 3,607,801 |
| Unquoted debt securities | 30,486 | – |
| | 25,914,146 | 3,607,801 |

Interest Income

This account consists of interest income on:

| | June 30 | |
|---------------------------|-------------------|------------|
| | 2012 | 2011 |
| Loans and receivables | 12,123,383 | 6,185,168 |
| Cash and cash equivalents | 11,078,931 | 4,930,388 |
| AFS investments | 4,722,454 | 860,287 |
| | 27,924,769 | 11,975,843 |

This account rose by 133.2% or ₱15.95 million higher than last year's income of ₱11.9 million.. This is due to the increase in the interest income earned in time deposit and money market placements and AFS portfolio.

Other Income

This account consists of prepayment penalty on prepayment of loans receivable (Meralco and CitySavings Bank) and income on derecognition of derivative liability on pre-payment of CitySavings Bank loan.

Operating Expenses went up by 121.6% for the first semester of 2012 compared to the same period in 2011. The increment of ₱10.79 million was largely brought about by the increase of ₱7.36 million in management fees and ₱3.11 million in documentary stamps tax.

Provision for income tax moved proportionately with interest income as it represents the 20% final tax on the interest earned from time deposit placements, government securities and bank deposits.

Key Performance Indicators

SALFIF has identified the following as its key performance indicators -- performance vs. benchmark, net income and market share.

SALFIF was incorporated on June 3, 2005. It seeks to provide as high a level of current income as is consistent with the preservation of capital and liquidity.

First Metro Asset Management, Inc. (FAMI) serves as its Investment Company Adviser, Administrator and Principal Distributor. With the SEC's approval of FAMI's license to act as such on September 6, 2005, active management of the Fund's assets was initiated during the latter part of the same month with the objective to consistently outperform its benchmark and achieve a sizable net income.

SALFIF has an initial capitalization of ₱50,000,000.00 which translates to a minimal share in the mutual fund industry (under the bond fund category).

SALFIF has identified the following as its key performance indicators:

- *Net Asset Value Per Unit.* Net Asset Value per share grew from ₱ 1.6619 at the end of December 2011 to ₱ 1.7086 at the end of June 2012, representing an increase of 2.8% over a six-month period.
- *Sales for the quarter ended.* The Fund had total sales of ₱ 877.85 million for the quarter ended June 30, 2012. This represents a 755.6% increase from the ₱ 102.60 million sales for the same period in 2011.
- *Redemptions for the quarter ended.* The Fund had total redemptions of ₱745.38 million for the quarter ended June 30, 2012 which is 203.8% higher than last year's ₱245.37 million.
- *Net Income vs. Benchmark.* The fund realized ₱33.24 million net income for the period ended June 30, 2012, a substantial growth of ₱28.64 million from ₱4.60 million net income recognized during the same period last year.

- *Market Share vs. Benchmark* – As of June 30, 2012 the Fund garnered 2.89% share in the Bond Funds category while 1.26% share among all mutual funds in terms of net assets. On the basis of account holders, the Fund has 1,023 outstanding accounts (including deposits for future subscription) or 3.13% of the total accounts in the Bond Funds category;

The following basic ratios measure the financial performance of the Fund for the quarters ended June 30, 2012, June 30, 2011 as well as, for the year-end of 2011:

| | As of June 30 | | As of Dec. 31, 2011 (Audited) |
|--|---------------|--------|-------------------------------------|
| | 2012 | 2011 | |
| Return on Assets ^{1/} | 5.07% | 1.15% | 8.75% |
| Return on Equity ^{2/} | 5.07% | 1.17% | 8.85% |
| Cost-to-Income Ratio ^{3/} | 34.14% | 60.28% | 21.10% |
| Net Asset Value per Unit ^{4/} | 1.7086 | 1.4952 | 1.6619 |
| Earnings per share ^{5/} | 0.1159 | 0.0168 | 0.3300 |

^{1/} Average assets for period ended June 30 were computed based on the average of the beginning and ending balances, whereby net income was annualized over the six-month period.

^{2/} Likewise, average equity for period ended June 30 was computed based on the average of the beginning and ending balances, whereby net income was annualized over the six-month period.

^{3/} Operating expenses for the cost-to-income ratios do not include provision for probable losses and provision for income taxes.

^{4/} Net asset value per unit by deducting total liabilities from total assets to come up with the Net Assets and dividing with the outstanding number of shares for the period.

^{5/} Net income divided by weighted average number of common shares.

Discussion and analysis of material events and/or uncertainties

The Fund Manager is not aware of any event and/or uncertainties that:

- will have a material impact on liquidity
- will trigger direct or contingent obligation that is material to the Fund including any default or acceleration of obligation
- will have an impact on all material off-balance sheet transactions, arrangement, obligations and other relationships of the Fund
- is a significant element of income or loss that did not arise from the Fund's continuing operations.

Directors and Officers of the Fund

As of the date of this Prospectus, the Board of Directors and the officers of the Fund are as follows:

- **Bro. Manuel V. de Leon, FMS** - 54 years old, Filipino. Term of office is one year. Bro. De Leon has been serving as a member of the Board of Director since 2005 and elected as Chairman of the Board on March 22, 2011. Bro. de Leon is also the Chairman of First Metro Save & Learn Fixed Income Fund, Inc. First Metro Save and Learn Balanced Fund, Inc., First Metro Save and Learn Dollar Bond Fund, Inc. and First Metro Save and Learn Global Opportunity Fund, Inc. He also director for First Metro Asset Management, Inc. (since 2005). He is the Provincial Superior of Marist Brothers of the Schools - East Asia Province (from 2003 to present). He is the Founding President of SAGIP KA 2000 Foundation, Inc. (2000-present). He is Chairman of the Board of Notre Dame of Dadiangas University (2007-present), Notre Dame of Kidapawan College (2003-present), Notre Dame of Marbel University (1990-present). He was an awardee of the Ten Outstanding Young Men (TOYM) in 1992. He has masteral and doctorate degrees in Education from University of the Philippines.
- **Amb. Romualdo A. Ong** – 73 years old, Filipino, Independent Director since 2009. Ambassador Ong has been part of the Board of First Metro Investment Corporation as an Independent Director from 2005 to 2012. He also sit as Independent Director of PBC Capital Investment Corporation from 2006 to present. He has over 40 years of experience in foreign service/international management. He served as Philippine Ambassador to Malaysia (2003-2004), China (1994-2000), Russia (1992-1993), and Australia (1986-1989). He also held the positions of Assistant Secretary for the Office of ASEAN Affairs and for Asian and Pacific Affairs, and Director of the Foreign Service Institute, all under the Department of Foreign Affairs.

He is a graduate of the University of the Philippines with a BS degree in Foreign Service. He also pursued further Diplomatic Studies at the Institut International D'Etudes et de Recherches Diplomatiques and International Civil Service Training at O.F.I., both in Paris.

- ***Mr. Hector C. De Leon** – 48 years old, Filipino. Term of Office is one year. He is the President since June 2011. Mr. De Leon is also the President of First Metro Global Opportunity Fund, Inc. (since 2010), First Metro Save and Learn Equity Fund, Inc. (since June 2011) First Metro Save and Learn Fixed Income Fund, Inc. (since June 2011) and First Metro Save and Learn Dollar Bond Fund, Inc. (since June 2011). He is currently the Executive Vice President of First Metro Asset Management, Inc., a position he has held since August of 2007. He was formerly the EVP and Head of Sales and Marketing for Philequity Management, Inc (2006 to 2007). Before joining Philequity, he served as FVP for Capital Markets of Philam Asset Management Inc. (1996 to 2006) where he was instrumental in setting up and operating most of the company's mutual funds. He was former Chairman of the Board of Trustees of the Investment Company Association of the Philippines from 2005 to 2006. Mr. de Leon has a Bachelors Degree in Electronics and Communications Engineering from De La Salle University and took up Masters in Business Administration (MBA) at the Ateneo Graduate School of Business.

- **Victor A. Abola-** 69 years old, Filipino, Independent Director. He is also an Independent Director of He is an independent director of First Metro Save & Learn Equity Fund, Inc. (since 2010), First Metro Save & Learn Fixed Income Fund, Inc. (since 2010), First Metro Save & Learn Balanced Fund, Inc. (since 2010), First Metro Save & Learn Money Market Fund, Inc. (since 2010), First Metro Global Opportunity Fund, Inc. (since 2010) and First Metro Securities Brokerage Corp. (since 2010) He is the Program Director of the Strategic Business Economics Program (SBEP) of the University of Asia and the Pacific. (2007-present) and the Executive Director of the UA&P-FMIC Capital Market Research Center. He was the Chief of Party of the Fiscal Policy Analysis Activity of the Department of Finance (1998-2001). He has a doctorate degree in Development Management from the University of Asia and the Pacific, where he also received his M.S. in Industrial Economics. After obtaining his Bachelor of Arts and Bachelor of Science in Commerce (major in Accounting) from the De La Salle University, he obtained his C.P.A. certificate. He has authored numerous articles that have appeared in local and foreign newspapers and periodicals, and UA&P's research publications. He co-authored with Dr. Bernardo M. Villegas the textbooks, Economics An Introduction (now in its 6th edition) and Basic Economics (2nd ed. 2010). He is the author of the text/reference book Money, Banking and Finance (2006)
- **Bernadette M. Nepomuceno,** 60 years old. Filipino. Independent Director. Ms. Nepomuceno is also an Independent Director of First Metro Save & Learn Equity Fund, Inc. (since August 2012), First Metro Save & Learn Fixed Income Fund, Inc. (since August 2012), First Metro Save & Learn Balanced Fund, Inc. (since August 2012), First Metro Save & Learn Dollar Bond Fund, Inc. (since August 2012), First Metro Global Opportunity Fund, Inc. (since August 2012). Ms. Nepomuceno is the President of Private Education Retirement Annuity Association (PERAA)(from 2007-present). Among her past positions during the last five years, She was President of Holy Angel University (1994-August 2006); Board of Directors, Philippine Association of Colleges and Universities (1995-2006); Board of Directors, Coordinating Council of Private Education Association (2003-2006), among her other affiliations, includes: President, Sophia (Association of Women Presidents/Chancellors of Private Colleges & Universities, Inc.); Member, Technical Working Group on Management Development Program; CHED, Member, Ethics Committee, Lung Center of the Philippines; Board of Trustees, Private Education Retirement Annuity Association, Accreditor, Philippine Accrediting Association of Schools, Colleges and Universities (PAASCU), Founding member, Friends of Jung.

She is also a Psychotherapist, in a Private Practice (2001-present).

Ms. Nepomuceno has a Bachelor of Arts degree in Psychology from University of the Philippines (1972), She also has a Masters of Psychology, major in Social Psychology., Ateneo de Manila University (1998) (cand.). She took up Hypnotherapy, Psychology of Carl Jung.

EXECUTIVE OFFICERS

- **Hector C. De Leon***
- **Atty. Nimfa B. Pastrana - 50** years old, Filipino, Corporate Secretary. Term of office is one year and has served as such from January 29, 2007 up to present. She is the First Vice President and Asst. Corporate Secretary of First Metro Investment Corporation. She is also the Corporate Secretary of First Metro Save & Learn Fixed Income Fund, First Metro Save and Learn Equity Fund (from May 2005 to present)

First Metro Save & Learn Dollar Bond Fund, Inc. (from 2008 to present) First Metro Global Opportunity Fund, Inc. (from 2010 to present), First Metro Securities Brokerage Corporation, PBC Capital Investment Corporation, Prima Ventures Development Corporation and First Metro Asset Management Inc. She graduated from the University of the Philippines with a degree A.B. Philosophy and from San Beda College with a Bachelor of Laws degree.

- **Mr. Jonathan T. Tabac** - 58 years old, Filipino, Compliance Officer. Term of office is one year and has served as such from January 29, 2007 up to present. He is also the Compliance Officer of First Metro Investment Corporation, First Metro Securities Brokerage Corporation, First Metro Save & Learn Fixed Income Fund, First Metro Save & Learn Equity Fund, and First Metro Asset Management, Inc (from May 2005 to present). He was AVP & Compliance Officer of Citystate Savings Bank (2002-2003), Vice President of Maybank Philippines (formerly PNB Republic Planters Bank)-1997-2001 and Chairman of the Board of RPB Provident Fund, Inc.(1997-2001) Mr. Tabac finished BSC-Accounting from University of Baguio and MBA units from the University of Santo Tomas. He is a Certified Public Accountant.
- **Ms. Marie Arabella D. Veron** – 52 years old, Filipino, Treasurer. Term of office is one year and has served as such from January 29, 2007 up to present. She is the Controller and First Vice President of First Metro Investment Corporation, Treasurer/Director of SBC Properties, Inc.(2003-present), Treasurer of First Metro Save & Learn Dollar Bond Fund, Inc., First Metro Global Opportunity Fund, Inc., First Metro Save & Learn Fixed Income Fund, First Metro Save & Learn Equity Fund, First Metro Asset Management, Inc. (from May 2005 to present), Treasurer of PBC Capital Investment Corporation (2006-present). She was a manager of MBTC Domestic Subsidiaries, a Senior Auditor of Joaquin Cunanan & Co./Price Waterhouse (1980-1985) and of Philippine International Trading Corporation (1985-1990). Ms. Veron finished her Bachelor of Science Degree in Business Administration, major in Accounting from University of the East. She is a Certified Public Accountant and a Certified Management Accountant.
- **Mr. Edwin B. Valeroso** - 48 years old, Filipino, Asst. Treasurer. Term of office is one year. He is First Vice President of First Metro Asset Management, Inc. He was the President of First Metro Save & Learn Balanced Fund (Jan 2007 to June 2011), First Metro Save & Learn Fixed Income Fund and First Metro Save & Learn Equity Fund (from May 2005 to June 2011), and President of First Metro Save and Learn Money Market Fund, Inc. (2008 to 2011). He is Vice President/Trustee/Corporate Secretary of Philippine Investment Funds Association, Inc. (2006-present) and an Associate Professorial Guest Lecturer at De La Salle University-Graduate School of Business (2000-2009). He was a Mutual Fund Strategist/Consultant at First Metro Investment Corp. (2004-2005). Mr. Valeroso has a BS Actuarial Mathematics degree from University of Santo Tomas, a Master's degree in Applied Mathematics from University of the Philippines, and a Doctor of Business Administration degree from De La Salle University-Manila. He is also an alumnus of the Trust Institute Foundation of the Philippines.

Significant Employee

There is no significant employee who is expected by the registrant to make a significant contribution to the business.

Family Relationship

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers or persons nominated or chosen by the Registrant to become directors or executive officers.

Executive Compensation

The members of the Board of Directors Fund shall receive per diem for their attendance in regular or special meetings of the Board in the amount of P10,000 per Director for every actual meeting attended. They receive no other compensation or benefits. The total amount of per diem received by Directors for the years 2011 and 2010 is ₱170,000.00 and ₱170,000 respectively. The Per diem of the Corporate Secretary and the other Officers of the Fund amounting to P3,000.00, P2,500.00, respectively, are given during the Annual Stockholders' and regular meetings. The estimated total amount of per diem for the year 2012 is ₱200,000.00.

There is no employment contract between the Registrant and a named executive officer. There is no compensatory plan or arrangement, including payments to be received from the Registrant, with respect to a named executive officer in the event of resignation, retirement or any other termination of such officer's employment with the Registrant and its subsidiaries.

Legal Proceedings

The Registrant or any of its subsidiaries/parties has no material pending legal proceedings to which it is a party or of which of their property is subject. None of the Board of Directors of the registrant is:

1. involved in any legal proceeding the past five (5) years up to the latest that are material to an evaluation of the ability or integrity of any director, any nominee for election as director, executive officer, underwriter, or control person of the Registrant;
2. involved in any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
3. involved in or convicted by final judgment in any criminal proceeding, domestic or foreign, or subject to a pending criminal proceeding, foreign or domestic, excluding traffic violations and other minor offenses;
4. subject to any order, judgment, or decree not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

5. found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the said judgment has not been reversed, suspended or vacated.

Security Ownership of Certain Record and Beneficial Owners (as of June 30, 2012)

| Title of Class | Name and Address of Owner | Name of Beneficial Owner | Citizenship | No. of Shares Held | Percent to Outstanding Shares |
|----------------|--|--------------------------|-------------|--------------------|-------------------------------|
| Common Shares | First Metro Investment Corporation 45th Flr. GT Tower Int'l, Ayala Ave., corner HV Dela Costa St., Makati City | Same | Filipino | 106,696,268 | 36.7% |
| Common Shares | Catholic Educational Association of the Philippines - Retirement Fund Rm.303, 3/F JBD Plaza, No. 65 Mindanao Avenue, Quezon City | Same | Filipino | 43,999,681 | 15.1% |
| Common Shares | Ram-line Resources, Inc. R. Castillo St., Agdao Davao City | Same | Filipino | 17,329,821 | 6.0% |

1- FMIC, is the registered owner of the shares in the books of the Company. The Board of Directors of FMIC has the right to appoint actual person or persons acting individually or jointly to direct the voting or disposition of the shares held by the corporation. The person who will exercise the voting powers over the shares of FMIC is Mr. Francisco C. Sebastian or Mr. Roberto Juanchito T. Dispo. FMIC is a major shareholder of the Fund.

2- Catholic Educational Association of the Philippines – Retirement Fund (CEAP-Retirement Fund) is the registered owner of the shares in the books of the Company. The person who will exercise the voting powers over the shares of CEAP Retirement Fund is Mr. Nilo L. Pacheco or Bro. Narciso S Erguiza Jr., FSC. CEAP is a major shareholder of the Fund.

3-Ram-Lines Resources, Inc. is the registered owner of the shares in the books of the Company. The person who will exercise the voting powers over the shares of LRT Calocan Mall Inc. is Ms. Mary Ann Cua. Ram-lines is a major shareholder of the Fund.

The original proponents have agreed not to sell, transfer, convey, encumber or otherwise dispose of their shares of the Fund within twelve (12) months from its registration.

Security Ownership of Management as of June 30, 2012

The directors and officers as a group held a total of 38,382 common voting shares as of June 30, 2012. This is broken down as follows:

| Title of Class | Name of Beneficial Owners | Amount and Nature of Ownership | Citizenship | Percent to Outstanding Shares |
|----------------|---------------------------|--------------------------------|-------------|-------------------------------|
|----------------|---------------------------|--------------------------------|-------------|-------------------------------|

| | | | | |
|---------------|-----------------------|--------|----------|-------|
| Common shares | Manuel V. De Leon | 1 | Filipino | 0.00% |
| Common shares | Amb. Romualdo A. Ong* | 3,890 | Filipino | 0.00% |
| Common shares | Victor A. Abola* | 1 | Filipino | 0.00% |
| Common shares | Hector C. de Leon | 1 | Filipino | 0.00% |
| Common shares | Nimfa B. Pastrana | 33,489 | Filipino | 0.01% |

*Independent Directors

The Corporation knows of no other person holding more than 5% of common shares under a voting trust or similar agreement.

There is no arrangement that may result in a change in control of the registrant.

No change of control in the Corporation has occurred since the beginning of its last fiscal year.

Related Transactions

There are no material transactions with or involving the Fund with any company in which a director, executive officer, or stockholder owns ten percent (10%) or more of the total outstanding shares, and any member of their immediate family had or is to have a direct or indirect material interest.

There are no transactions during the last two (2) years or proposed transactions, to which the Registrant was or is to be a party in which any of the Fund's directors, executive officers or stockholders had or is to have a direct or indirect material interest.

There are no transactions with promoters and there are no transactions that involve the nature and amount of anything of value (including money, property, contracts, options or rights of any kind) received or to be received by each promoter, directly or indirectly, from the Issuer and the nature and amount of any assets, services or other consideration received or to be received by the Registrant. There are no transactions as to any assets acquired or to be acquired from a promoter.

There are no arrangements which may result in a change of control of the registrant.

Interest of Named Experts and Independent Counsel. Direct or Indirect Interest in Registrant

There are no experts or independent counsels hired on a contingent basis and who received a direct or indirect interest in the Fund.

Compliance with the Investment Company Act.

In compliance with the requirements of the R.A. No. 2629, otherwise known as the Investment Company Act of 1960 or ICA, the Fund is organized as a stock corporation. All the members of the Board of Directors of the Fund are Filipino citizens and all shares of its capital stock are common and voting shares. The

Articles of Incorporation of the Fund provide for the waiver of pre-emptive rights of stockholders.

Compliance with the Manual on Corporate Governance

In line with the Securities and Exchange Commission's Memorandum Circular No. 2 series of 2002, the Company has adopted its Manual on Corporate Governance providing for the best practices on governance. The duties responsibilities and authorities of the Board of Directors as well as qualifications of a director/officer are adopted and complied with. Board Committees were created, such as: the Audit Committee; the Nominations Committee which pre-qualifies and shortlists the nominees for independent directors to be elected in the annual stockholders meeting and the Compensation Committee which assist the Board of Directors in ensuring due observance of corporate governance principles and guidelines.

A compliance officer has been appointed to manage the Compliance System of the Company and to monitor and evaluate compliance with the Manual of Corporate Governance. In general, the Company is in compliance with the leading practices in good corporate governance. This was reported in a Certification by the Compliance Officer filed with the Commission on January 5, 2012. No director or officer of the Company was found in violation of the Manual.

The Company has adopted a good governance scorecard to measure and determine the level of compliance by the Board of Directors and top-level management with its Manual of Corporate Governance. Every end of the current year, the scorecard patterned after the SEC-prescribed Corporate Governance Self-Rating Form (CG-SRF) shall be accomplished by the Compliance Officer. Based on the duly accomplished Scorecard, the Compliance Officer has submitted to the SEC the required certification attesting compliance with the Manual.

Investment Policy

The Fund is an open-end mutual fund that seeks to provide as high a level of current income as is consistent with preservation of capital and liquidity.

Investment Guidelines and Restrictions

The Fund has investment objectives classified as low risk. ICA Rule 35-1 provides that an investment company shall not change its investment objective without prior approval of a majority of its shareholders. For liquidity purposes, unless otherwise prescribed by the Commission, at least 10% of the fund shall be invested in liquid/semi-liquid assets such as those enumerated below.

The assets of the Fund shall be structured based on the level of interest rates, market conditions, and liquidity needs of the Fund, where its investments, denominated in Philippine Pesos or foreign currencies, are to be of above-average credit quality and minimal risk, and the average maturity are to take into account any expectation of any changes in interest rates.

Specifically, the Fund shall invest in any of the following

- Government securities¹ such as Treasury Bills, Fixed Rate Treasury Notes or FXTNs, Retail Treasury Bonds, Progress Bonds and Small-

Denominated Treasury Bonds or SDT Bonds and repurchase agreements involving these instruments

- Certificates of Deposits
- SEC-registered commercial papers and bonds, with a rating of at least “PRIS 2” for short-term and “PRIS Aaa” (or their equivalents) for long-term tenors; and,
- Bankers' acceptances
- Other allowed fixed-income instruments both Peso and Dollar denominated

Moreover-

1. The maximum investment of the Fund in any single enterprise shall be limited to ten percent (10%) of the Fund's NAV, except for investments in securities of the Philippine Government or its instrumentalities and, in no case, shall the total investment of the Fund exceed 10% of the outstanding securities of any one investee company;
2. Pursuant to the governing rules and regulations of the SEC, the Fund shall not invest in any of the following: margin purchases of securities; commodity futures contracts; precious metals; unlimited liability investments; short-selling of currencies; short-selling of investments; and, other investments as the SEC shall, from time to time, prescribe;
3. The Fund shall not incur any further debt or borrowing, unless at the time it is incurred or immediately thereafter, there is asset coverage of at least three hundred percent (300%) for all its borrowings. In the event that such asset coverage shall at any time fall below 300%, the Fund shall within three (3) days thereafter, reduce the amount of borrowings to an extent that the asset coverage of such borrowings shall be at least 300%;
4. The Fund shall not participate in an underwriting or selling group in connection with the public distribution of securities, except for its own capital stock;
5. The Fund shall not invest in real estate properties and developments;
6. The Fund shall not invest in any company for the purpose of exercising control or management;
7. The Fund shall not invest in the securities of other investment companies;
8. The Fund shall not purchase from or sell to any of its officers or directors or the officers or directors of its investment adviser/s, manager or distributor/s or firm/s of which any of them are members, any security other than the capital stock of the Fund;
9. The total operational expenses of the Fund shall not exceed ten percent (10%) of its total investment fund or total net worth as shown in the previous year's audited financial statements;
10. The Fund shall focus on industries and enterprises with strong growth potentials or profitable historical financial performance. There may be concentration on certain industries at various points in time, depending on the overall condition of the financial and capital markets;
11. The Fund shall not engage in lending operations without prior approval of the Board of Directors. Such approval shall be limited only to corporations or other entities, public or private, determined to be financially sound by the Board of Directors;
12. The Fund anticipates a gradual turnover in portfolio with the aim of ensuring the preservation of capital and liquidity.

Use of Proceeds

The total proceeds from the sale of the additional seven hundred million (700,000,000) shares is estimated at P1,196,020,000.00, based on the NAVPS of P1.7086 as of June 30, 2012. Deducting the estimated expenses of P600,000.00 (composed of registration fees, documentary stamp tax, etc.), the net proceeds would be P1,195,420,000.00. The net proceeds will be primarily invested in government securities, SEC-registered commercial papers, among other debt instruments. The assets of the Fund shall be structured based on the level of interest rates, market conditions, and liquidity needs of the Fund, where its investments, denominated in Philippine Pesos or foreign currencies, are to be of above-average credit quality and minimal risk, and the average maturity are to take into account any expectation of any changes in interest rates.

No material amount of proceeds will be used (a) to discharge any debt of the Issuer, (b) to acquire assets or finance the acquisition of other business, (c) to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, money loaned or advance or otherwise.

Expenses to be deducted from the Gross Proceeds

The expenses that shall be paid out of the gross proceeds are composed of investment management fee, distribution fee and administration fee (1.75%), Stock and Transfer Agency fee (approximately P8,000 per month), Custodianship fee (approximately P8,000 per month plus P200 per transaction) and documentary stamp tax of P1.00 per P200 par value.

The following are expenses normally deducted from the gross proceeds of shares sold:

1. Allowances of independent directors for every shareholders' and board meeting held;
2. Audit and legal fees;
3. Fees of custodian bank;
4. Cost of printing and delivering notices, reports, proxies and other communication material for existing shareholder;
5. Fees of transfer agent;
6. Taxes, including income taxes, documentary stamp taxes and license fees as may be required by law or by the rules and regulations of the SEC; and
7. Management, distribution and administration fees computed in accordance with the Management, Distribution and Administration Agreement between the Fund and the Investment Company Adviser

Plan of Distribution/Distribution method

The Fund has appointed FAMI as principal distributor of its shares of stock and will not sell or agree to sell any shares of its capital stock except through FAMI. FAMI will set up a marketing network and accredit sub-dealers or agents to sell the shares. Accredited sub-dealers or agents are directly liable to FAMI.

FAMI's license as Fund's Investment Manager, Administrator and Principal Distributor was renewed and approved by the SEC on December 29, 2011.

The Fund currently has a Management and Distribution Agreement with FAMI and a Stock and Transfer Agency Agreement with MBTC-TBG (the Agreements). The Agreements cover the services to be rendered by FAMI and MBTC-TBG, and the payment of fees based on the Fund's average NAV computed on a daily basis, except for stock and transfer agency fee, as follows:

| Service | Account | Rate |
|----------------------------------|----------------|---|
| Fund management and distribution | Management fee | 1.75% of the Fund's average net asset value computed on a daily basis |
| Fund management and distribution | Incentive fee | 10% of realized appreciation in the value of net assets in excess of hurdle rate* |
| Stock and transfer agency | Retainer's fee | 8,000 per month accrued daily |

*Calculated as the 5-year PDST fixing rate plus 1% spread

The management and retainer's fee are paid on a monthly basis while the incentive fees are paid annually. These agreements shall remain in effect from year to year, unless otherwise terminated by the parties in accordance with specified terms and conditions.

Subscription Procedure

Investments in mutual funds are covered by the Anti-Money Laundering Law. An Investment Application Form and signature cards must be submitted together with the appropriate payment. Once submitted, the Investment Application may not be cancelled in full or in part. An Investment Application, once accepted, shall constitute an agreement between the Investor and the Investment Manager and Principal Distributor at the time, in the manner and subject to the conditions set forth in this Prospectus and the Investment Application Form.

Eligible Investors

The shares of the Fund may be purchased and held by any person of legal age or duly organized and existing corporations, partnerships or corporate entities regardless of nationality. The Articles of Incorporation of the Company provides, however, that no transfer of shares of stock of the Company which would reduce the stock ownership or equity interest of Filipino citizens to less than the percentage required by applicable laws or regulations shall be caused or allowed to be recorded in the proper books of the Fund. The Investor shall declare and warrant that there are no legal restrictions prohibiting the purchase of the shares applied for and that the Investor is otherwise eligible throughout the duration of the period that the Investor remains a stockholder of the Company.

Purchase of the shares of the Fund may be restricted by law in certain jurisdictions. Foreign investors interested in subscribing to the shares should get information on the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile and as to any relevant tax or foreign exchange control laws and regulations affecting them personally.

Requirements for Corporate Applicants

For Investors other than individuals, the following documents, in addition to the Investment Application Form and the signature cards, must be accomplished and shall be considered integral parts thereof: copy of the Investor's SEC Certificate of Registration, Articles of Incorporation and By-Laws; notarized corporate secretary's certificate setting forth the resolutions of the Investor's Board of Directors or equivalent body: authorizing the purchase of the shares of the Fund; designating the signatories for the purpose; and, certifying the percentage of capital stock held by non-Filipinos.

Minimum Investment

The minimum initial investment is FIVE THOUSAND PESOS (Php5,000.00) and subsequent investments shall be for a minimum of ONE THOUSAND PESOS (Php1,000.00).

Offering Price

The net asset value computation shall be made in accordance with the valuation method indicated in the prospectus and shall be applied consistently. Any change in the NAVPS computation or valuation method shall be subject to approval by the Commission. Investment companies shall compute and post their NAVPS on a daily basis and shall publish such daily prices in at least two (2) newspapers of general circulation in the Philippines and shall post them daily in a conspicuous place at the principal office of the investment company as well as all its branches or correspondent offices which are designated redemption centers.

The daily cut-off time for the reckoning of the date of submission of the subscription application shall be 12:00 noon. If the application is received on or before the said cut-off time, the shares shall be valued based on the net asset value (NAV) per share for the same banking day. For applications received after the cut-off time, it shall be deemed to have been received the following banking day. In both instances, a sales load fee shall be charged based on the total price of the application. The NAV per share shall be the computed difference between total assets of the Fund and its total liabilities divided by the number of shares outstanding.

The sale load fees (plus VAT) applicable for the various levels of investments are as follows:

| Investment Amount (in Php) | Sales Load |
|-----------------------------------|-------------------|
| 5,000 to less than 100,000 | 2.0% |
| 100,000 to less than 500,000 | 1.5% |
| 500,000 to less than 2,000,000 | 1.0% |
| 2,000,000 and above | 0.5% |

Subscriptions must be paid in full upon submission of the application for subscription.

Acceptance of Investment Applications

Applications for the number of shares and the applicable NAV are subject to acceptance and approval by the Principal Distributor. The Principal Distributor reserves the right to reject, scale-down and re-allocate any application for the

shares for whatever reason. Applications for which check payments are dishonored upon first presentment, as well as those which do not comply with the requirements set in this Prospectus and Investment Application Form, shall be rejected.

The Principal Distributor shall inform the Investor of such reduction or rejection within three (3) days after submission of the Investment Application.

Payment Terms

Subscriptions shall be paid in full upon submission of a duly accomplished and executed Investment Application Form. Payments must be made in the form of personal or corporate check or cashier's or manager's check, drawn against a bank account with a BSP authorized agent bank located in Metro Manila. All such checks must be made payable to "First Metro Save & Learn Fixed-Income Fund, Inc.," dated as of the date of the Investment Application, and remitted directly to the Principal Distributor at its principal office. A provisional receipt will be issued initially the Investor. Upon acceptance of the Investment Application by the Principal Distributor, a Confirmation Receipt will be issued to confirm the purchase of the shares of the Fund and to likewise serve as the Investor's Official Receipt.

Refunds

Refunds of payments for any rejected or scaled-down applications shall be made without interest by the Principal Distributor not later than five (5) days after submission. The respective Investor shall receive a check, crossed "Payee's Account Only," mailed and delivered at the Investor's risk to the address specified in the Investment Application Form or to the corresponding distributor or any authorized investment salesmen of the Investor.

Delivery of Stock Certificates

Each stockholder of the Fund is entitled to receive a stock certificate representing ownership of the shares of the Fund. However, an Investor has an option not to request for stock certificates because the legal requirements for replacing lost certificates entail costly and lengthy procedures. Nevertheless, if an Investor still wants to receive a stock certificate, he must indicate so in the Investment Application Form. Stock certificates shall be made available to the Investor as soon as practicable at the office of the Transfer Agent. Any certificate that remains unclaimed for a period of thirty (30) days shall be mailed to the address specified in the Investment Application Form at the risk of the Investor.

Redemption of Shares

Investors in redeemable securities issued by an open-end investment company shall have the right to have their securities redeemed in accordance with the terms of the issue thereof and the procedures indicated in this prospectus. The redemption price surrendered before the daily cut-off time shall be the next computed NAVPS. Payments for securities redeemed shall be effected within seven (7) banking days from receipt of the request for redemption, in accordance also to Sec 22(b) if the Investment Company Act.. The Commission may, whenever necessary or appropriate in the public interest or for the protection of investors, suspend the redemption of securities of open-end

companies. The investment company may establish a network of redemption centers acceptable to the Commission.

The holder of any shares of stock of the Fund, upon its presentation to the Fund in its principal office or to any of its duly authorized representatives of the confirmation receipt or stock certificate, and upon filing of the redemption request form, is entitled to receive by way of redemption approximately his proportionate share of the Company's current net assets or the cash equivalent thereof, i.e. the current NAV per share, subject to the existing laws and By-laws of the Company.

NAV is then divided by the number of shares outstanding to arrive at the NAV per share.

For securities surrendered for redemption before the daily cut-off time of 12:00 noon, the price at which the Company's securities may be redeemed shall be computed based on the NAV per share on the banking day following the day when such request for redemption is received. Should the request for redemption be received after the said daily cut-off time, it shall be deemed to have been received on the following banking day, and the applicable NAV per share to be used as basis for redemption shall be that which shall be computed for the following banking day when such request for redemption is deemed to have been received.

There shall be no minimum holding period, however, redemption fees shall be deducted out of the redemption proceeds depending on the retention period of the investor as follows:

| <u>Retention Period</u> | <u>Fee</u> |
|-------------------------|------------|
| Less than 6 months | 1.0% |
| 6 months and beyond | nil |

Payments for redeemed shares shall be effected within seven (7) banking days from receipt of the request for redemption.

The Fund shall not suspend the right of redemption or postpone the date of payment or satisfaction upon redemption of any redeemable security in accordance with the terms appearing in this Prospectus, for more than seven (7) banking days after the tender of such security to the Corporation, except on the instances prescribed by applicable Philippine laws or regulations.

Benefits to the Investor

Mutual funds make saving and investing simple, accessible, and affordable. They offer professional management, diversification, liquidity, affordability, convenience, and ease of recordkeeping, as well as strict government regulation and full disclosure.

Professional Management

Even under the best of market conditions, it takes an experienced investor to invest prudently, and a further commitment of time to monitor those

investments. With mutual funds, experienced professionals manage a portfolio full-time, and decide where to invest based on extensive research.

Diversification at Low Cost

Successful investors know that diversification will reduce the adverse impact of a single investment. Mutual funds provide diversification to your investment portfolio automatically by holding a wide variety of securities at a fraction of the cost of making such investments independently.

Liquidity

Liquidity is the ability to readily access your investment. Mutual fund shares are liquid investments that can be sold on any business day. Mutual funds are required by law to buy, or redeem, shares each business day.

Convenience

You can purchase or sell fund shares directly through a broker, bank or insurance agent, by mail, over the telephone, and increasingly by personal computer. You can also arrange for automatic reinvestment or periodic distribution of the dividends and capital gains paid by the fund. A wide variety of other services can be provided, including monthly or quarterly account statements, tax information, and easy access to fund and account information.

Protecting Investors

Not only are mutual funds subject to exacting internal standards, they are also highly-regulated by the Securities and Exchange Commission which has a direct and indirect impact on the environment where mutual funds operate.

Parties Involved in the Fund

Investment Manager, Fund Administrator and Principal Distributor

First Metro Asset Management, Inc., ("FAMI"), the Investment Manager, Fund Administrator and Principal Distributor of the shares of the Company, was incorporated on April 21, 2005 with an authorized capital stock of Forty Million Pesos (Php40,000,000.00) divided into Four hundred Thousand (400,000) shares at a par value of One Hundred Peso (Php100.00) per share. It has a subscribed capital of Eleven Million Seven Hundred Sixty Five Pesos (Php11,765,000.00) of which Ten million Pesos (P10,000,000.00) are paid-up.

The investment manager, fund administrator and principal distributor has its license from the Securities and Exchange Commission; it was renewed and approved on 29 December 2011.

The guidelines for the investment management, fund administration and shares distribution of the Company are set in the Management and Distribution Agreement between the parties.

There is no arrangement whereby FAMI has the right to designate or nominate a member/s of the board of directors of the Issuer.

FAMI is a corporation organized by a group of individuals with a solid track record in management. The following are the members of the Board of Directors and officers of FAMI:

MR. FRANCISCO C. SEBASTIAN
CHAIRMAN OF THE BOARD
58, Filipino

Prior to his appointment as Chairman of the Board of Directors of First Metro Investment Corporation in April 2011, he served as President from 1997 to 2011. His investment banking and financial advisory experience spans over 30 years and covers the Asian region as he was based in Hong Kong for 20 years.

Mr. Sebastian also currently serves as Vice Chairman of Metropolitan Bank and Trust Co. (since 2006), as well as Chairman of Global Business Power Corporation (since 2007), and Federal Land, Inc. (since 2007).

He completed his collegiate studies at the Ateneo de Manila University, earning a Bachelor of Arts degree in Economics Honors and graduating as Magna Cum Laude.

MR. ROBERTO JUANCHITO T. DISPO
VICE CHAIRMAN
48, Filipino

Mr. Dispo currently serves as President and Director of First Metro Investment. In addition, he is a member of the Advisory Board of Metropolitan Bank & Trust Company; Chairman of First Metro Securities Brokerage Corporation; and PBC Capital Investment Corporation; President of Resiliency (SPC), Inc.; and Director of Travel Services, Inc.

Prior to joining First Metro in 1998, he held various positions in different government offices, including, the Department of National Defense, Department of Trade and Industry, Department of Finance and the Central Bank. His last government post was Deputy Treasurer of the Philippines with the rank of Assistant Secretary.

Mr. Dispo holds BSC Economics and Business Management-MBA degrees from San Sebastian College and the Pamantasan ng Lungsod ng Maynila, respectively. He also completed a Masters in Business Economics from the University of Asia & the Pacific. In addition, he finished a Management Development Program from the Asian Institute of Management and a diploma course in International Banking and Finance from the Economic Institute, University of Colorado.

MR. AUGUSTO M. COSIO, JR.
PRESIDENT
60, Filipino

Mr. Cosio assumed this position in June 2010. He has been a member of the First Metro Investment Corporation (FMIC) Investment committee since 2008. In FMIC he held the position of Vice President since September 2006.

Mr. Cosio has had extensive experience in investments and the capital markets both locally and internationally. He served as consultant to the Mutual Fund Company of the Philippines (Kabuhayan Fund) from 2005 to 2006 and with the GSIS Mutual Fund (Kinabukasan Fund) from 2003 to 2003. He was Vice President at Bank Austria Private Banking in Hong Kong from 2000 to

2001 managing portfolios for private clients. He was previously, President of PNB Securities Inc. (1997 to 2000), a nominee and a member of the board of the Philippine Stock Exchange (1999). He had been an international capital markets practitioner from 1977 to 1994 having been connected with Banque Nationale de Paris (1977 to 1981) and Banque Paribas (1984 to 1994), the predecessors of the present BNP Paribas. Gus worked in Hong Kong and Singapore for the Paribas capital markets group.

He is also a resource speaker for fixed income courses at the Ateneo Center for Continuing Education and the University of Asia and the Pacific as well as for the PSE Certified Securities Specialist Course. He pursued his course of AB Social science at the University of the Philippines finishing in 1974. He received further training in international capital markets through seminars and courses conducted by BNP and Banque Paribas in London, Paris, Tokyo in New York.

**BRO. MANUEL V. DELEON, FMS
DIRECTOR
54, Filipino**

Bro. De Leon has been serving as a member of the Board of Director since 2005 and elected as Chairman of the Board on March 22, 2011. Bro. de leon is also the Chairman of First Metro Save & Learn Fixed Income Fund, Inc. First Metro Save and Learn Balanced Fund, Inc., First Metro Save and Learn Dollar Bond Fund, Inc. and First Metro Save and Learn Global Opportunity Fund, Inc. He also director for First Metro Asset Management, Inc. (since 2005). He is the Provincial Superior of Marist Brothers of the Schools - East Asia Province (from 2003 to present). He is the Founding President of SAGIP KA 2000 Foundation, Inc. (2000-present). He is Chairman of the Board of Notre Dame of Dadiangas University (2007-present), Notre Dame of Kidapawan College (2003-present), Notre Dame of Marbel University (1990-present). He was an awardee of the Ten Outstanding Young Men (TOYM) in 1992. He has masteral and doctorate degrees in Education from University of the Philippines.

**BRO. JOHN Y. TAN
DIRECTOR
54, Filipino**

Bro. Tan is a member of the Board of Trustees of Notre Dame of Dadiangas College, Notre Dame of Kidapawan College, Notre Dame of Marbel University, Marist Development Foundation, Inc., Marist School Marikina City, Marian Hills Memorial Park, Inc., ND Business Resource Center Foundation, Inc., First Metro Investment Corporation, and SAGIP KA 2000 Foundation, Inc. He is the Chairman of the Board of Trustees of Notre Dame of Cotabato, Inc. He is also the treasurer of Notre Dame Educational Association and a member of the International Preparatory Commission on Mission, Marist Brothers Generalate, Rome, Italy. He is a member of the Provincial Council and Provincial Econome of Marist Brothers of the Philippines, Inc. He was a Mindanao Cluster Team Member of FORD Foundation IP Regional Screening Committee, President of Samahan ng mga Pari at Relihiyoso ng Kidapawan (SPARK), Chairman of Cotabato Province CHED Sports Council, and Board of Trustees Member of Cotabato Private Schools Association, Inc. He has a bachelor's degree in Education (English/Science) and a master's degree in Education (Educational Administration) from Notre Dame University.

MR. REX C. DRILON II
INDEPENDENT DIRECTOR
62, Filipino

Mr. Drilon was elected as Independent Director of FAMI on May 8, 2012. He is also an Independent Director of First Metro Investment Corporation since June 2011. He has over 30 years of experience in general management, having served in various key executive positions such as: President of Phil Fuji Xerox Corporation, Yuchengco Group (1994 to 1995), Vice President and General Manager of Jardine Sugar Group, President of Hawaiian Philippine Company as well as HPCo Agridev Corp (1996-1997), Vice President of Ayala Land, Inc., President of Cebu Holdings Inc. and Cebu Property Ventures and Development Corp. (1998-2001), and Chief Operating Officer of Ortigas and Company Limited Partnership (2001-2010).

Mr. Drilon received his Business Administration degree from the University of the East and pursued further studies at the University of Asia and the Pacific. He is a Fellow of the Institute for Solidarity in Asia and the Institute of Corporate Directors from 2003 up to the present. He also currently sits as a Director of Priority Management, JMRJ Drilon Foundation, and the Iloilo Economic Development Foundation.

MR. JUSTINO JUAN R. OCAMPO
DIRECTOR
48, Filipino

Mr. Ocampo joined the Board on June 20, 2012. Concurrently, he is the Senior Vice President and Investment Banking Group Head of First Metro Investment Corporation (since 2010). He is also director of SBC Properties Inc. (since 2011) and Prima Venture Development Inc. (since 2012). He started his career in banking at the Far East Bank and Trust Co. in 1985 and later moved on to the Dev't. Bank of the Philippines in 1990, PCIBank in 1992, AB Capital and Investment Corp. in 1996 and ABN Amro Bank N.V., Manila in 1999. In 2010, he joined First Metro investment Corp. as Senior Vice-President and Deputy Group Head of the Investment Banking Group, a position he still presently holds. Mr. Ocampo brings with him over 25 yrs. of banking and investment experience covering a considerable range of banking related areas.

Mr. Ocampo had undergone intensive training abroad in management, finance, capital markets, negotiations and even non-bank related areas such energy and petroleum & petrochemicals during his previous employments.

A product of the University of the Philippines, Diliman, Justino Juan R. Ocampo graduated Cum Laude with a degree in BS Business Administration in 1984.

BRO. NARCISO S. ERGUIZA, JR., FSC
DIRECTOR
61, Filipino

Bro. Erguiza was elected as Director in June 2011. Term of office is one year. Currently, he is the President of De La Salle University (August 2010 to present), De La Salle University-Canlubang (August 2010 to present) and De La Salle University-Malabon City. He held the following

positions: President of La Salle University, Ozamiz City (May 2006 to May 2010), Immaculate Conception College- La Salle Ozamis City and Chief Executive Officer, Universitas Katolik De La Salle, Manado, Indonesia (June 2006 to 2007).

Bro. Erguiza has a Doctorate Degree in Education major in Educational Management and Masters of Arts in English Education at De La Salle University. He has a Bachelor of Arts and Bachelor of Science in Education from De La Salle University.

MR. NILO L. PACHECO, JR.
DIRECTOR
62, Filipino

Director since December 2010. He is the Vice Chancellor for Finance of De La Salle Group (from June 1, 2011 to present). Mr. Pacheco has an Advanced Management Program at the Harvard Business School Boston, Massachusetts, USA and Masters in Business Administration at the University of the Philippines. He finished Bachelor of Arts major in Mathematics from De La Salle University.

Among his other positions are: Director, Sterling Bank of Asia (October 2010- present) and ATR Kim Eng Securities Inc. (February 2010- present). He also held the following positions: President, Export and Industry Bank (April 2007 to May 2009), Executive Vice President for Union Bank of the Philippines (June 2006 to March 2007) and International Exchange Bank (September 1995 to June 2006).

MR. JOSE C. NOGRALES
INDEPENDENT DIRECTOR
63, Filipino

Mr. Nograles was elected to the Board as Directors in June 2011. He was past President and Vice Chairman of the Board of Directors of the Philippine Deposit Insurance Corporation (Jan. 2008 to June 2011). He held various key positions with the Land Bank of the Philippines & Group from 2000 to 2007. Mr. Nograles being the Vice Chairman/President of the Land Bank Insurance Brokerage Inc. (2000 to 2007), was appointed as Vice Chairman of the Executive Committee (2002 to 2007). He joined the UCPB Board in March 2008 to Jan. 2011 where he appointed as Chairman of the Audit Committee and member of the Executive Committee. He was also the Chairman of the Audit Committee and member of the Executive Council of International Association of Deposit Insurers (Oct. 2008 to May 2011).

He pursued collegiate studies at the Ateneo de Manila University, earning an AB degree in Economics and graduating as Cum Laude. He also completed Master's degree in Business Administration from the Asian Institute of Management and undertook diploma courses- Career Executive Service Officer III ; Fellow, Institute of Corporate Directors.

MS. MARIE ARABELLA D. VERON
DIRECTOR/TREASURER
52, FILIPIO

Ms. Veron was elected to the Board in April 2011. She is the Controller and First Vice President of First Metro Investment Corporation, Treasurer/Director of SBC Properties, Inc. (2003-present), Treasurer of First Metro Save & Learn

Money Market Fund, Inc., First Metro Global Opportunity Fund, Inc., First Metro Save & Learn Fixed Income Fund, First Metro Save & Learn Equity Fund, Treasurer of PBC Capital Investment Corporation (2006-present). She was a manager of MBTC Domestic Subsidiaries, a Senior Auditor of Joaquin Cunanan & Co./Price Waterhouse (1980-1985) and of Philippine International Trading Corporation (1985-1990). Ms. Veron finished her Bachelor of Science Degree in Business Administration, major in Accounting from University of the East. She is a Certified Public Accountant and a Certified Management Accountant.

MR. HECTOR C. DE LEON
EXECUTIVE VICE PRESIDENT
48, FILIPINO

Mr. De Leon is also the President of First Metro Global Opportunity Fund, Inc. (since 2010), First Metro Save and Learn Equity Fund, Inc. (since June 2011) First Metro Save and Learn Fixed Income Fund, Inc. (since June 2011), First Metro Save and Learn Dollar Bond Fund, Inc. (since June 2011) and First Metro Save and Learn Balanced FundInc. (2011 to present). He was formerly the EVP and Head of Sales and Marketing for Philequity Management, Inc (2006 to 2007). Before joining Philequity, he served as FVP for Capital Markets of Philam Asset Management Inc. (1996 to 2006) where he was instrumental in setting up and operating most of the company's mutual funds. He was former Chairman of the Board of Trustees of the Investment Company Association of the Philippines from 2005 to 2006. Mr. de Leon has a Bachelors Degree in Electronics and Communications Engineering from De La Salle University and took up Masters in Business Administration (MBA) at the Ateneo Graduate School of Business.

MR. EDWIN B. VALEROSO
FIRST VICE PRESIDENT
48, Filipino

Mr. Valeroso is the Asst. Treasurer for First Metro Save & Learn Balanced Fund (Jan 2007 to June 2011), First Metro Save & Learn Fixed Income Fund and First Metro Save & Learn Equity Fund (from May 2005 to June 2011), and First Metro Save and Learn Money Market Fund, Inc. (2008 to 2011). He is Vice President/Trustee/Corporate Secretary of Investment Company Association of the Philippines-ICAP (2006-present) and an Associate Professorial Guest Lecturer at De La Salle University-Graduate School of Business (2000-2009). He was appointed Mutual Fund Strategist at First Metro Investment Corporation (2004-2005). Mr. Valeroso has a BS Actuarial Mathematics degree from University of Santo Tomas, a Master's degree in Applied Mathematics from University of the Philippines, and a Doctorate degree in Business Administration from De La Salle University-Manila. He is also an alumnus of the Trust Institute Foundation of the Philippines.

**ATTY. NIMFA B. PASTRANA
CORPORATE SECRETARY
50, FILIPINO**

Atty. Pastrana is the First Vice President and Asst. Corporate Secretary of First Metro Investment Corporation. She is also Corporate Secretary of First Metro Save & Learn Equity Fund, First Metro Save and Learn Balanced Fund and First Metro Money Market Fund, Inc., First Metro Save and Leand Dollar Bond Fund, Inc. and First Metro Global Opportunity Fund, Inc. She is also the Corporate Secretary of PBC Capital Investment Corporation, Prima Ventures Development Corporation, SBC Properties, Inc., First Metro Insurance Brokers Corp., FMIC Equities, Inc., First Metro Securities Brokerage Corp. She finished her A.B Philosophy course at the University of the Philippines and her Bachelor of Law at San Beda College.

**MR. JONATHAN T. TABAC
COMPLIANCE OFFICER
55, FILIPINO**

Compliance Officer since 2005. Term of office is one year. He is also the Compliance Officer of First Metro Investment Corporation, First Metro Securities Brokerage Corporation, First Metro Save & Learn Fixed Income Fund, First Metro Save & Learn Equity Fund, and First Metro Asset Management, Inc (from May 2005 to present),. He was AVP & Compliance Officer of Citystate Savings Bank (2002-2003), Vice President of Maybank Philippines (formerly PNB Republic Planters Bank)-1997-2001 and Chairman of the Board of RPB Provident Fund, Inc.(1997-2001) Mr. Tabac finished BSC-Accounting from University of Baguio and MBA units from the University of Santo Tomas. He is a Certified Public Accountant.

Custodian Bank

The Custodian Bank of the Company is The Hongkong and Shanghai Banking Corporation Ltd (HSBC). The Custodian Bank Agreement covers the custodian bank's duties on receipt of investments, redemption procedures to be used, reports and records to be accomplished by the custodian bank, procedures governing the transfer of the Company's shares and accounts of investors, custody of certificates representing investments made by the fund manager for the Fund and fees of the Custodian bank.

Transfer Agent

Metrobank- Trust Banking Group is the designated Stock and Transfer Agent of the Fund.

External Auditor

The present auditor of FMSALFIF is Sycip, Gorres, Velayo and Company. The reports of said auditors on the financial statements of the company for the years ended December 31, 2011 and 2010 contained unqualified opinions.

There are no disagreements with the auditors on any matter of accounting principles or practices, financial statement disclosures, auditing scope or

procedures, which disagreements, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their respective reports on the financial statements for such years.

The aggregate fees paid for the professional services rendered by SGV & Company for the audit of our Financial Statements for the years 2011 and 2010 is P253,680 & P117,040.00, respectively. SGV & Co. conducted the audit in accordance with auditing standards generally accepted in the Philippines to obtain reasonable assurance about whether the financial statements are free of material misstatements. Their audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation.

There are no tax fees paid for the last 2 years for professional services rendered by SGV & Co. for tax accounting compliance, advice, planning and any other form of tax service.

The Fund paid P50,000.00 in 2011 for tax advisory services provided by SGV & Co.

There are no other fees paid for the last 2 years for products and services provided by SGV & Co. other than the services mentioned above.

The audit committee is responsible for the appointment of the Independent External Auditor, the audit fee and any question of resignation or dismissal. The external auditors shall report directly to the Audit Committee. To date, there are no written policies on the appointment of external auditors.

The audit committee recommends to the shareholders the external auditor to be appointed based on an assessment of the auditing firms' qualification, expertise and resources, effectiveness and independence. The audit committee should ensure that the external auditor that is recommended for the appointment is accredited by the Securities and Exchange Commission.

The audit committee must approve the external auditors' term of engagement and remuneration. To do so, the audit committee should evaluate the term of engagement and discuss with the auditor to satisfy itself that the level of remuneration is appropriate to enable an effective audit to be conducted

Material Contracts and Agreements

The following is a summary of the material contracts and agreements relating to the Fund:

Management and Distribution Agreement

Under this agreement, First Metro Asset Management, Inc. was appointed as the Investment Manager and Principal Distributor, Fund Administrator of the Fund. Under the Agreement, the services of FAMI shall include the following:

1. Coordination of the activities of, and extension of all necessary cooperation or assistance to the Fund's Custodian Bank, the Transfer

Agent, the auditors, and the legal counsel without prejudice to the direct responsibility of such firms to the Fund;

2. Preparation of such reports, circulars, notices and other information on internal corporate affairs that may be required, from time to time, by the Fund, its stockholders, board of directors, and/or officers, which shall include a monthly report on: a.) Revenues and disbursements broken-down as to investments and expenses; b.) Sales and redemptions; and c.) Performance, change or status of the Fund's assets;
3. Representation with Government offices, instrumentalities and agencies, including all work required in registering the Fund's securities, obtaining proper licenses and permits, complying with other legal requirements including those requirements relevant to FAMI's own operations, and submitting regular reports to various government agencies;
4. Accounting, bookkeeping, clerical and other administrative services in the ordinary conduct of the Fund's activities, other than those services provided by the Custodian Bank, the auditors, and the legal counsel;
5. Provide office space and other administrative facilities;
6. Distribution of the shares of the Fund
7. Investment and reinvestment of the resources of the Fund in accordance with the investment policies and guidelines set by the Fund's board of directors in conformity with the Fund's Prospectus, the Investment Company Act and other applicable laws and regulations;
8. Preparation and submission of such information and data relating to economic conditions, industries, business, corporations, or securities as may be reasonably required by the Fund's Board of Directors or as FAMI may deem to be helpful in formulating and evaluating its investment policies or guidelines;
9. Transactions with stockbrokers for the account of the Fund in connection with the investment and reinvestment of the Fund's assets;

The fees payable to FAMI, is a monthly fee equivalent to one and three-fourths percent (1.75%) per annum of the average net asset value of the Fund's assets, computed on a daily basis. The "net asset value" shall be determined by computing the total value of the Fund's assets less its liabilities in accordance with the procedure used in computing the net asset value of the Fund. In addition, as Investment Manager, FAMI shall be paid an incentive fee equivalent to one-tenth (1/10) of the realized appreciation in value of the Fund's net assets in excess of the "hurdle rate" defined as either: 12% or the average 91-day Treasury Bill rate for the applicable year (net of tax) plus a spread of 3% *whichever is higher*.

FAMI will also receive the sales load fee (exclusive of VAT) under the following schedule:

| Investment Amount (in Php) | Sales Load |
|-----------------------------------|-------------------|
| 5,000 to less than 100,000 | 2.0% |
| 100,000 to less than 500,000 | 1.5% |
| 500,000 to less than 2,000,000 | 1.0% |

2,000,000 and above

0.5%

Custodian Bank Agreement

Under the agreement, the Custodian Bank shall receive, safe-keep, record, and account for the proceeds of the sale of the shares of stock of the Fund. The Custodian Bank shall, likewise, hold all the certificates representing the investments made by the Investment Manager in behalf of the Fund in accordance with the regulations of the SEC.

Stock and Transfer Agency Agreement

Under the agreement, the Stock and Transfer Agent shall render the following services:

1. File the reports pertaining to the Fund as may be required by the SEC and other governmental entities;
2. Prepare the list of stockholders for all regular or special meetings of the Fund's stockholders;
3. Prepare and mail out all notices, reports, and circulars to all stockholders upon prior request of the Fund, Investment Manager or Administrator;
4. Prepare and mail dividend checks;
5. Prepare and issue stock certificates; and,
6. Register all liens constituted on the shares of stock of the Fund.

Expenses Chargeable to the Fund and the Fund Management Company

The expenses chargeable to the Fund are:

1. Compensations of the officers and directors of the Fund;
2. Audit and legal fees of the Fund;
3. Brokerage charges and other customary fees in connection with the acquisition, appraisal and disposition of the Fund's assets;
4. Fees of the Custodian Bank to the extent not absorbed by buyers of the Fund's securities;
5. Cost of printing and mailing notices, reports, proxies and other communication material to the Fund's stockholders;
6. Fees of Transfer Agent for the securities to the extent not absorbed by the buyers of the Fund's securities;
7. Taxes, including income taxes, documentary stamp taxes, and license fees, to the extent not absorbed by the buyers of the Fund's securities and as may be required by law or by the rules and regulations of the SEC; and,
8. Investment Management fee, Distribution Fee and Fund Administration fee which are computed in accordance with the Management and Distribution Agreement.

The expenses chargeable to FAMI are:

1. Salaries, bonuses, allowances, and other compensation of the personnel hired by the company to perform the administrative and distribution functions and other services as may be required by law or by the rules and regulations of the SEC;
2. Expenses incurred for the office space and other administrative facilities;
3. Commission fees and other compensation due to agents and dealers in connection with the distribution of the shares of the Fund;

4. Transportation and communication charges in relation to the distribution of the shares;
5. Cost of selling materials such as brochures, sales kits, and cost of printing and distributing the Prospectus; and,
6. Advertising and promotional expenses incurred in connection with the selling of the Fund's shares, including the daily publication of NAV quotations.

Applicable Philippine Laws

Investment Company Act of 1960

The business of investment company companies is primarily regulated by the Investment Company Act of 1960 and the SEC rules and regulations governing investment companies. Subject to the exceptions under the law, an investment company is any issuer which is or holds itself out as being engaged primarily, or proposes to engage primarily in the business of investing, reinvesting, or trading in securities. An investment company is either, an open-end company or a closed-end company.

On one hand, an open-end company is an investment company that offers for sale or has outstanding redeemable security, of which it is the issuer. On the other hand, a closed-end company is any investment company other than an open-end company.

To be incorporated as an investment company, the following requirements should be complied with:

1. Minimum subscribed and paid-in capital of Php50,000,000.00;
2. All shares of stock should be common and voting shares. In the case of open-end companies, the articles of incorporation thereof should expressly deny the pre-emptive rights of stockholders;
3. All the members of the board directors must be Filipino citizens.

The Investment Company Act, likewise, requires the registration of the investment company and of the shares of the investment company itself. Likewise, the Investment Company Act requires an investment company to place and maintain its securities and similar investments in the custody of: a duly organized local commercial bank of good repute; or a company that is a member of a securities exchange as defined in the Securities Regulation Code subject to such rules and regulations of the Securities and Exchange Commission; or such registered company, but only in accordance with such rules and regulations or order as the Commission may from time to time prescribe for the protection of investors.

Dividends

The corporation may pay dividends only out of its unrestricted retained earnings, the unrestricted retained earnings of the corporation that have not been allocated for any managerial, contractual, or legal purposes and that are free for distribution to shareholders. The corporation may satisfy dividends in cash, by the distribution of property, or by the issuance of shares of stock. Dividends satisfied by the issuance of shares may only be paid with the approval of shareholders representing at least two-thirds (2/3) of the outstanding capital stock at a shareholders' meeting specially called for that purpose.

Declaration of dividends is generally discretionary with the board of directors. However, corporations with surplus profits in excess of 100% of their paid-in capital are required to declare and distribute the amount of such excess profits as dividends, except when the retention is justified by: Definite corporate expansion projects, programs approved by the board of directors, or when consent of creditors is required under any loan agreement, or when it can be clearly shown that such retention is necessary under special circumstances.

Rights of Minority Shareholders

The right of a shareholder to institute proceedings on behalf of the corporation in a derivative suit is recognized by Philippine law. Derivative suits may be filed where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrong committed against the corporation or to vindicate corporate rights. Derivative suits are filed with the SEC. The SEC has original and exclusive jurisdiction over intra-corporate disputes.

Shareholders have the right to inspect the records of the corporation. These records include minutes of all meetings of the board of directors and of the shareholders, and records of all business transactions of the corporation. However, the right of inspection may be denied if the shareholder seeking to examine the corporate records has improperly used any information secured through any prior examination of corporate records, or was not acting in good faith or with a legitimate purpose in making his demand for inspection.

Management

Corporate powers are exercised, all business conducted, and all properties of a corporation are controlled and held by the board of directors. However, a corporation may enter into a management contract with another corporation, for a period not exceeding five (5) years for any one term, subject to the approval of the board of directors and stockholders owning at least a majority (or in certain instances, two-thirds) of the outstanding capital stock of both the managing and managed corporations. The nature of an investment company's business, however, makes it imperative for the corporation to enter into a management contract with an investment manager/adviser.

The Investment Company Act lays down the requirements for such kind of contracts as follows:

1. The contract has been approved by the vote of a majority of the outstanding voting securities of the investment company;
2. The contract precisely described all compensation to be paid thereunder;
3. The contract shall continue in effect for a period of more than two years from the date of its execution, provided that such continuance is specifically approved at least annually by the board of directors or by vote of a majority of the outstanding voting securities of such company;
4. The contract provides in substance that it may be terminated at any time without the payment of any penalty by the board of directors of the company or by vote of two-thirds of the outstanding voting securities of such company or not more than sixty days written notice to the investment adviser; and,
5. The contract provides in substance for the automatic termination in the event of assignment thereof by the investment adviser/manager.

Unless otherwise provided by the Corporation Code, the articles of incorporation or By-laws of the corporation, an act of the majority of the directors present in a meeting with a quorum shall be valid as a corporate act. Certain corporate acts, however, may only be effected with the approval of shareholders representing at least two-thirds (2/3) of the outstanding capital stock at a shareholders' meeting convened for the purpose. Matters requiring such shareholders' approval include, but are not limited to: the amendment of the articles of incorporation; the removal of directors; the sale, lease, exchange, mortgage, pledge, or other disposition of all or a substantial part of the assets of the corporation; and investment of corporate funds in any other corporation, or business, or for any purpose other than primary purpose for which the corporation was organized.

Each member of the board of directors, who must hold at least one (1) share of the corporation, is elected for a one (1) year term during the annual meeting of stockholders of the corporation.

Each share of stock is entitled to one vote during shareholders' meeting. However, in the election of directors, each shareholder is entitled to such number of votes as is equal to the product of the number of shares owned by him and the number of directors to be elected. The shareholder may cumulate his votes in favor of one candidate or distribute these votes in such proportion and amount between or among as many of the candidates as he may think fit. The election of directors may only be held at a meeting convened for that purpose at which shareholders representing a majority of outstanding capital stock are present in person or by proxy. However, any vacancy in the board, other than by removal or expiration of term, may be filled by the majority of the remaining directors if still constituting a quorum.

Accounting and Auditing

Corporations are required to file copies of their annual financial statements with the SEC. Shareholders are entitled to request copies of the most recent financial statements of the corporation which shall include a balance sheet as of the end of the last tax year and profit and loss statement approved at least annually by the board of directors or by vote of a majority of the outstanding voting securities of such company for that year. The board of directors is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

Taxation

1. Corporate income tax on taxable income derived from all sources within and without the Philippines is 30% effective Jan. 1, 2009;
2. Final withholding tax of 20% on gross interest from Philippine currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements;
3. Final withholding tax on sale of shares listed and traded through the Exchange of 1/2 of 1% of gross selling price;
4. Tax on net capital gain of sale of shares not traded through the Exchange: not over 100,000.00 - 5% and amount in excess of 100,000.00 - 10%;

5. Documentary stamps tax at the rate of 1.00 per 200.00 (or fractional part thereof) of par value on original issuance of shares by the Fund.

Shareholder

1. Tax on dividends received from the Fund by: domestic corporations and resident foreign corporation: None; individual citizen and individual resident alien: 10%
2. Documentary stamps tax of .75 per 200.00 (or fractional part thereof) of par value on subsequent sale or transfer of shares by the Shareholder.
3. Tax on gains realized by the investor upon redemption of shares in a mutual fund company: None.
4. Tax on net capital gain of sale of shares not traded through the Exchange: Not over 100,000.00: 5%; and amount in excess of 100,000.00: 10%.
5. Tax on dividends received from domestic corporations: None.

**OTHER FINANCIAL INFORMATION
As of June 30, 2012**

1. UNQUOTED DEBT SECURITIES/ PERCENTAGE OF INVESTMENT IN SINGLE ENTERPRISE TO NET ASSETS

| | June 30, 2012 | | December 31, 2011 | |
|------------------------------------|--------------------|-----------------------|--------------------|-----------------------|
| | Amount | Percent to Net Assets | Amount | Percent to Net Assets |
| Ayala Land Inc. Bonds | 125,000,000 | 7.99% | - | |
| Meralco Corp. Notes | 105,000,000 | 6.71% | 24,196,932 | 2.29% |
| AYC Bonds | 100,440,000 | 6.42% | 1,000,000 | 0.09% |
| Filinvest Land Inc. Bonds | 100,000,000 | 6.39% | - | |
| First Metro Investment Corp. Bonds | 80,000,000 | 5.11% | 80,000,000 | 7.56% |
| Pro Friends Corporate Notes | 50,000,000 | 3.20% | 50,000,000 | 4.73% |
| Tanduay Distillery Inc. Bonds | 14,000,000 | 0.89% | 14,000,000 | 1.32% |
| San Miguel Corp. Bonds | - | - | 15,997,882 | 1.51% |
| CitySavings Bank Corp Notes | - | - | 26,075,234 | 2.46% |
| National Power Corp. Bonds | - | - | 331,624 | 0.03% |
| | 574,440,000 | | 211,601,672 | |

2. TOTAL INVESTMENT OF THE FUND TO THE OUTSTANDING SECURITIES OF AN INVESTEE COMPANY

| | June 30, 2012 | | December 31, 2011 | |
|------------------------------------|--------------------|--|--------------------|--|
| | Amount | Percent to Outstanding Securities of an Investee Company | Amount | Percent to Outstanding Securities of an Investee Company |
| Ayala Land Inc. Bonds | 125,000,000 | 0.83% | - | |
| Meralco Corp. Notes | 105,000,000 | 3.50% | 24,196,932 | 0.89% |
| AYC Bonds | 100,440,000 | 1.00% | 1,000,000 | 0.01% |
| Filinvest Land Inc. Bonds | 100,000,000 | 1.43% | - | |
| First Metro Investment Corp. Bonds | 80,000,000 | 1.60% | 80,000,000 | 1.60% |
| Pro Friends Corporate Notes | 50,000,000 | 3.33% | 50,000,000 | 3.33% |
| Tanduay Distillery Inc. Bonds | 14,000,000 | 0.35% | 14,000,000 | 0.35% |
| San Miguel Corp. Bonds | - | - | 15,997,882 | 0.12% |
| CitySavings Bank Corp Notes | - | - | 26,075,234 | 26.08% |
| National Power Corp. Bonds | - | - | 331,624 | 0.01% |
| | 574,440,000 | | 211,601,672 | |

3. FINANCIAL SOUNDNESS INDICATORS

| Financial Soundness Indicators | As of June 30 | | Dec. 31, 2011 |
|--|-------------------|------------|------------------|
| | 2012 | 2011 | (Audited) |
| Current Ratio ^{1/} | 39,573.94% | 9,001,65% | 8,725,45% |
| Acid Test Ratio ^{2/} | 39,564.48% | 8,998,.83% | 8,722.93% |
| Total Debt Ratio ^{3/} | 0.25% | 1.11% | 1.15% |
| Asset to Equity Ratio ^{4/} | 100.25% | 101.12% | 101.16% |
| Interest Rate Coverage Ratio ^{5/} | 100.00% | 100.00% | 100.00% |
| Net Profit Percentage ^{6/} | 87.61% | 78.61% | 96.27% |
| Return on Common Equity ^{7/} | 11.51% | 2.01% | 31.08% |

^{1/} Current Assets divided by Current Liabilities

^{2/} Quick Assets divided by Current Liabilities

^{3/} Total Liabilities divided by Total Assets

^{4/} Total Assets divided by Equity

^{5/} Earnings Before Interest and Tax divided by Interest Expense

^{6/} Net Income divided by Net Sales

^{7/} Net Income minus Preferred Dividends divided by Average Common Equity

4. OTHER RELEVANT RATIOS

| | June 30, 2012 | December 31, 2011 |
|---|-------------------|-------------------|
| Liquid/semi liquid Assets to Total Assets | 99.98% | 99.97% |
| Total Operating Expenses to Total Net Worth | 0.63% | 2.53% |
| Total Assets to Total Borrowing | 39,573.94% | 8,722.93% |