W

FINANCIAL

January 19, 2012

Mr. John Smith
ABC Company
123 Smith Street
New York, NY 10001

re: W Financial Fund, LP – 4th Quarter 2011 Update and Statement

Successful resolution of 20 Bayard Street + 19 new loans closed = Banner year in 2011 –

Dear John,

2011 was quite a year for the Fund! From the successful resolution of the 20 Bayard Street litigation which resulted in a multimillion dollar gain, to a 4th quarter that saw $33,575,000 in excellent new loan originations, the news is good, and the Fund continues to grow and evolve, with more diversification within our loan portfolio than ever before.

W achieved an annual compounded return in 2011, **net of all fees and expenses, of 11.91%**. From inception W Financial has provided an average annual compound return of **10.11%,** net of all fees and expenses, and has now completed **102 consecutive months of positive returns**. Thus, $100,000 invested at our July 2003 launch had increased to $225,269 as of December 31, 2011.

During the 4th quarter all loans paid as scheduled. Our current loan portfolio consists of 20 mortgages **with an average portfolio-wide loan-to-value ratio of just over 50%. 2012 is off to an excellent start** as the NYC real estate market is once again very active and new loan activity continues to be robust.

The Fund added seven new loans during the 4th quarter. 2011 also saw robust turnover in our loan portfolio where 12 loans totaling $40,454,000 were successfully repaid, and two others were paid down by a total of $841,000 as units or parcels were sold.

New loans closed during the fourth quarter:

- A **$650,000 first mortgage bridge loan** to finance the $1,665,000 acquisition of two adjacent, cash-flowing 4-story walk-up buildings containing 18 apartments on Classon Avenue in Brooklyn. The buyer already owns and manages a large portfolio of similar properties in Brooklyn and Queens. In this case, he needed to close quickly and chose W as his most reliable source of capital. He plans to make improvements to the building, enhance the rent roll, and later refinance at higher dollars and a lower rate with a bank.

- A low-leverage **$1,200,000 first mortgage bridge loan** secured by five pieces of cash-flowing industrial and commercial real estate in Jamaica, Queens. One of the major tenants is the ubiquitous and successful PODS storage company. Other properties are leased to an auto body shop and steel equipment suppliers. The borrowers financed the previously free-and-clear properties in order to take advantage of a compelling real estate buying opportunity. Our 33% loan-to-value mortgage is also personally guaranteed by the two brothers who are our borrowers.



PODS facility, Jamaica, Queens

- A **$10 million bridge** loan utilized by a successful real estate developer for the opportunistic acquisition of two contiguous mixed-use loft buildings on Broadway south of Astor Place in Greenwich Village, Manhattan. The Broadway loft buildings had been owned by an estate that had been embroiled in years of litigation among feuding family members who ultimately decided, (after many false starts and stops), to sell the property to our borrower. While the property has a host of issues for the new owner to resolve, ranging from IMD tenants to repairs and renovations, it would be difficult to identify a buyer that is better qualified to effectively tackle each issue and, as a consequence, unlock and create enormous value. Given the outstanding location and the years of inaction due to the family feud, we feel the buildings have tremendous upside potential. W's loan also blankets two retail condominiums just off Fifth Avenue in the Flatiron district. With a total as-is value of approximately $19 million, our loan-to-value ratio on this transaction is ~55%.



Broadway Loft buildings, Greenwich Village

- Two days later **W closed a $10,450,000 first mortgage bridge loan** blanketing **an assemblage of properties** on Manhattan's Upper East Side on First Avenue in the Upper Eighties. The experienced borrower was purchasing one property and refinancing three others with the goal of assembling an approximately 78,000 square foot mixed-use development site. In fact, depending upon the development approach, the site could yield up to 93,470 buildable square feet. Our collateral also includes a second mortgage on a fifth property which is expected to be sold shortly. Upon the sale of the fifth property W's loan on the other four properties will be paid down and reduced by $1.1 million.


Upper East Side assemblage

- A **$2,700,000 low-leverage, blanket mortgage** encumbering a number of valuable properties including a package of 8 cash-flowing co-op apartments on **Central Park West**, a first mortgage on a Richard Meier-designed waterfront house in **Sands Point, Long Island**, and a cash-flowing cooperative hotel unit at the **Sherry-Netherland Hotel on Fifth Avenue** overlooking Central Park. Our aggregate loan-to-value ratio is less than 50% and the loan is additionally secured by the personal guarantees of two substantial individuals. Proceeds will be used to complete a development on East 63rd Street, between Madison and Park Avenues.

- A **$5,500,000 first mortgage** loan utilized to acquire two contiguous loft buildings on Lispenard Street in **TriBeCa**. The buildings were purchased for **$10,750,000** thus the borrower came to the closing table with **more than $5,250,000 in equity** plus closing costs. The properties will be gut renovated and converted to very competitively-priced residential condominiums. One of the two 25-foot wide buildings will be restored to its original height. It is anticipated that W's loan will be refinanced when a $12,650,000 bank construction loan closes once all plans and approvals have been completed. As is typical for W Financial, the loan, which is also personally guaranteed by two substantial individuals, had to close on a tight timeframe with a time-of-the-essence (TOE) deadline.


Rendering of Lispenard Street, TriBeCa renovation

- A **$3,100,000 first mortgage** bridge loan utilized to acquire a 38,000 square foot commercial building to be converted to retail on Brooklyn's Atlantic Avenue located near the new Barclays (Nets) Arena. Our borrower made a good purchase in an area undergoing a rapid and dramatic transformation. **W Financial was selected by the borrower, an active player in NYC's real estate market, based on our reputation for fast and dependable execution.**

All the above-referenced mortgage loans were also personally guaranteed by the borrowers. At the close of December 2011, our nicely diversified portfolio currently has an **average loan size of $2,971,333**.

The value proposition:

Since W lends money for short term bridge loans at roughly twice the interest rates of banks, then our value to the borrower is all about performance, execution and dependability. Our partner **David Heiden** and our analyst **Jarret Schochet** are the core of W's "rapid response and evaluation" team. The ability to rapidly filter, assess, value, research, vet and structure each transaction is the key to the value proposition for our borrowers. Because of this, over time, our reputation has been growing among borrowers and brokers for speed and reliability. The result of this is that over time W Financial is increasingly the first choice/first call in NYC when an acquisition scenario calls for smart, fast private money.

Other news of the 4th quarter -

HL23 sells an apartment for more than $3,000 per square foot and repays W Financial:



The iconic, award-winning "glass sculpture" known as HL23 has been very good to all members of the Fund, having provided a continuous stream of income since the original loan closed in May 2008. If you Google "HL 23 NY Times" you will see chief architectural critic Nicolai Ouroussoff's glowing review of this new condominium development (which cantilevers up and over the High Line). It is therefore not surprising that with the recent sale of the 3,650 square foot, two-story penthouse for **$11,086,000** (or **more than $3,000 per square foot**) to Belgian hedge-fund manager Pierre LaGrange, and the sale of various other, less exalted full-floor units for roughly $2,600 per square foot, our borrower has repaid the HL23 loan as well as another $2.131 million loan secured by 3 other West Chelsea properties. Part of the attraction is the recently opened **High Line** which you can see in the photo just to the right of HL23. The extremely popular High Line is Manhattan's newest park built on an old elevated railroad track running more than mile on a north/south axis through the heart of West Chelsea.

Outlook for 2012:

As many of our long-term members know, our management style has been conservative and disciplined, and now the dynamics of the marketplace are such that we expect to see a good supply of desirable loan opportunities to take us through 2012 and beyond. As the Fund continues to grow, the diversification within our loan portfolio will continue to increase, benefitting all members of the Fund.

Please use our **Additional Subscription Form** for any add-on investments that you wish to make www.w-financial.com/add. That form as well as our other Fund documents are available at this link: www.w-financial.com/documents (username: w, password: financial) or you can call Karen, and she will email or mail you the form. We expect to be able to admit new investments as of February 1st. Contact Karen Mannoia (karen@w-financial.com) or (212) 684-2283 x112 with any questions on how to complete the forms.

If you have updated your email or mailing address, please let Karen know. If you have elected to receive interest distributions, your check is also enclosed.

Tax planning note:

For those members who invest through taxable accounts, you should note that because of our favorable sale of 20 Bayard Street, approximately half of your 2011 income from W will be considered a long term capital gain. Feel free to contact (or have your tax adviser contact) our accountant Saul Shimansky at (212) 750-8161 or saul@smscpany.com for more information on this for planning purposes.

As always, please feel free to call Gregg Winter at (212) 532-1122 x1, David Heiden at (212) 684-8484 or Marc Bailin at (212) 935-0900 with any questions that you may have. Alternatively, you can email us directly at gregg@w-financial.com, david@w-financial.com and marc@w-financial.com. Finally, as always, you are invited and encouraged to visit our offices when you are in town to review any of our due diligence materials or simply to say hello.

Very truly yours,

W FINANCIAL FUND, LP

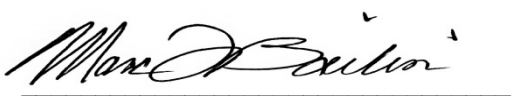
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