

COLONY FINANCIAL, INC.

Charter of the Audit Committee of the Board of Directors

A. Purpose

The principal purposes of the Audit Committee (the “**Audit Committee**”) of the Board of Directors (the “**Board**”) of Colony Financial, Inc. (the “**Company**”) shall be to (i) oversee the accounting and financial reporting processes of the Company and the audits of the Company’s financial statements and (ii) prepare an annual Audit Committee report as required by the U.S. Securities and Exchange Commission (the “**SEC**”) to be included in the Company’s annual proxy statement. The Audit Committee’s oversight responsibility includes oversight relating to:

- the integrity of the Company’s financial statements and financial reporting process;
- the Company’s systems of disclosure controls and procedures and internal control over financial reporting;
- the Company’s compliance with financial, legal and regulatory requirements and its ethics program as set forth in the Company’s Code of Business Conduct and Ethics (the “**Code**”) and the Code of Ethics for Principal Executive Officer and Senior Financial Officers (the “**Code for Senior Financial Officers**”);
- the annual independent audit of the Company’s financial statements, the engagement and retention of the registered independent public accounting firm (the “**Independent Auditor**”) and the evaluation of the qualifications, independence and performance of the Independent Auditor;
- the performance of the Company’s internal audit function;
- the Company’s overall risk profile; and
- the fulfillment of the other responsibilities set forth in this Charter.

It is not the role of the Audit Committee to plan or conduct audits, to guarantee the accuracy of the Company’s audits and financial statements or to determine that the audits and financial statements are in accordance with generally accepted accounting principles and applicable laws and regulations.

B. Committee Membership

The Audit Committee will consist of no fewer than three members of the Board. Members of the Audit Committee will be appointed by the Board upon the recommendation of the Nominating and Corporate Governance Committee of the Board and may be removed by the Board in its discretion. Each member of the Audit Committee must satisfy the requirements of the New York Stock Exchange (“**NYSE**”), the rules and regulations of the SEC and applicable laws relating to independence, financial literacy and experience. The Nominating and Corporate

Governance Committee of the Board shall recommend, and the Board shall appoint, one member of the Audit Committee to serve as Chairperson of the Audit Committee. At least one member of the Audit Committee shall qualify as an “audit committee financial expert” as defined in the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and the Board may presume that such person satisfies rules of the NYSE that require at least one member of the Audit Committee to have accounting or related financial management expertise. No member of the Audit Committee may serve on the audit committee of more than three public companies, including the Company, unless the Board has affirmatively determined that such simultaneous service would not impair the ability of such member to serve effectively on the Audit Committee.

C. Committee Powers, Authority, Duties and Responsibilities

1. Selection and Engagement of Independent Auditor. The Audit Committee will have the sole authority with respect to, and will be directly responsible for, the appointment, compensation, retention and oversight of the work of the Independent Auditor. The Audit Committee will directly engage the Independent Auditor and directly oversee, evaluate and, where appropriate, replace the Independent Auditor. The Company will provide appropriate funding for payment of the compensation to the Independent Auditor, as determined by the Audit Committee in its sole reasonable opinion. The Independent Auditor will report directly to the Audit Committee.

2. Pre-Approval of Audit and Non-Audit Services. The Audit Committee will approve in advance (i) all audit, review and attest services, all internal control-related and all non-audit services provided to the Company by the Independent Auditor and (ii) all fees payable by the Company to the Independent Auditor for such services, all as required by applicable law or rules of the NYSE. The Audit Committee may adopt a pre-approval policy consistent with applicable law and rules of the NYSE.

3. Independence of Independent Auditor. The Audit Committee will consider matters relating to the independence of the Independent Auditor. The Audit Committee will ensure that the Independent Auditor submits, on a periodic basis, to the Audit Committee formal written statements delineating all relationships between the Independent Auditor and the Company, will discuss with the Independent Auditor any such disclosed relationships and their impact on the Independent Auditor’s independence and will take appropriate action in response to the Independent Auditor’s statements to satisfy itself of the Independent Auditor’s independence.

4. Performance of Independent Auditor. The Audit Committee will review the performance of the Independent Auditor annually. In connection with this evaluation, the Audit Committee will consult with the Company’s executive officers and officers of Colony Financial Manager, LLC, the Company’s external manager (the “**Manager**” and together with the Company’s executive officers, “**Management**”), and will obtain and review a report by the Independent Auditor describing their internal quality control procedures, issues raised by their most recent internal quality control review or peer review (if applicable) or by any inquiry or investigation by governmental or professional authorities for the preceding five years, and the response of the Independent Auditor to any such review, inquiry or investigation, including any steps taken to deal with any such issues. As part of the Audit Committee’s evaluation of the

Independent Auditor, the Audit Committee also will review and evaluate the lead partner of the Independent Auditor, taking into consideration the opinions of Management and personnel responsible for the Company's internal audit function. The Audit Committee will consider whether it is appropriate to adopt a policy of rotating the Independent Auditor on a periodic basis.

5. Performance of Internal Auditors. The Company shall have an internal audit function to provide Management and the Audit Committee with ongoing assessments of the Company's risk management processes and system of internal control. The internal audit function will be provided by the Manager (or its affiliates) or a third party internal audit service provider approved by the Audit Committee (the provider of such internal audit services to the Company, the "**Internal Auditor**"). The Audit Committee will be directly responsible for the engagement, evaluation and termination of the Internal Auditor, and will approve fees paid to the Internal Auditor. At least annually, the Audit Committee will review the experience and qualifications of the senior members of the Internal Auditor and the quality control procedures of the Internal Auditor. The Audit Committee also will obtain and review not less frequently than annually a report of the Internal Auditor addressing the Internal Auditor's internal control procedures, any material issues raised by their most recent internal quality control review or by any inquiry or investigation by governmental or professional authorities for the preceding five years, and the response of such service providers to any such review, inquiry or investigation, including any steps taken to deal with any such issues.

6. Audits. The Audit Committee will discuss with the Internal Auditor and the Independent Auditor the overall scope and plans for their respective audits, including the adequacy of staffing and other factors that may affect the effectiveness and timeliness of such audits. In connection therewith, the Audit Committee will discuss with Management, the Internal Auditor and the Independent Auditor, the Company's major risk exposures (whether financial, operating or otherwise), the adequacy and effectiveness of the Company's accounting and financial controls, and the steps Management has taken to monitor and control such exposures and manage legal compliance programs, among other considerations that may be relevant to their respective audits. The Audit Committee will review with Management and the Independent Auditor Management's annual internal control report. The Audit Committee will obtain and review periodic reviews from Management and the Internal Auditor regarding any significant deficiencies in the design or operation of the Company's internal controls, material weaknesses in internal controls and any fraud (regardless of materiality) involving persons having a significant role in the internal controls, as well as any significant changes in internal controls implemented by Management during the most recent reporting period of the Company.

7. Review of Disclosure Controls and Procedures. The Audit Committee will review with the Company's Chief Executive Officer, Chief Financial Officer and Chief Legal Officer, the Company's disclosure controls and procedures and will review periodically, but not less frequently than quarterly, such officers' conclusions about the effectiveness of such disclosure controls and procedures, including any significant deficiencies in, or material non-compliance with, such disclosure controls and procedures.

8. Review of Internal Control Over Financial Reporting. The Audit Committee will review and discuss with Management and the Independent Auditor any material issues as to the quality and adequacy of the Company's internal control over financial reporting, any remedial

special steps contemplated or adopted in light of significant deficiencies or material weaknesses identified in such internal controls and the adequacy of disclosures about changes in internal control over financial reporting. Prior to filing the Company's Annual Report on Form 10-K (the "**Form 10-K**") with the SEC, the Audit Committee also will review and discuss with the Chief Executive Officer and the Chief Financial Officer (i) the Company's internal controls report, (ii) the Company's proposed disclosures regarding internal control over financial reporting and (iii) the certification process and the content of the certifications of the Chief Executive Officer and the Chief Financial Officer, each to be included in the Form 10-K.

9. Consultation with Independent Auditor. The Audit Committee will obtain and review timely reports from the Independent Auditor on the following:

- all critical accounting policies and practices to be used by the Company in preparing its financial statements;
- all alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management, the ramifications of the use of these alternative disclosures and treatments, and the treatment preferred by the Independent Auditor; and
- other material communications between the Independent Auditor and Management, such as any management letter or schedule of unadjusted differences.

The Audit Committee will review with the Independent Auditor any problems or difficulties the Independent Auditor may have encountered in connection with the annual audit or otherwise and any management letter provided by the Independent Auditor and the Company's response to that letter. This review will address any difficulties encountered by the Independent Auditor in the course of the audit work, including any restrictions on the scope of activities or access to required information, any disagreements with Management regarding generally accepted accounting principles and other matters and any adjustments to the financial statements recommended by the Independent Auditor, regardless of materiality. To the extent that there are any disagreements between Management and the Independent Auditor regarding financial reporting, it shall be the responsibility of the Audit Committee to resolve such disagreements.

10. Review of Regulatory and Accounting Initiatives. The Audit Committee will review with Management and the Independent Auditor the effect of new or proposed regulatory and accounting initiatives on the Company's financial statements and other public disclosures.

11. Review of Annual SEC Filings. The Audit Committee will review and discuss with Management and the Independent Auditor the Company's audited financial statements and the other financial information, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," to be included in the Company's Annual Report on Form 10-K filed with the SEC. The Audit Committee also will discuss the results of the annual audit and any other matters required to be communicated to the Audit Committee by the Independent Auditor under generally accepted auditing standards, applicable law or rules of the NYSE, including matters required to be discussed by Statement on

Auditing Standards No. 114, as amended or superseded from time to time. Based on such review and discussion, the Audit Committee will make a determination whether to recommend to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K.

12. Review of Quarterly SEC Filings and Other Communications. The Audit Committee will review and discuss with Management and the Independent Auditor the Company's quarterly unaudited financial statements and the other financial information, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," to be included in the Company's Quarterly Reports on Form 10-Q filed with the SEC. In connection with this review, the Audit Committee will discuss the results of the Independent Auditor's review of the Company's quarterly financial information conducted in accordance with Statement on Auditing Standards No. 100, as amended or superseded from time to time. The Audit Committee also will discuss any other matters required to be communicated to the Audit Committee by the Independent Auditor under generally accepted auditing standards, applicable law or rules of the NYSE. The Audit Committee will discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, to the extent required by applicable law or rules of the NYSE.

13. Audit Committee Report. The Audit Committee will prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement.

14. Establishment of Complaint and Whistleblower Procedures. The Audit Committee will establish procedures for the (i) receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters of or relating to the Company and (ii) confidential, anonymous submission by employees of the Company, the Manager and Colony Capital, LLC of concerns regarding questionable accounting or auditing matters of or relating to the Company.

15. Review of Legal and Regulatory Compliance. The Audit Committee will periodically review with Management and the Independent Auditor any correspondence with, or other action by, regulators or governmental agencies and complaints, employee submissions or published reports that raise concerns regarding the Company's financial statements, accounting or auditing matters or compliance with the Code and the Code for Senior Financial Officers. The Committee also will meet periodically and separately with the General Counsel to review material legal affairs of the Company and the Company's compliance with applicable law and rules of the NYSE.

16. Review of Risk Management Policies. The Audit Committee, in consultation with Management, will review the Company's policies with respect to risk assessment and risk management, including key risks to which the Company is subject such as credit risk, liquidity risk and market risk, and the steps that Management has taken to monitor and control exposure to such risks.

17. Code of Business Conduct and Ethics; Code of Ethics for Principal Executive Officer and Senior Financial Officers. The Audit Committee will consider and act upon any

amendments to the Code and the Code for Senior Financial Officers (together, the “Codes”), and upon any request by persons subject to the Codes for waivers under the Codes.

18. Investigations. The Audit Committee shall have the authority to conduct or authorize investigations into any matters within its scope of responsibility, with full access to all books, records, facilities and personnel of the Company.

19. Performance Evaluation. At least annually, the Audit Committee will undertake an annual performance evaluation of the Audit Committee, including an assessment of the performance of the Audit Committee in light of the duties and responsibilities set forth in this charter and such other matters as the Audit Committee may deem necessary or appropriate in its discretion. In connection with such performance evaluation, the Audit Committee also will review and assess the adequacy of this charter, and propose to the Board for its review and approval any changes to this charter deemed necessary or appropriate.

20. Policy Regarding Employees and Former Employees of the Independent Auditor. The Audit Committee will establish clear policies regarding the Company’s and the Manager’s hiring of employees or former employees of the Independent Auditor who participated in any capacity in the audit of the Company.

21. Other Responsibilities. The Audit Committee will carry out such other duties as may be delegated to it by the Board from time to time.

D. Structure and Operation

1. Meetings. The Audit Committee shall meet with such frequency and at such intervals as it shall determine is necessary to carry out its duties and responsibilities, but in any case no less than quarterly. The Audit Committee will establish a schedule of meetings to be held each year and may schedule additional meetings as it determines. In planning the annual schedule of meetings, the Audit Committee will ensure that sufficient opportunities exist for its members: (i) to meet separately, periodically, with the Independent Auditor and the Internal Auditor, without Management present; (ii) to meet separately with Management or with the Chief Legal Officer, without the Independent Auditor and the Internal Auditor present; and (iii) to meet with only the Audit Committee members present. The Audit Committee may meet by telephone or videoconference and may take action by unanimous written consent. The Audit Committee may invite to meetings such officers of the Company, officers of the Manager or other persons as the Audit Committee deems necessary or appropriate in its discretion. Minutes of each meeting shall be kept and distributed to each member of the Audit Committee.

2. Chairperson. The Chairperson of the Audit Committee will be responsible for leadership of the Audit Committee, including presiding, when present, at all meetings of the Audit Committee, preparing the agenda, making committee assignments and reporting for the Audit Committee to the Board at its next regularly scheduled meeting following the meeting of the Audit Committee. If the Chairperson is not present at a meeting of the Audit Committee, the members present at the meeting shall designate one such member as the acting Chairperson for the meeting.

3. Procedures. The Audit Committee may adopt such procedures relating to the conduct of its proceedings as it deems appropriate.

4. Open Communication. The Audit Committee will maintain regular and open communication among the constituent directors, the Independent Auditor, the Internal Auditor and Management.

5. Delegation of Authority to Subcommittees. The Audit Committee may delegate its authority to members as the Audit Committee deems appropriate, except that any delegate will report any actions taken by the delegate to the full Audit Committee at its next regularly scheduled meeting.

6. Retention and Termination of Outside Advisors. The Audit Committee shall have the authority to retain and terminate such outside independent legal, accounting or other advisors as it deems necessary or appropriate in its sole discretion. The Audit Committee shall have the sole authority to approve the fees and other retention terms for such outside advisors. The Company will provide appropriate funding for payment of the compensation (as determined by the Audit Committee in its sole reasonable opinion) of such outside advisers retained by the Audit Committee, as well as reasonable ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

7. Reports to the Board. The Audit Committee will review with the Board any issues that arise within the scope of the oversight responsibility of the Audit Committee as described above, will regularly report committee actions to the Board, will submit to the Board the minutes of its meetings and may make appropriate recommendations for action by the Board.

E. Disclosure

This charter, as may be amended from time to time, shall be posted on the Company's website.