Other Interest Income – Interest income from temporary investments, such as cash in banks and short-term instruments, is recognized on the accrual basis as it becomes due.

Construction Service Fees – CM Corp. and Related receive fees, in advance, from borrowers for servicing revenue bonds during the construction period. These fees are deferred and amortized into other income over the anticipated construction period.

Credit Enhancement and Guarantee Fees – CM Corp. and Related receive fees for providing credit enhancement and for backing up primary guarantors' obligations to guarantee agreed upon internal rates of return to the investors in programs sponsored by Related. The credit enhancement fees are recognized in other income when received. The guarantee fees are deferred and recognized in other income on a prorata basis over the guarantee periods.

Equity in Earnings of ARCap – Our equity in the earnings of ARCap is accrued at the preferred dividend rate of 12% on the preferred shares we hold, unless ARCap does not have earnings and cash flows adequate to meet this dividend requirement.

Financial Risk Management and Derivatives

We have entered into several derivative instruments, including an interest rate cap, forward commitments and interest rate swaps, all of which are accounted for under the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended and interpreted. We have designated the interest rate swaps as cash flow hedges on the variable interest payments on our floating rate securitizations. Two of the interest rate swaps do not become effective until 2005. The two interest rate swaps that are currently in place, are recorded at their respective fair market value each accounting period, with changes in market value being recorded in accumulated other comprehensive income to the extent the hedges are effective in achieving offsetting cash flows. These hedges have been perfectly effective, so have generated no ineffectiveness that needs to be included in earnings. The effectiveness of the other two swaps is being measured using the hypothetical swap method, until they go into effect in 2005. For the year ended December 31, 2003, there was no ineffectiveness related to these two swaps. Had there been any ineffectiveness or should there be any ineffectiveness in the future, the amount would have flowed or will flow through our consolidated statements of income. The interest rate cap, although designed to mitigate our exposure to rising interest rates, was not designated as a hedging derivative; therefore, any change in fair market value flows through the consolidated statements of income, where it is included in interest income. The forward commitments create derivative instruments under SFAS 133, which have been designated as cash flow hedges of the anticipated funding of the Revenue Bonds, and, as such, are recorded at fair value, with changes in fair value recorded in accumulated other comprehensive income until the revenue bonds are funded.

Income Taxes

Effective July 1, 2001, we began operation of a new wholly owned, taxable subsidiary, CM Corp., which conducts most of our taxable business, including any mortgage servicing activities and fund management activities in which we may engage. We provide for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). FAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.

Share Options and Share Awards

We have issued options to employees for our common shares. We have issued restricted common shares to non-employees and employees, some of which vested immediately upon issuance and some of which vest over various periods ranging from nine months to four years. Additionally, we have issued SCUs of CCC to some employees, which vest in 2006 and 2007.

We account for our share options in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, compensation cost is accrued based on the estimated fair value of the options issued, and amortized over the vesting period. Because vesting of the options is contingent upon the recipient continuing to provide services to us until the vesting date, we estimate the fair value of the share options at each period-end up to the vesting date, and adjust the expense accordingly. The fair value of each option grant is estimated using the Black-Scholes option-pricing model.

Our share awards have been recorded as a separate deferred compensation line in the equity section of our consolidated financial statements. The amount of the deferred compensation expense was calculated as the number of shares awarded at the average of the high and low price of our common shares at the date of award, which was $19.33. Individuals holding those awards are entitled to dividends on their shares, even if the shares have not yet vested. Any such payments will be recorded directly to Beneficial Owner's Equity – other common shareholders. However, if any individual should forfeit their awards, any amounts previously recorded directly to Beneficial Owner's Equity, would be reversed and charged to compensation expense. The amount of the deferred compensation will be charged to compensation expense on a pro rata basis over the relevant vesting period.