

Colony Financial, Inc.

Corporate Governance Guidelines

I. OVERVIEW

The following Corporate Governance Guidelines (the “**Guidelines**”) have been adopted as guidelines and principles for the conduct of the Board of Directors (the “**Board**”) of Colony Financial, Inc. (the “**Company**”). They reflect the Board’s commitment to monitoring the effectiveness of decision-making at the Board and management level and ensuring adherence to good corporate governance principles, all with a goal of enhancing stockholder value over the long term. The Guidelines are subject to periodic review by the Nominating and Corporate Governance Committee of the Board (the “**Nominating Committee**”).

The Guidelines should be interpreted in the context of all applicable laws and regulations and the Company’s articles of incorporation and bylaws. The Guidelines are statements of policy and are not intended to supersede or interpret any Federal or state law, rule or regulation, including the Maryland General Corporation Law, or the Company’s articles of incorporation or bylaws.

II. DIRECTOR RESPONSIBILITIES AND QUALIFICATIONS

A. General Responsibilities

The Company’s business shall be conducted by Colony Financial Manager, LLC, the Company’s external manager (the “**Manager**”), and principals and employees of Colony Capital, LLC, the parent of the Manager (“**Colony Capital**”), and/or its affiliates, to the extent such persons are involved in the business and affairs of the Company, under the direction of the Company’s officers and the Board. The Board, which is elected by the stockholders, is the ultimate decision-making body of the Company, except with respect to those matters reserved to the stockholders by law or pursuant to the Company’s articles of incorporation and/or bylaws. The Board will have the following general responsibilities:

- supervising and directing the business and affairs of the Company in the interest, and for the benefit, of the Company’s stockholders in order to enhance stockholder value over the long term;
- reviewing and, where appropriate, approving the Company’s major strategic, financial and business objectives, plans and actions;
- reviewing and approving investment guidelines that set out the asset classes and other criteria to be used to evaluate the merits of specific investments as well as the Company’s overall portfolio composition; and
- establishing policies and principles for the selection, and possible succession planning, of directors, the Company’s Chief Executive Officer (the “**CEO**”) and other senior management officers.

The Board will exercise its business judgment to act in a manner which it reasonably believes to be in the best interests of the Company and its stockholders consistent with its legal duties. All directors owe a duty of loyalty to the Company which mandates that the best interests of the Company prevail over any individual interests of a director. Under the Maryland General Corporation Law, each director must perform his or her duties as a director (i) in good faith, (ii) in a manner he or she reasonably believes to be in the best interests of the Company and (iii) with the care that an ordinarily prudent person in a like position would use under similar circumstances.

Directors are expected to adhere to a high ethical standard in performing and carrying out their duties and responsibilities for the Company. In particular, directors are expected to comply with these Guidelines and the Company's Code of Business Conduct and Ethics as in effect from time to time.

B. General Qualifications

The Board places a high priority on the vitality and experience of its Board and in the discharge of its responsibilities. The Nominating Committee will identify and recommend to the Board candidates for director in accordance with the policies, procedures and criteria established by the Nominating Committee and the Board from time to time. The Board will then determine the director candidates that are submitted for election by the stockholders at the annual stockholders' meeting. At a minimum, director candidates will be selected on the basis of integrity, judgment, ability to make independent analytical inquiries, willingness and ability to devote adequate time and resources to diligently perform Board duties, and reputation, both personal and professional, consistent with the image and reputation of the Company. The Board is committed to a diversified membership, in terms of both the individuals involved and their various experiences and areas of expertise.

C. Election of Directors

As provided in the Company's bylaws, in any election of directors, each director will be elected by the vote of a plurality of all the votes cast at a meeting of stockholders duly called and at which a quorum is present. The Company's policy regarding election of directors will be summarized in each proxy statement relating to an election of directors.

D. Independence and other Qualifications

A majority of the members of the Board must meet the criteria for independence established by the New York Stock Exchange, as in effect from time to time and as interpreted by the Board in its business judgment. The Nominating Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics required for new Board members as well as the composition of the Board as a whole. This assessment may include, among other things, the following:

- diversity, age, background, skills and experience;

- personal qualities and characteristics, accomplishments, and reputation in the business community;
- knowledge and contacts in the communities in which the Company conducts business and in the Company's industry or other industries relevant to the Company's business;
- ability and willingness to devote sufficient time to serve on the Board and committees of the Board;
- knowledge and expertise in various areas deemed appropriate by the Board; and
- fit of the individual's skills, experience, and personality with those of other directors in maintaining an effective, collegial and responsive Board.

Nominations for directors, including nominees to committees of the Board and for designation as "lead" independent director ("**Lead Director**"), will be made or recommended by the Nominating Committee in accordance with the policies and principles in its charter and as determined by the Board. The Nominating Committee also will consider for Board membership individuals who are nominated by stockholders upon submission of the information required by the Company's bylaws in writing to the Secretary of the Company at the Company's headquarters. Unless otherwise determined by the Nominating Committee or the Board, the Nominating Committee's process for identifying and evaluating nominees for director will be the same regardless of who makes the recommendation.

E. Restrictions on Board Service and Actions

1. *Mandatory Retirement Age.* The Board has determined not to establish a mandatory retirement age. However, the Nominating Committee will review each director's continuing Board service upon reaching the age of 72 and every three years thereafter.

2. *Devotion of Adequate Time.* The Board recognizes that it is important that each director have the requisite time to devote to the oversight of the Company's business. The Company does not have a policy limiting the number of other public company boards of directors upon which a director may sit, in general. However, the Corporate Governance and Nominating Committee shall consider the number of other public company boards and other boards (or comparable governing bodies) on which a prospective nominee or a director is a member. Directors should advise the Chairman of the Nominating Committee and the CEO in advance of accepting an invitation to serve on another public company board of directors.

Although the Company does not impose a limit on outside directorships, it does recognize the substantial time commitments attendant to Board membership and expects that the members of its Board be fully committed to devoting all such time as is necessary to fulfill their Board responsibilities, both in terms of preparation for, and attendance and participation at, meetings.

In addition, in recognition of the enhanced time commitments associated with membership on a public company's audit committee, the Board has adopted a policy that no member of the Audit Committee may serve simultaneously on the audit committees of more than two other public companies.

3. *Term Limits.* The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations based on their understanding of the Company's history, policies and objectives and, therefore, provide an increasing contribution to the Board as a whole. As an alternative to term limits, the Nominating Committee will review each director's continuation on the Board every three years. This will allow each director the opportunity to confirm his or her desire to continue as a member of the Board.

4. *Change in Principal Occupation or Business.* When a director's principal occupation or business association changes, such director will promptly inform the Board of such change.

F. Chairman

The Board will elect its Chairman based on such factors as the directors deem relevant. There is no requirement that the offices of Chairman and CEO be held by the same person, or that the offices be filled by different people. The Company believes that this issue is part of the succession planning process and that it is in the best interests of the Company for the Board to make a determination when it elects a new CEO.

III. FUNCTIONING OF THE BOARD

The Chairman of the Board, in consultation with other members of the Board, will determine the timing and length of meetings of the Board. There will be at least four regularly scheduled meetings of the Board in each calendar year. In addition to regularly scheduled meetings, additional unscheduled Board meetings may be called upon appropriate notice at any time to address specific needs of the Company. Directors are expected to attend, in person or by telephone, all Board meetings and meetings of committees on which they serve, prepare for meetings, review relevant materials, ask questions and engage in discussion, and spend the time needed to properly discharge their responsibilities. In addition, directors are expected to attend the Company's annual meetings of stockholders.

The Chairman of the Board and the Lead Director, in consultation with the CEO (if the positions of Chairman and CEO are filled by different people), will set the agenda for Board meetings, with the understanding that certain items pertinent to the advisory and monitoring functions of the Board will be brought to it periodically by the Chairman for review and/or decision. Agenda items that fall within the scope of responsibilities of a Board committee will be reviewed with the chair of that committee. Each Board member is encouraged to suggest the inclusion of items on the agenda at any time.

Presentation materials are important to the Board's understanding of the business and essential to prepare Board members for productive meetings. Materials relating to specific agenda items will be provided to Board members sufficiently in advance of the Board meeting to allow the directors to prepare for discussion of such items at the meeting, and it is expected that all directors will review such materials in advance of each meeting. It is recognized that, in the event of a pressing need for the Board to meet on short notice, materials may not be available in advance of the meeting. In that event, sufficient time for discussion will be allocated to allow the Board to become adequately informed of any issues to be discussed at such meeting.

At the invitation of the Board, members of senior management of the Company and the Manager that are recommended by the Chairman, in consultation with the CEO (if such offices are filled by different people), may attend Board meetings for the purpose of participating in discussions. Generally, presentations of matters to be considered by the Board will be made by the manager responsible for that area of the Company's operations.

In addition, Board members will have complete access to management and employees of the Company, the Manager and Colony Capital and/or its affiliates, to the extent such employees of Colony Capital and/or its affiliates provide services to, or are involved in the business and affairs of, the Company. The CEO or Secretary of the Company will, whenever requested, assist in arranging and facilitating such meetings or contacts. Members of the Board will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company. The CEO or Secretary of the Company will, as deemed necessary or advisable by the Board, assist in arranging and facilitating meetings of the Board with the Company's independent advisors, including its legal counsel and independent auditing firm.

In addition to the Chairman, the Board will have a Lead Director, who shall be an independent director, consistent with criteria established by the New York Stock Exchange. The Lead Director will be selected on an annual basis by a majority of the independent directors then serving on the Board. The role of the Lead Director is to serve as liaison between (i) the Board and management, including the CEO, (ii) independent directors and (iii) interested third parties and the Board. The Lead Director serves as the focal point of communication to the Board regarding management plans and initiatives, and ensures that the role between board oversight and management operations is respected. The Lead Director also provides the medium for informal dialogue with and between independent directors, allowing for free and open communication within that group. In addition, the Lead Director will serve as the communication conduit for third parties who wish to communicate with the Board. Interested third parties may communicate with the Board by communicating directly with the Lead Director, either (i) by sending any correspondence they may have in writing to the "Lead Director" c/o Chief Legal Officer of Colony Financial, Inc., who will then directly forward such correspondence to the Lead Director, or (ii) by e-mailing correspondence directly to the Lead Director at lead.director@colonyfinancial.com. The Lead Director will decide what action should be taken with respect to the communication, including whether such communication should be reported to the Board.

To promote open discussion among non-management directors, the Board will devote a portion of each regularly scheduled Board meeting to executive sessions without management

participation. If the group of non-management directors includes directors who are not independent, as defined in the New York Stock Exchange's listing standards, it is the Company's policy that at least one such executive session convened per year shall include only independent directors. The Board will not take formal actions at such sessions, although the participating non-management directors may make recommendations for consideration by the Board. If appropriate, the non-management directors will record minutes of such sessions. The Lead Director will preside at such sessions.

IV. RESPONSIBILITY, COMPOSITION AND FUNCTIONING OF COMMITTEES

It is the general policy of the Company that all major decisions will be considered by the Board as a whole, except to the extent that the Audit Committee is required by applicable laws, rules or regulations to act alone. As a consequence, the committee structure of the Board is limited to those committees considered to be basic to or required for the operation of a publicly-owned company. The Board will maintain at all times a Compensation Committee, an Audit Committee, and a Nominating and Corporate Governance Committee (or a separate Nominating Committee and a Corporate Governance Committee). The members of each of these committees shall meet the independence requirements for directors as set forth in the rules of the New York Stock Exchange and applicable securities laws and regulations. While each such committee will have a written charter addressing the purpose, goals, duties and responsibilities of the committee, the key responsibilities of each committee are as follows:

- The Compensation Committee 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 the Manager, including fees payable to 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 for inclusion in the Company's proxy statement and/or Annual Report on Form 10-K (the "**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 Form 10-K a Compensation Committee report, in accordance with applicable rules and regulations.
- The Audit Committee assists the Board in the oversight of the integrity of the Company's financial statements and financial reporting process, the compliance by the Company with legal and regulatory requirements, the qualification and independence of the Company's independent auditors, the Company's overall risk profile, and the performance of the Company's internal audit function and independent auditors.
- The Nominating and Corporate Governance Committee develops, recommends, implements and monitors the adherence to these Guidelines, the

Company's Code of Business Conduct and Ethics and the Company's Code of Ethics for Senior Financial Officers, ensures that the Company is in compliance with all New York Stock Exchange listing requirements, oversees the evaluation of the Board and management, identifies and recommends to the Board individuals that are qualified to serve as Board members and periodically assesses the size of the Board to ensure that the Board can effectively carry out its obligations.

The Board may from time to time form such other committees as it determines to be appropriate to facilitate and assist in the execution of the Board's responsibilities.

Committee members and chairs will, upon recommendations from time to time of the Nominating and Corporate Governance Committee, be appointed by the Board, after consideration of the desires, experience and expertise of individual directors. The Nominating and Corporate Governance Committee will review the committee membership and chairmanship on an annual basis, and may recommend to the Board rotating members and chairmen from time to time, balancing the interests of continuity with diversity of experience and taking into account any legal, regulatory or New York Stock Exchange requirements regarding the composition of a particular committee.

Each committee chair will establish the frequency, length and agenda of meetings as appropriate and necessary to carry out the committee's responsibilities. Sufficient time to consider the agenda items will be provided. Materials relating to specific agenda items will be provided to committee members sufficiently in advance of the committee meeting where necessary to allow the members to prepare for discussion of such items at the meeting. It is recognized that, in the event of a pressing need for a committee to meet on short notice, materials may not be available in advance of the meeting. In that event, sufficient time for discussion will be allocated to allow the committee to become adequately informed of any issues to be discussed at such meeting. At the invitation of the committee chair, members of senior management of the Company and the Manager that are recommended by such committee chair, may attend committee meetings for the purpose of participating in discussions.

V. DIRECTOR COMPENSATION

Non-management directors will be compensated for their service to the Company in cash and/or stock options and equity of the Company on a basis that is commensurate with the commitment made by such directors to serve the Company, and taking into account the compensation paid to directors by other similarly situated public companies. The Compensation Committee will periodically review the amount and nature of compensation paid to directors, and make recommendations to the full Board regarding any adjustments to such compensation arrangements as appropriate. Directors who also are employees of the Company will not receive additional compensation in their capacity, or for their service, as directors.

The Board recognizes that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company

enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated, and therefore such actions will be discouraged. The Board will critically evaluate each of these matters when determining the form and amount of director compensation, and the independence of a director.

VI. DIRECTOR ORIENTATION AND CONTINUING EDUCATION

All new directors will participate in the Company's orientation program. This orientation will include presentations by senior management to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Conduct and Ethics, its principal officers and its independent auditors.

All directors are expected to actively stay informed and up to date on current issues relating to director responsibilities. From time to time, the Board may set aside time at its meetings to provide continuing director education for the benefit of the directors.

VII. RETENTION OF OUTSIDE ADVISORS

The Board and each committee shall have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

VIII. TRANSACTIONS WITH DIRECTORS

It is the policy of the Board that any transaction in which a director (or any member of a director's immediate family) has a personal or financial interest (direct or indirect) should be scrutinized carefully to ensure that the transaction is in the best interests of the Company and will not otherwise create a conflict of interest; provided, however, that transactions in accordance with the terms of the Investment Allocation Agreement by and between the Company, the Manager and Colony Capital are expressly permitted. It is incumbent upon each director to promptly notify the Chairman, the CEO or the Chief Legal Officer when he or she becomes aware of a matter in which he or she (or any member of a director's immediate family) has, or may have, a personal or financial interest (whether direct or indirect) or may otherwise have a potential conflict of interest.

Without the approval of a majority of the disinterested directors, the Company will not enter into a transaction or arrangement (including utilizing the services of any director to provide legal, accounting, financial, consulting or other similar services to the Company) in which a director has a material personal or financial interest (direct or indirect) or which would cause the Board to fail to meet any requirement of the NYSE. Whether a director has a material personal or financial interest in a transaction or arrangement will be determined by the Board on a case-by-case basis, but at a minimum a director will be considered to have a material personal or financial interest in a transaction or arrangement if the Company will be required to disclose the transaction or arrangement in its annual proxy statement to stockholders or the Company's Form 10-K. The interested director will not participate in any Board discussion regarding the matter in

which the director has such an interest. For purposes hereof, director will include any entity with which the director is affiliated, any immediate family member of a director and any entity in which a director's immediate family member has a material interest.

IX. CEO EVALUATION AND MANAGEMENT SUCCESSION

The Compensation Committee will conduct an annual review of the CEO's performance in accordance with policies and principles set forth in its charter. The Board will review the Compensation Committee's report in order to ensure that the CEO is providing the best leadership for the Company in the long and short term.

The Board will periodically evaluate policies and principles for CEO selection and succession planning so as to facilitate smooth transitions of leadership. If appropriate, the Board will establish a committee to assist it in evaluating potential successors to the CEO.

X. ANNUAL BOARD REVIEW

The Board will conduct an annual review and self-evaluation to determine whether it and its committees are functioning effectively. The review will focus on the Board's contribution to the Company and will seek to identify specific areas, if any, that need improvement or strengthening. Such review shall include presentations to the Board by each committee chairman, and may, if deemed necessary or appropriate by the Board, include reviews and/or presentations by the Company's independent advisors, including its legal counsel and independent auditing firm. The Nominating Committee shall be responsible for overseeing the Board and committee evaluation process and reporting its assessments to the Board.

The Board also will conduct an annual review to ensure that the Company is in compliance with all applicable New York Stock Exchange listing requirements and to ensure that all required certifications and public disclosures are made.

XI. PERIODIC REVIEW OF CORPORATE GOVERNANCE GUIDELINES

The Guidelines, as set forth herein, will be reviewed by the Nominating Committee from time to time. If the Nominating Committee determines that modifications are in order, it will make recommendations of changes for the Board to consider.

XII. DISCLOSURE

The Guidelines, as may be amended from time to time, shall be posted on the Company's website. The Company shall state in its annual proxy statement that these Guidelines are available on the Company's website and are available in print to any stockholder who requests them.

Approved: September 21, 2009