

COLONY FINANCIAL, INC.

Charter of the Compensation Committee of the Board of Directors

A. Purpose

The Compensation Committee (the “**Compensation Committee**”) of the Board of Directors (the “**Board**”) of Colony Financial, Inc. (the “**Company**”) will discharge the Board’s responsibilities relating to compensation (if any) of the Company’s directors and executive officers, and oversee plans and programs related to the compensation of Colony Financial Manager, LLC, the Company’s external manager (the “**Manager**”), including fees payable to the Manager pursuant to the management agreement, as amended from time to time, by and between the Company and the Manager. The Compensation Committee also will be responsible for (i) administering and implementing the Company’s incentive compensation plans and equity-based plans, (ii) overseeing and assisting the Company in preparing the Compensation Discussion & Analysis (“**CD&A**”) for inclusion in the Company’s proxy statement and/or annual report on Form 10-K, (iii) providing for inclusion in the Company’s proxy statement a description of the processes and procedures for the consideration and determination of executive and director compensation and (iv) preparing and submitting for inclusion in the Company’s proxy statement and/or annual report on Form 10-K a Compensation Committee Report, each as more fully described below, in accordance with applicable rules and regulations.

B. Committee Membership

The Compensation Committee will consist of no fewer than three members of the Board. Members of the Compensation 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 Compensation Committee must (1) satisfy the independence requirements of the New York Stock Exchange, as determined by the Board in its business judgment, (2) qualify as a “non-employee director” for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) and (3) qualify as an “outside director” for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “**Code**”). The Nominating and Corporate Governance Committee of the Board shall recommend, and the Board shall appoint, one member of the Compensation Committee to serve as Chairperson of the Compensation Committee.

C. Committee Powers, Duties and Responsibilities

1. Manager Compensation and Evaluation. The Compensation Committee shall oversee the performance of the Manager and the management fees and other compensation payable to the Manager. With the exception of the Company’s Chief Financial Officer (the “**CFO**”), the Company’s executive officers receive no compensation directly from the Company but are compensated by affiliates of the Manager, which compensation may or may not relate to the amount of fees paid to the Manager under the management agreement. The Compensation

Committee shall evaluate annually the performance of the Manager in view of the Company's investment objectives and the obligations of the Manager under the management agreement.

2. Chief Executive Officer Compensation. The Compensation Committee shall (i) review and approve the corporate goals and objectives with respect to compensation (if any) for the Company's Chief Executive Officer (the "CEO"), (ii) evaluate the performance of the CEO in light of the corporate goals and objectives approved by Compensation Committee and (iii) on the basis of such evaluation, determine and approve compensation paid by the Company to the CEO, if any.

3. Compensation of Other Executive Officers. The Compensation Committee shall review and approve the compensation (if any) for all other executive officers of the Company, including, to the extent applicable (i) the annual base salary amount, (ii) the annual bonus payment, as calculated in accordance with each such executive's employment agreement, if any, (iii) stock options and other equity-based compensation, (iv) any deferred or long-term incentive compensation, (v) any proposed severance arrangements or change in control and similar agreements/provisions, and any amendments, supplements or waivers to the foregoing agreements, in each case as, when and if deemed necessary or advisable and (vi) any perquisites, special or supplemental benefits, all in accordance with applicable law, rules and regulations, and to the extent appropriate or necessary to comply with any federal securities or tax law requirements, such as Rule 16b-3 of the Exchange Act or Section 162(m) of the Code. To the extent such compensation is set forth in employment agreements, such employment agreements, and any material amendments to such agreements, will be subject to the review and approval of the Compensation Committee. In determining the appropriate compensation (if any) for executive officers of the Company, the Compensation Committee should consider the Company's performance and relative stockholder return, the amount of compensation payable to similarly-situated officers at comparable companies and any other factors the Compensation Committee deems necessary or advisable in its discretion.

4. Compensation of Directors. The Compensation Committee shall (i) review and evaluate, at least on an annual basis, the compensation for directors, including Board and committee retainers, meeting fees, equity-based compensation and such other forms of compensation as the Compensation Committee may consider appropriate and (ii) recommend to the full Board, as appropriate, changes to such compensation. The Compensation Committee shall consider the compensation payable to directors at comparable companies and any other factors it deems necessary or advisable in making recommendations to the Board with respect to the compensation of directors.

5. Equity Compensation Plans. The Compensation Committee shall administer and implement the Company's incentive compensation plans and equity-based plans, including, but not limited to, (i) approving option grants and other equity-based awards, (ii) interpreting such plans, (iii) determining rules and regulations relating to such plans, (iv) modifying or canceling existing grants or awards and (v) imposing limitations, restrictions and conditions upon any grant or award as the Compensation Committee deems necessary or advisable. At least annually, the Compensation Committee shall assess the desirability of proposing and make recommendations to the Board with respect to any new incentive-compensation plans and equity-based plans and any increase in shares reserved for issuance under existing plans.

6. CD&A. The Compensation Committee shall oversee and assist the Company in preparing the CD&A for inclusion in the Company's proxy statement and/or annual report on Form 10-K, as well as other Company reports (when and as necessary) filed with the U.S. Securities and Exchange Commission (the "SEC"). The Compensation Committee shall provide a description of the processes and procedures for the consideration and determination of executive and director compensation (if any), as required for inclusion in the Company's proxy statement, all in accordance with applicable rules and regulations. The Compensation Committee shall review and discuss the CD&A with Company management and, based on the review and discussion, make a recommendation to the Board regarding whether to include the CD&A in the Company's proxy statement and/or annual report on Form 10-K.

7. Annual Compensation Committee Report. The Compensation Committee shall prepare an annual Compensation Committee Report for inclusion in the Company's annual proxy statement and/or annual report on Form 10-K in accordance with applicable rules and regulations promulgated by the SEC.

8. Compensation Agreements and Arrangements. The Compensation Committee shall review and make recommendations to the Board regarding all new employment, consulting, retirement and severance agreements and arrangements proposed for the Company's executive officers or the Manager. The Compensation Committee also shall periodically evaluate existing agreements with the Company's executive officers and the Manager for continuing appropriateness.

9. Performance Evaluation. At least annually, the Compensation Committee shall undertake an annual performance evaluation of the Compensation Committee, including an assessment of the performance of the Compensation Committee in light of the duties and responsibilities set forth in this charter and such other matters as the Compensation Committee may deem necessary or advisable in its discretion. In connection with such performance evaluation, the Compensation Committee also shall 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 advisable.

10. Other. The Compensation Committee shall have such other power, authority, duties and responsibilities as may be assigned to it by the Board from time to time.

D. Committee Structure and Operations

1. Meetings. The Compensation 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 once each year. The Compensation Committee will establish a schedule of meetings to be held each year and may schedule additional meetings as it determines to be necessary or appropriate. The Compensation Committee may meet by telephone or videoconference and may take action by unanimous written consent. The Compensation Committee may invite to meetings such officers of the Company, officers of the Manager or other persons as the Compensation Committee deems necessary or advisable in its discretion. Minutes of each meeting shall be kept and distributed to each member of the Compensation Committee.

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

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

4. Retention and Termination of Outside Advisors. The Compensation Committee shall have the authority to retain and terminate such outside legal, accounting or other advisors as it deems necessary and advisable in its sole discretion, including compensation consultants. The Compensation 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 Compensation Committee in its sole reasonable opinion) of such outside advisers retained by the Compensation Committee, as well as reasonable ordinary administrative expenses of the Compensation Committee that are necessary or appropriate in carrying out its duties.

5. Reporting to Full Board. The Compensation Committee shall make regular reports to the full Board summarizing the matters reviewed and actions taken at each meeting of the Compensation Committee.

E. Disclosure

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