

CITIGROUP INC  
Form 424B2  
December 03, 2018

The information in this preliminary pricing supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This preliminary pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus are not an offer to sell these securities, nor are they soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 3, 2018

**December---, 2018**

**Medium-Term Senior Notes, Series N**

Citigroup Global Markets Holdings Inc.

**Pricing Supplement No. 2018-USNCH1744**

**Filed Pursuant to Rule 424(b)(2)**

**Registration Statement Nos. 333-216372 and 333-216372-01**

Barrier Securities Linked to the Worst Performing of the S&P 500<sup>®</sup> Index and the Russell 2000<sup>®</sup> Index Due January 2, 2024

The securities offered by this pricing supplement are unsecured debt securities issued by Citigroup Global Markets Holdings Inc. and guaranteed by Citigroup Inc. Unlike conventional debt securities, the securities do not pay interest and do not repay a fixed amount of principal at maturity. Instead, the securities offer a payment at maturity that may be greater than, equal to or less than the stated principal amount, depending on the performance of the **worst performing** of the underlyings specified below from its initial underlying value to its final underlying value.

The securities offer modified exposure to the performance of the worst performing underlying, with (i) the opportunity to participate in a limited range of potential appreciation of the worst performing underlying at the upside participation rate specified below and (ii) contingent repayment of the stated principal amount at maturity if the worst performing underlying depreciates, **but only** so long as its final underlying value is greater than or equal to its final barrier value specified below. In exchange for these features, investors in the securities must be willing to forgo any appreciation of the worst performing underlying in excess of the maximum return at maturity specified below and must be willing to forgo any dividends with respect to any underlying. In addition, investors in the securities must be willing to accept full downside exposure to the depreciation of the worst performing underlying if its final underlying value is less than its final barrier value. **If the final underlying value of the worst performing underlying is less than its final barrier value, you will lose 1% of the stated principal amount of your securities for every 1% by which its final underlying value is less than its initial underlying value. You may lose your entire investment in the securities.**

You will be subject to risks associated with each of the underlyings and will be negatively affected by adverse movements in any one of the underlyings.

In order to obtain the modified exposure to the worst performing underlying that the securities provide, investors must be willing to accept (i) an investment that may have limited or no liquidity and (ii) the risk of not receiving any amount due under the securities if we and Citigroup Inc. default on our obligations. **All payments on the securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.**

**KEY TERMS**

**Issuer:** Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.  
**Guarantee:** All payments due on the securities are fully and unconditionally guaranteed by Citigroup Inc.  
**Underlying:** Underlying Initial underlying value\* Final barrier value\*\*

S&P 500® Index

Russell 2000® Index

\* For each underlying, its closing value on the pricing date

\*\* For each underlying, 60% of its initial underlying value

**Stated principal amount:** \$1,000 per security

**Pricing date:** December 27, 2018

**Issue date:** January 2, 2019

**Valuation date:** December 27, 2023, subject to postponement if such date is not a scheduled trading day or certain market disruption events occur

**Maturity date:** January 2, 2024

You will receive at maturity for each security you then hold:

§ If the final underlying value of the worst performing underlying is **greater than** its initial underlying value:

\$1,000 + the return amount, subject to the maximum return at maturity

§ If the final underlying value of the worst performing underlying is **less than or equal to** its initial underlying value but **greater than or equal to** its final barrier value:

**Payment at maturity:**

\$1,000

§ If the final underlying value of the worst performing underlying is **less than** its final barrier value:

\$1,000 + (\$1,000 × the underlying return of the worst performing underlying)

**If the final underlying value of the worst performing underlying is less than its final barrier value, you will receive significantly less than the stated principal amount of your securities, and possibly nothing, at maturity.**

**Final underlying value:** For each underlying, its closing value on the valuation date

**Return amount:** \$1,000 × the underlying return of the worst performing underlying × the upside participation rate

**Upside participation rate:** 475%

\$600 per security (60% of the stated principal amount).

**Maximum return at maturity:** The payment at maturity per security will not exceed the stated principal amount plus the maximum return at maturity.

<b>Worst performing underlying:</b>	The underlying with the lowest underlying return		
<b>Underlying return:</b>	For each underlying, (i) its final underlying value <i>minus</i> its initial underlying value, <i>divided by</i> (ii) its initial underlying value		
<b>Listing:</b>	The securities will not be listed on any securities exchange		
<b>CUSIP / ISIN:</b>	17326YWG7 / US17326YWG78		
<b>Underwriter:</b>	Citigroup Global Markets Inc. (“CGMI”), an affiliate of the issuer, acting as principal		
<b>Underwriting fee and issue price:</b>	<b>Issue price<sup>(1)</sup></b>	<b>Underwriting fee<sup>(2)</sup></b>	<b>Proceeds to issuer<sup>(3)</sup></b>
<b>Per security:</b>	\$1,000.00	\$	\$
<b>Total:</b>	\$	\$	\$

(1) Citigroup Global Markets Holdings Inc. currently expects that the estimated value of the securities on the pricing date will be at least \$927.50 per security, which will be less than the issue price. The estimated value of the securities is based on CGMI’s proprietary pricing models and our internal funding rate. It is not an indication of actual profit to CGMI or other of our affiliates, nor is it an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you at any time after issuance. See “Valuation of the Securities” in this pricing supplement.

(2) CGMI will receive an underwriting fee of up to \$11.25 for each security sold in this offering. The total underwriting fee and proceeds to issuer in the table above give effect to the actual total underwriting fee. For more information on the distribution of the securities, see “Supplemental Plan of Distribution” in this pricing supplement. In addition to the underwriting fee, CGMI and its affiliates may profit from expected hedging activity related to this offering, even if the value of the securities declines. See “Use of Proceeds and Hedging” in the accompanying prospectus.

(3) The per security proceeds to issuer indicated above represent the minimum per security proceeds to issuer for any security, assuming the maximum per security underwriting fee. As noted above, the underwriting fee is variable.

**Investing in the securities involves risks not associated with an investment in conventional debt securities. See “Summary Risk Factors” beginning on page PS-5.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined that this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus are truthful or complete. Any representation to the contrary is a criminal offense.**

*You should read this pricing supplement together with the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, which can be accessed via the hyperlinks below:*

**[Product Supplement No. EA-02-07 dated June 15, 2018](#)**      **[Underlying Supplement No. 7 dated July 16, 2018](#)**

**[Prospectus Supplement and Prospectus each dated April 7, 2017](#)**

**The securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.**

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#### Additional Information

The terms of the securities are set forth in the accompanying product supplement, prospectus supplement and prospectus, as supplemented by this pricing supplement. The accompanying product supplement, prospectus supplement and prospectus contain important disclosures that are not repeated in this pricing supplement. For example, the accompanying product supplement contains important information about how the closing value of each underlying will be determined and about adjustments that may be made to the terms of the securities upon the occurrence of market disruption events and other specified events with respect to each underlying. The accompanying underlying supplement contains information about each underlying that is not repeated in this pricing supplement. It is important that you read the accompanying product supplement, underlying supplement, prospectus supplement and prospectus together with this pricing supplement in deciding whether to invest in the securities. Certain terms used but not defined in this pricing supplement are defined in the accompanying product supplement.

#### Payout Diagram

The diagram below illustrates your payment at maturity for a range of hypothetical underlying returns of the worst performing underlying.

**Investors in the securities will not receive any dividends with respect to the underlyings. The diagram and examples below do not show any effect of lost dividend yield over the term of the securities.** See “Summary Risk Factors—You will not receive dividends or have any other rights with respect to the underlyings” below.

#### **Payout Diagram**

n The Securities n The Worst Performing Underlying

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## Hypothetical Examples

The examples below illustrate how to determine the payment at maturity on the securities, assuming the various hypothetical final underlying values indicated below. The examples are solely for illustrative purposes, do not show all possible outcomes and are not a prediction of what the actual payment at maturity on the securities will be. The actual payment at maturity will depend on the actual final underlying value of the worst performing underlying.

The examples below are based on the following hypothetical values and do not reflect the actual initial underlying values or final barrier values of the underlyings. For the actual initial underlying value and final barrier value of each underlying, see the cover page of this pricing supplement. We have used these hypothetical values, rather than the actual values, to simplify the calculations and aid understanding of how the securities work. However, you should understand that the actual payment at maturity on the securities will be calculated based on the actual initial underlying value and final barrier value of each underlying, and not the hypothetical values indicated below.

Underlying	Hypothetical initial underlying value	Hypothetical final barrier value
S&P 500® Index	100	60 (60% of its hypothetical initial underlying value)
Russell 2000® Index	100	60 (60% of its hypothetical initial underlying value)

**Example 1—Upside Scenario A.** The final underlying value of the worst performing underlying is 105, resulting in a 5% underlying return for the worst performing underlying. In this example, the final underlying value of the worst performing underlying is **greater than** its initial underlying value.

Underlying	Hypothetical final underlying value	Hypothetical underlying return
S&P 500® Index	110	10%
Russell 2000® Index*	105	5%

\* Worst performing underlying

Payment at maturity per security = \$1,000 + the return amount, subject to the maximum return at maturity

= \$1,000 + (\$1,000 × the underlying return of the worst performing underlying × the upside participation rate), subject to the maximum return at maturity

= \$1,000 + (\$1,000 × 5% × 475%), subject to the maximum return at maturity

= \$1,000 + \$237.50, subject to the maximum return at maturity

= \$1,237.50

In this scenario, the worst performing underlying has appreciated from its initial underlying value to its final underlying value, and your total return at maturity would equal the underlying return of the worst performing underlying *multiplied by* the upside participation rate.

**Example 2—Upside Scenario B.** The final underlying value of the worst performing underlying is 165, resulting in a 65% underlying return for the worst performing underlying. In this example, the final underlying value of the worst performing underlying is **greater than** its initial underlying value.

Underlying	Hypothetical final underlying value	Hypothetical underlying return
S&P 500® Index*	165	65%
Russell 2000® Index	170	70%

\* Worst performing underlying

Payment at maturity per security = \$1,000 + the return amount, subject to the maximum return at maturity

= \$1,000 + (\$1,000 × the underlying return of the worst performing underlying × the upside participation rate) ,  
subject to the maximum return at maturity

= \$1,000 + (\$1,000 × 65% × 475%), subject to the maximum return at maturity

= \$1,000 + \$3,087.50, subject to the maximum return at maturity

= \$1,600

In this scenario, the worst performing underlying has appreciated from its initial underlying value to its final underlying value, but the underlying return of the worst performing underlying *multiplied by* the upside participation rate would exceed the maximum return at maturity. As a result, your total return at maturity in this scenario would be limited to the maximum return at maturity, and an investment

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in the securities would underperform a hypothetical alternative investment providing 1-to-1 exposure to the appreciation of the worst performing underlying without a maximum return.

**Example 3—Par Scenario.** The final underlying value of the worst performing underlying is 95, resulting in a -5% underlying return for the worst performing underlying. In this example, the final underlying value of the worst performing underlying is **less than** its initial underlying value but **greater than** its final barrier value.

Underlying	Hypothetical final underlying value	Hypothetical underlying return
S&P 500® Index	105	5%
Russell 2000® Index*	95	-5%

\* Worst performing underlying

Payment at maturity per security = \$1,000

In this scenario, the worst performing underlying has depreciated from its initial underlying value to its final underlying value, but not below its final barrier value. As a result, you would be repaid the stated principal amount of your securities at maturity but would not receive any positive return on your investment.

**Example 4—Downside Scenario.** The final underlying value of the worst performing underlying is 30, resulting in a -70% underlying return for the worst performing underlying. In this example, the final underlying value of the worst performing underlying is **less than** its final barrier value.

Underlying	Hypothetical final underlying value	Hypothetical underlying return
S&P 500® Index*	30	-70%
Russell 2000® Index	120	20%

\* Worst performing underlying

$$\begin{aligned}
 \text{Payment at maturity per security} &= \$1,000 + (\$1,000 \times \text{the underlying return of the worst performing underlying}) \\
 &= \$1,000 + (\$1,000 \times -70\%) \\
 &= \$1,000 + -\$700 \\
 &= \$300
 \end{aligned}$$

In this scenario, the worst performing underlying has depreciated from its initial underlying value to its final underlying value and its final underlying value is less than its final barrier value. As a result, your total return at maturity in this scenario would be negative and would reflect 1-to-1 exposure to the negative performance of the worst performing underlying.

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## Summary Risk Factors

An investment in the securities is significantly riskier than an investment in conventional debt securities. The securities are subject to all of the risks associated with an investment in our conventional debt securities (guaranteed by Citigroup Inc.), including the risk that we and Citigroup Inc. may default on our obligations under the securities, and are also subject to risks associated with each underlying. Accordingly, the securities are suitable only for investors who are capable of understanding the complexities and risks of the securities. You should consult your own financial, tax and legal advisors as to the risks of an investment in the securities and the suitability of the securities in light of your particular circumstances.

The following is a summary of certain key risk factors for investors in the securities. You should read this summary together with the more detailed description of risks relating to an investment in the securities contained in the section “Risk Factors Relating to the Securities” beginning on page EA-7 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.’s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally.

**You may lose a significant portion or all of your investment.** Unlike conventional debt securities, the securities do not repay a fixed amount of principal at maturity. Instead, your payment at maturity will depend on the performance of the worst performing underlying. If the final underlying value of the worst performing underlying is less than its final barrier value, you will lose 1% of the stated principal amount of your securities for every 1% by which the worst performing underlying has depreciated from its initial underlying value to its final underlying value. There is no minimum payment at maturity on the securities, and you may lose up to all of your investment.

**Your potential return on the securities is limited.** Your potential total return on the securities at maturity is limited to the maximum return at maturity, even if the worst performing underlying appreciates by significantly more than the maximum return at maturity. If the worst performing underlying appreciates by more than the maximum return at maturity, the securities will underperform an alternative investment providing 1-to-1 exposure to the performance of the worst performing underlying. When lost dividends are taken into account, the securities may underperform an alternative investment providing 1-to-1 exposure to the performance of the worst performing underlying even if the worst performing underlying appreciates by less than the maximum return at maturity. In addition, the maximum return at maturity reduces the effect of the upside participation rate for all final underlying values of the worst performing underlying exceeding the final underlying value of the worst performing underlying at which, by multiplying the corresponding underlying return by the upside participation rate, the maximum return at maturity is reached.

**The securities do not pay interest.** Unlike conventional debt securities, the securities do not pay interest or any other amounts prior to maturity. You should not invest in the securities if you seek current income during the term of the

securities.

**The securities are subject to heightened risk because they have multiple underlyings.** The securities are more risky than similar investments that may be available with only one underlying. With multiple underlyings, there is a greater chance that any one underlying will perform poorly, adversely affecting your return on the securities.

**The securities are subject to the risks of each of the underlyings and will be negatively affected if any one underlying performs poorly.** You are subject to risks associated with each of the underlyings. If any one underlying performs poorly, you will be negatively affected, regardless of the performance of any other underlying. The securities are not linked to a basket composed of the underlyings, where the blended performance of the underlyings would be better than the performance of the worst performing underlying alone. Instead, you are subject to the full risks of whichever of the underlyings is the worst performing underlying.

**You will not benefit in any way from the performance of any better performing underlying.** The return on the securities depends solely on the performance of the worst performing underlying, and you will not benefit in any way from the performance of any better performing underlying.

**You will be subject to risks relating to the relationship between the underlyings.** It is preferable from your perspective for the underlyings to be correlated with each other, in the sense that they tend to increase or decrease at similar times and by similar magnitudes. By investing in the securities, you assume the risk that the underlyings will not exhibit this relationship. The less correlated the underlyings, the more likely it is that any one of the underlyings will perform poorly over the term of the securities. All that is necessary for the securities to perform poorly is for one of the underlyings to perform poorly. It is impossible to predict what the relationship between the underlyings will be over the term of the securities. The underlyings differ in significant ways and, therefore, may not be correlated with each other.

**You will not receive dividends or have any other rights with respect to the underlyings.** You will not receive any dividends with respect to the underlyings. This lost dividend yield may be significant over the term of the securities. The payment scenarios described in this pricing supplement do not show any effect of lost dividend yield over the term of the securities. In addition, you will not have voting rights or any other rights with respect to the underlyings or the stocks included in the underlyings.

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**Your payment at maturity depends on the closing value of the worst performing underlying on a single day.** Because your payment at maturity depends on the closing value of the worst performing underlying solely on the valuation date, you are subject to the risk that the closing value of the worst performing underlying on that day may be lower, and possibly significantly lower, than on one or more other dates during the term of the securities. If you had invested directly in the underlyings or in another instrument linked to the worst performing underlying that you could sell for full value at a time selected by you, or if the payment at maturity were based on an average of closing values of the worst performing underlying, you might have achieved better returns.

**The securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.** If we default on our obligations under the securities and Citigroup Inc. defaults on its guarantee obligations, you may not receive anything owed to you under the securities.

**The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity.** The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. CGMI currently intends to make a secondary market in relation to the securities and to provide an indicative bid price for the securities on a daily basis. Any indicative bid price for the securities provided by CGMI will be determined in CGMI's sole discretion, taking into account prevailing market conditions and other relevant factors, and will not be a representation by CGMI that the securities can be sold at that price, or at all. CGMI may suspend or terminate making a market and providing indicative bid prices without notice, at any time and for any reason. If CGMI suspends or terminates making a market, there may be no secondary market at all for the securities because it is likely that CGMI will be the only broker-dealer that is willing to buy your securities prior to maturity. Accordingly, an investor must be prepared to hold the securities until maturity.

**The estimated value of the securities on the pricing date, based on CGMI's proprietary pricing models and our internal funding rate, is less than the issue price.** The difference is attributable to certain costs associated with selling, structuring and hedging the securities that are included in the issue price. These costs include (i) any selling concessions or other fees paid in connection with the offering of the securities, (ii) hedging and other costs incurred by us and our affiliates in connection with the offering of the securities and (iii) the expected profit (which may be more or less than actual profit) to CGMI or other of our affiliates in connection with hedging our obligations under the securities. These costs adversely affect the economic terms of the securities because, if they were lower, the economic terms of the securities would be more favorable to you. The economic terms of the securities are also likely to be adversely affected by the use of our internal funding rate, rather than our secondary market rate, to price the securities. See "The estimated value of the securities would be lower if it were calculated based on our secondary market rate" below.

**The estimated value of the securities was determined for us by our affiliate using proprietary pricing models.** CGMI derived the estimated value disclosed on the cover page of this pricing supplement from its proprietary pricing models. In doing so, it may have made discretionary judgments about the inputs to its models, such as the volatility of, and correlation between, the closing values of the underlyings, dividend yields on the underlyings and interest rates. CGMI's views on these inputs may differ from your or others' views, and as an underwriter in this offering, CGMI's interests may conflict with yours. Both the models and the inputs to the models may prove to be wrong and therefore not an accurate reflection of the value of the securities. Moreover, the estimated value of the securities set forth on the cover page of this pricing supplement may differ from the value that we or our affiliates may determine for the

securities for other purposes, including for accounting purposes. You should not invest in the securities because of the estimated value of the securities. Instead, you should be willing to hold the securities to maturity irrespective of the initial estimated value.

**The estimated value of the securities would be lower if it were calculated based on our secondary market rate.**

The estimated value of the securities included in this pricing supplement is calculated based on our internal funding rate, which is the rate at which we are willing to borrow funds through the issuance of the securities. Our internal funding rate is generally lower than our secondary market rate, which is the rate that CGMI will use in determining the value of the securities for purposes of any purchases of the securities from you in the secondary market. If the estimated value included in this pricing supplement were based on our secondary market rate, rather than our internal funding rate, it would likely be lower. We determine our internal funding rate based on factors such as the costs associated with the securities, which are generally higher than the costs associated with conventional debt securities, and our liquidity needs and preferences. Our internal funding rate is not an interest rate that is payable on the securities.

Because there is not an active market for traded instruments referencing our outstanding debt obligations, CGMI determines our secondary market rate based on the market price of traded instruments referencing the debt obligations of Citigroup Inc., our parent company and the guarantor of all payments due on the securities, but subject to adjustments that CGMI makes in its sole discretion. As a result, our secondary market rate is not a market-determined measure of our creditworthiness, but rather reflects the market's perception of our parent company's creditworthiness as adjusted for discretionary factors such as CGMI's preferences with respect to purchasing the securities prior to maturity.

**The estimated value of the securities is not an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you in the secondary market.** Any such secondary market price will fluctuate over the term of the securities based on the market and other factors described in the next risk factor. Moreover, unlike the estimated value included in this pricing supplement, any value of the securities determined for purposes of a secondary market transaction will be based on our secondary market rate, which will likely result in a lower value for the securities than if our internal funding rate were used. In addition, any secondary market price for the securities will be reduced by a bid-ask spread, which may vary depending on

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the aggregate stated principal amount of the securities to be purchased in the secondary market transaction, and the expected cost of unwinding related hedging transactions. As a result, it is likely that any secondary market price for the securities will be less than the issue price.

**The value of the securities prior to maturity will fluctuate based on many unpredictable factors.** The value of your securities prior to maturity will fluctuate based on the closing values of the underlyings, the volatility of, and correlation between, the closing values of the underlyings, dividend yields on the underlyings, interest rates generally, the time remaining to maturity and our and Citigroup Inc.'s creditworthiness, as reflected in our secondary market rate, among other factors described under "Risk Factors Relating to the Securities—Risk Factors Relating to All Securities—The value of your securities prior to maturity will fluctuate based on many unpredictable factors" in the accompanying product supplement. Changes in the closing values of the underlyings may not result in a comparable change in the value of your securities. You should understand that the value of your securities at any time prior to maturity may be significantly less than the issue price.

**Immediately following issuance, any secondary market bid price provided by CGMI, and the value that will be indicated on any brokerage account statements prepared by CGMI or its affiliates, will reflect a temporary upward adjustment.** The amount of this temporary upward adjustment will steadily decline to zero over the temporary adjustment period. See "Valuation of the Securities" in this pricing supplement.

**The Russell 2000® Index is subject to risks associated with small capitalization stocks.** The stocks that constitute the Russell 2000® Index are issued by companies with relatively small market capitalization. The stock prices of smaller companies may be more volatile than stock prices of large capitalization companies. These companies tend to be less well-established than large market capitalization companies. Small capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small capitalization companies are less likely to pay dividends on their stocks, and the presence of a dividend payment could be a factor that limits downward stock price pressure under adverse market conditions.

**Our offering of the securities is not a recommendation of any underlying.** The fact that we are offering the securities does not mean that we believe that investing in an instrument linked to the underlyings is likely to achieve favorable returns. In fact, as we are part of a global financial institution, our affiliates may have positions (including short positions) in the underlyings or in instruments related to the underlyings, and may publish research or express opinions, that in each case are inconsistent with an investment linked to the underlyings. These and other activities of our affiliates may affect the closing values of the underlyings in a way that negatively affects the value of and your return on the securities.

**The closing value of an underlying may be adversely affected by our or our affiliates' hedging and other trading activities.** We expect to hedge our obligations under the securities through CGMI or other of our affiliates, who may take positions in the underlyings or in financial instruments related to the underlyings and may adjust such positions during the term of the securities. Our affiliates also take positions in the underlyings or in financial instruments related to the underlyings on a regular basis (taking long or short positions or both), for their accounts, for other accounts under their management or to facilitate transactions on behalf of customers. These activities could affect the closing value of the underlyings in a way that negatively affects the value of and your return on the securities. They could also

result in substantial returns for us or our affiliates while the value of the securities declines.

**We and our affiliates may have economic interests that are adverse to yours as a result of our affiliates' business activities.** Our affiliates engage in business activities with a wide range of companies. These activities include extending loans, making and facilitating investments, underwriting securities offerings and providing advisory services. These activities could involve or affect the underlyings in a way that negatively affects the value of and your return on the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines. In addition, in the course of this business, we or our affiliates may acquire non-public information, which will not be disclosed to you.

**The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities.** If certain events occur during the term of the securities, such as market disruption events and other events with respect to an underlying, CGMI, as calculation agent, will be required to make discretionary judgments that could significantly affect your return on the securities. In making these judgments, the calculation agent's interests as an affiliate of ours could be adverse to your interests as a holder of the securities. See "Risks Relating to the Securities—Risks Relating to All Securities—The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities" in the accompanying product supplement.

**Changes that affect the underlyings may affect the value of your securities.** The sponsors of the underlyings may at any time make methodological changes or other changes in the manner in which they operate that could affect the values of the underlyings. We are not affiliated with any such underlying sponsor and, accordingly, we have no control over any changes any such sponsor may make. Such changes could adversely affect the performance of the underlyings and the value of and your return on the securities.

**The U.S. federal tax consequences of an investment in the securities are unclear.** There is no direct legal authority regarding the proper U.S. federal tax treatment of the securities, and we do not plan to request a ruling from the Internal Revenue Service (the "IRS"). Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as prepaid forward contracts. If the IRS were successful in asserting an alternative treatment of the securities, the tax consequences of the ownership and disposition of the securities might be materially and

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adversely affected. As described below under “United States Federal Tax Considerations,” in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. Any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect.

In addition, Section 871(m) of the Internal Revenue Code of 1986, as amended (the “Code”), imposes a withholding tax of up to 30% on “dividend equivalents” paid or deemed paid to non-U.S. investors in respect of certain financial instruments linked to U.S. equities. In light of Treasury regulations, as modified by an IRS notice, that provide a general exemption for financial instruments issued prior to January 1, 2021 that do not have a “delta” of one, as of the date of this preliminary pricing supplement the securities should not be subject to withholding under Section 871(m). However, information about the application of Section 871(m) to the securities will be updated in the final pricing supplement. Moreover, the IRS could challenge a conclusion that the securities should not be subject to withholding under Section 871(m). If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld.

You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “United States Federal Tax Considerations” in this pricing supplement. You should also consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

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### Information About the S&P 500<sup>®</sup> Index

The S&P 500<sup>®</sup> Index consists of common stocks of 500 issuers selected to provide a performance benchmark for the large capitalization segment of the U.S. equity markets. It is calculated and maintained by S&P Dow Jones Indices LLC.

Please refer to the section “Equity Index Descriptions—The S&P U.S. Indices—The S&P 500<sup>®</sup> Index” in the accompanying underlying supplement for additional information.

We have derived all information regarding the S&P 500<sup>®</sup> Index from publicly available information and have not independently verified any information regarding the S&P 500<sup>®</sup> Index. This pricing supplement relates only to the securities and not to the S&P 500<sup>®</sup> Index. We make no representation as to the performance of the S&P 500<sup>®</sup> Index over the term of the securities.

The securities represent obligations of Citigroup Global Markets Holdings Inc. (guaranteed by Citigroup Inc.) only. The sponsor of the S&P 500<sup>®</sup> Index is not involved in any way in this offering and has no obligation relating to the securities or to holders of the securities.

### Historical Information

The closing value of the S&P 500<sup>®</sup> Index on November 29, 2018 was 2,737.76.

The graph below shows the closing value of the S&P 500<sup>®</sup> Index for each day such value was available from January 2, 2008 to November 29, 2018. We obtained the closing values from Bloomberg L.P., without independent verification. You should not take historical closing values as an indication of future performance.

### **S&P 500<sup>®</sup> Index – Historical Closing Values January 2, 2008 to November 29, 2018**

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Citigroup Global Markets Holdings Inc.

### Information About the Russell 2000® Index

The Russell 2000® Index is designed to track the performance of the small capitalization segment of the U.S. equity market. All stocks included in the Russell 2000® Index are traded on a major U.S. exchange. It is calculated and maintained by FTSE Russell.

Please refer to the section “Equity Index Descriptions—The Russell Indices—The Russell~~2000~~® Index” in the accompanying underlying supplement for additional information.

We have derived all information regarding the Russell 2000® Index from publicly available information and have not independently verified any information regarding the Russell 2000® Index. This pricing supplement relates only to the securities and not to the Russell 2000® Index. We make no representation as to the performance of the Russell 2000® Index over the term of the securities.

The securities represent obligations of Citigroup Global Markets Holdings Inc. (guaranteed by Citigroup Inc.) only. The sponsor of the Russell 2000® Index is not involved in any way in this offering and has no obligation relating to the securities or to holders of the securities.

### Historical Information

The closing value of the Russell 2000® Index on November 29, 2018 was 1,525.387.

The graph below shows the closing value of the Russell 2000® Index for each day such value was available from January 2, 2008 to November 29, 2018. We obtained the closing values from Bloomberg L.P., without independent verification. You should not take historical closing values as an indication of future performance.

### **Russell 2000® Index – Historical Closing Values January 2, 2008 to November 29, 2018**

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Citigroup Global Markets Holdings Inc.

## United States Federal Tax Considerations

You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “Summary Risk Factors” in this pricing supplement.

In the opinion of our counsel, Davis Polk & Wardwell LLP, which is based on current market conditions, a security should be treated as a prepaid forward contract for U.S. federal income tax purposes. By purchasing a security, you agree (in the absence of an administrative determination or judicial ruling to the contrary) to this treatment. There is uncertainty regarding this treatment, and the IRS or a court might not agree with it.

Assuming this treatment of the securities is respected and subject to the discussion in “United States Federal Tax Considerations” in the accompanying product supplement, the following U.S. federal income tax consequences should result under current law:

You should not recognize taxable income over the term of the securities prior to maturity, other than pursuant to a sale or exchange.

Upon a sale or exchange of a security (including retirement at maturity), you should recognize capital gain or loss equal to the difference between the amount realized and your tax basis in the security. Such gain or loss should be long-term capital gain or loss if you held the security for more than one year.

Subject to the discussions below under “Possible Withholding Under Section 871(m) of the Code” and in “United States Federal Tax Considerations” in the accompanying product supplement, if you are a Non-U.S. Holder (as defined in the accompanying product supplement) of the securities, you generally should not be subject to U.S. federal withholding or income tax in respect of any amount paid to you with respect to the securities, provided that (i) income in respect of the securities is not effectively connected with your conduct of a trade or business in the United States, and (ii) you comply with the applicable certification requirements.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership”

regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect.

**Possible Withholding Under Section 871(m) of the Code.** As discussed under “United States Federal Tax Considerations—Tax Consequences to Non-U.S. Holders” in the accompanying product supplement, Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities (“U.S. Underlying Equities”) or indices that include U.S. Underlying Equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. Underlying Equities, as determined based on tests set forth in the applicable Treasury regulations (a “Specified Security”). However, the regulations, as modified by an IRS notice, exempt financial instruments issued prior to January 1, 2021 that do not have a “delta” of one. Based on the terms of the securities and representations provided by us, our counsel is of the opinion that the securities should not be treated as transactions that have a “delta” of one within the meaning of the regulations with respect to any U.S. Underlying Equity and, therefore, should not be Specified Securities subject to withholding tax under Section 871(m).

A determination that the securities are not subject to Section 871(m) is not binding on the IRS, and the IRS may disagree with this treatment. Moreover, Section 871(m) is complex and its application may depend on your particular circumstances. For example, if you enter into other transactions relating to a U.S. Underlying Equity, you could be subject to withholding tax or income tax liability under Section 871(m) even if the securities are not Specified Securities subject to Section 871(m) as a general matter. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

This information is indicative and will be updated in the final pricing supplement or may otherwise be updated by us in writing from time to time. Non-U.S. Holders should be warned that Section 871(m) may apply to the securities based on circumstances as of the pricing date for the securities and, therefore, it is possible that the securities will be subject to withholding tax under Section 871(m).

If withholding tax applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld.

**You should read the section entitled “United States Federal Tax Considerations” in the accompanying product supplement. The preceding discussion, when read in combination with that section, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.**

**You should also consult your tax adviser regarding all aspects of the U.S. federal income and estate tax consequences of an investment in the securities and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.**

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Citigroup Global Markets Holdings Inc.

### Supplemental Plan of Distribution

CGMI, an affiliate of Citigroup Global Markets Holdings Inc. and the underwriter of the sale of the securities, is acting as principal and will receive an underwriting fee of up to \$11.25 for each security sold in this offering. The actual underwriting fee will be equal to the selling concession provided to selected dealers, as described in this paragraph. CGMI will pay selected dealers a variable selling concession of up to \$11.25 for each security they sell.

See “Plan of Distribution; Conflicts of Interest” in the accompanying product supplement and “Plan of Distribution” in each of the accompanying prospectus supplement and prospectus for additional information.

### Valuation of the Securities

CGMI calculated the estimated value of the securities set forth on the cover page of this pricing supplement based on proprietary pricing models. CGMI’s proprietary pricing models generated an estimated value for the securities by estimating the value of a hypothetical package of financial instruments that would replicate the payout on the securities, which consists of a fixed-income bond (the “bond component”) and one or more derivative instruments underlying the economic terms of the securities (the “derivative component”). CGMI calculated the estimated value of the bond component using a discount rate based on our internal funding rate. CGMI calculated the estimated value of the derivative component based on a proprietary derivative-pricing model, which generated a theoretical price for the instruments that constitute the derivative component based on various inputs, including the factors described under “Summary Risk Factors—The value of the securities prior to maturity will fluctuate based on many unpredictable factors” in this pricing supplement, but not including our or Citigroup Inc.’s creditworthiness. These inputs may be market-observable or may be based on assumptions made by CGMI in its discretionary judgment.

The estimated value of the securities is a function of the terms of the securities and the inputs to CGMI’s proprietary pricing models. As of the date of this preliminary pricing supplement, it is uncertain what the estimated value of the securities will be on the pricing date because certain terms of the securities have not yet been fixed and because it is uncertain what the values of the inputs to CGMI’s proprietary pricing models will be on the pricing date.

For a period of approximately four months following issuance of the securities, the price, if any, at which CGMI would be willing to buy the securities from investors, and the value that will be indicated for the securities on any brokerage account statements prepared by CGMI or its affiliates (which value CGMI may also publish through one or more financial information vendors), will reflect a temporary upward adjustment from the price or value that would otherwise be determined. This temporary upward adjustment represents a portion of the hedging profit expected to be realized by CGMI or its affiliates over the term of the securities. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the four-month temporary adjustment period. However, CGMI is not

obligated to buy the securities from investors at any time. See “Summary Risk Factors—The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity.”

### Certain Selling Restrictions

#### Hong Kong Special Administrative Region

The contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been reviewed by any regulatory authority in the Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”). Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, they should obtain independent professional advice.

The securities have not been offered or sold and will not be offered or sold in Hong Kong by means of any document, other than

- (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or
- (ii) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “Securities and Futures Ordinance”) and any rules made under that Ordinance; or
- (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

There is no advertisement, invitation or document relating to the securities which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Citigroup Global Markets Holdings Inc.

Non-insured Product: These securities are not insured by any governmental agency. These securities are not bank deposits and are not covered by the Hong Kong Deposit Protection Scheme.

Singapore

This pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been registered as a prospectus with the Monetary Authority of Singapore, and the securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Accordingly, the securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this pricing supplement or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act. Where the securities are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the (a) sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interests (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the relevant securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to (i) any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act; or

**Compensation Table**

Name	Aggregate Compensation from the Company <sup>(1,2)</sup>	Securities Underlying Options/ SARs <sup>(3)</sup>	Pension or Retirement Benefits Accrued as Part of Company Expenses <sup>(2)</sup>	Directors Fees Paid by the Company <sup>(4)</sup>
<b>Interested Directors:</b>				
William L. Walton, <i>Chairman and CEO</i>	\$ 5,292,081	400,000	\$	\$
Joan M. Sweeney, <i>Chief Operating Officer</i>	3,031,545	300,000		
Robert E. Long, <i>Director</i>	76,000	5,000		76,000
<b>Independent Directors:</b>				
Brooks H. Browne, <i>Director</i>	103,000	5,000		103,000
John D. Firestone, <i>Director</i>	79,000	5,000		79,000
Anthony T. Garcia, <i>Director</i>	95,000	5,000		95,000
Ann Torre Grant, <i>Director</i>	80,000	5,000		80,000
Lawrence I. Hebert, <i>Director</i>	82,500	5,000		82,500
John I. Leahy, <i>Director</i>	102,500	5,000		102,500
Alex J. Pollock, <i>Director</i>	41,500	5,000		41,500
Guy T. Steuart II, <i>Director</i>	76,000	5,000		76,000
Laura W. van Roijen, <i>Director</i>	79,000	5,000		79,000
<b>Executive Officer:</b>				
John M. Scheurer	2,119,459	150,000		

(1) There were no perquisites paid by the Company in excess of the lesser of \$50,000 or 10% of the Compensated Person's total salary and bonus for the year.

(2) The following table provides detail as to aggregate compensation paid for 2004 to the three highest paid executive officers of the Company, including the Chief Executive Officer:

	Salary	Bonus	IPA	Other Benefits
Mr. Walton	\$ 1,457,692	\$ 750,000	\$ 2,949,976	\$ 134,413
Ms. Sweeney	973,077	500,000	1,461,721	96,747
Mr. Scheurer	589,615	300,000	1,120,846	108,998

In 2004, the Company established individual performance awards. See also Individual Performance Award. Included for each executive officer in Other Benefits is, among other things, an employer contribution to the 401(k) Plan, a contribution to the Deferred Compensation Plan I, and health and dental insurance. See also Employment Agreements .



(3) See Stock Option Awards for terms of options granted in 2004.

(4) Consists only of directors fees paid by the Company for 2004. Such fees are also included in the column titled Aggregate Compensation from the Company.

**Compensation of Non-Officer Directors**

Each non-officer director receives an annual retainer of \$40,000. In addition, committee chairs receive an annual retainer of \$5,000. For each committee meeting attended, Executive Committee members receive \$1,000 per meeting; Audit Committee members receive \$2,500 per meeting; and members of the Compensation and Corporate Governance/ Nominating Committees receive \$1,500 per meeting.

Directors may choose to defer such fees through the Company's Deferred Compensation Plan, and may choose to invest such deferred income in shares of the Company's common stock through a trust.

Non-officer directors are eligible for stock option awards under the Company's Amended Stock Option Plan pursuant to an exemptive order from the Securities and Exchange Commission. The terms of the order, which was granted in September 1999, provided for a one-time grant of 10,000 options to each non-officer director on the date that the order was issued, or on the date that any new director is elected by stockholders to the Board of Directors. Thereafter, each non-officer director will receive 5,000 options each year on the date of the Annual Meeting of Stockholders at the fair market value on the date of grant. See Amended Stock Option Plan.

### Stock Option Awards

The following table sets forth the details relating to option grants in 2004 to Compensated Persons under the Company's Amended Stock Option Plan, and the potential realizable value of each grant, as prescribed to be calculated by the Commission. See Amended Stock Option Plan.

#### Options Granted During 2004

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted In 2004 <sup>(1)</sup>	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates Of Stock Appreciation Over 10-Year Term <sup>(2)</sup>	
					5%	10%
<b>Interested Directors:</b>						
William L. Walton	400,000	4.90%	\$ 28.98	3/11/14	\$ 7,290,146	\$ 18,474,663
Joan M. Sweeney	300,000	3.70	28.98	3/11/14	5,467,610	13,855,997
Robert E. Long	5,000	0.06	24.44	5/12/14	76,851	194,755
<b>Independent Directors:</b>						
Brooks H. Browne	5,000	0.06	24.44	5/12/14	76,851	194,755
John D. Firestone	5,000	0.06	24.44	5/12/14	76,851	194,755
Anthony T. Garcia	5,000	0.06	24.44	5/12/14	76,851	194,755
Ann Torre Grant	5,000	0.06	24.44	5/12/14	76,851	194,755
Lawrence I. Hebert	5,000	0.06	24.44	5/12/14	76,851	194,755
John I. Leahy	5,000	0.06	24.44	5/12/14	76,851	194,755
Alex J. Pollock	5,000	0.06	24.44	5/12/14	76,851	194,755
Guy T. Steuart II	5,000	0.06	24.44	5/12/14	76,851	194,755
Laura W. van Roijen	5,000	0.06	24.44	5/12/14	76,851	194,755
<b>Executive Officer:</b>						
John M. Scheurer	150,000	1.80	28.98	3/11/14	2,733,805	6,927,998

<sup>(1)</sup> In 2004, the Company granted options to purchase a total of 8,169,750 shares.

<sup>(2)</sup> Potential realizable value is calculated on 2004 options granted, and is net of the option exercise price but before any tax liabilities that may be incurred. These amounts represent certain assumed rates of appreciation, as mandated by the Commission. Actual gains, if any, on stock option exercises are dependent on the future

performance of the shares, overall market conditions, and the continued employment by the Company of the option holder. The potential realizable value will not necessarily be realized.

The following table sets forth the details of option exercises by Compensated Persons during 2004 and the values of those unexercised options at December 31, 2004.

**Option Exercises and Year-End Option Values**

Name	Shares Acquired On Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options as of 12/31/04		Value of Unexercised In-the-Money Options as of 12/31/04 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<b>Interested Directors:</b>						
William L. Walton	0	\$ 0	2,336,035	504,066	\$ 13,884,995	\$ 881,565
Joan M. Sweeney	0	0	1,249,127	379,093	6,891,866	665,682
Robert E. Long	0	0	35,000	0	122,870	0
<b>Independent Directors:</b>						
					122,870	0
Brooks H. Browne	0	0	35,000	0	122,870	0
John D. Firestone	0	0	35,000	0	122,870	0
Anthony T. Garcia	0	0	35,000	0	122,870	0
Ann Torre Grant	0	0	15,000	0	49,200	0
Lawrence I. Hebert	0	0	35,000	0	122,870	0
John I. Leahy	0	0	35,000	0	122,870	0
Alex J. Pollock	6,800	41,838	5,000	0	7,000	0
Guy T. Steuart II	0	0	35,000	0	122,870	0
Laura W. van Roijen	0	0	35,000	0	122,870	0
<b>Executive Officer:</b>						
John M. Scheurer	73,373	715,132	869,781	238,282	4,253,449	543,378

(1) Value realized is calculated as the closing market price on the date of exercise, net of option exercise price, but before any tax liabilities or transaction costs. This is the deemed market value, which may actually be realized only if the shares are sold at that price.

(2) Value of unexercised options is calculated as the closing market price on December 31, 2004, (\$25.84), net of the option exercise price, but before any tax liabilities or transaction costs. In-the-Money Options are options with an exercise price that is less than the market price as of December 31, 2004.

**Amended Stock Option Plan**

The Company's Amended Stock Option Plan is intended to encourage stock ownership in the Company by officers and directors, thus giving them a proprietary interest in the Company's performance. The Amended Stock Option Plan was most recently approved by stockholders on May 12, 2004.

The Compensation Committee's principal objective in awarding stock options to the eligible officers and directors of the Company is to align each optionee's interests with the success of the Company and the financial interests of its stockholders by linking a portion of such optionee's compensation with the performance of the Company's stock and the value delivered to stockholders.

Stock options are granted under the Amended Stock Option Plan at a price not less than the prevailing market value at the time of the grant and will have realizable value only if the Company's stock price increases. The

Compensation Committee determines the amount and features of the stock options, if any, to be awarded to optionees. The Compensation Committee evaluates a number of criteria, including the past service of each such optionee to the Company, the present and potential contributions of such optionee to the success of the Company, and such other factors

as the Compensation Committee shall deem relevant in connection with accomplishing the purposes of the Amended Stock Option Plan, including the recipient's current stock holdings, years of service, position with the Company, and other factors. The Compensation Committee does not apply a formula assigning specific weights to any of these factors when making its determination. The Compensation Committee awards stock options on a subjective basis and such awards depend in each case on the performance of the officer under consideration, and in the case of new hires, their potential performance.

The Company has received approval from the Commission to grant options under the Amended Stock Option Plan to non-officer directors. Pursuant to the Commission order, initially each incumbent non-officer director received options to purchase 10,000 shares and each will receive options to purchase 5,000 shares each year thereafter on the date of the Annual Meeting of Stockholders. New non-officer directors receive options to purchase 10,000 shares upon election by stockholders to the Board of Directors, and options to purchase 5,000 shares each year thereafter, on the date of the Annual Meeting of Stockholders.

The Amended Stock Option Plan is designed to satisfy the conditions of Section 422 of the Code so that options granted under the Amended Stock Option Plan may qualify as incentive stock options. To qualify as incentive stock options, options may not become exercisable for the first time in any year if the number of incentive options first exercisable in that year multiplied by the exercise price exceeds \$100,000.

#### **401(k) Plan**

The Company maintains a 401(k) plan (the 401(k) Plan). All full-time employees who are at least 21 years of age have the opportunity to contribute pre-tax salary deferrals into the 401(k) Plan up to \$14,000 annually for the 2005 plan year, and to direct the investment of these contributions. Plan participants who reach the age of 50 during the 2005 plan year are eligible to defer an additional \$4,000 during 2005. The 401(k) Plan allows eligible participants to invest in shares of the Company's common stock, among other investment options. In addition, during the 2005 plan year, the Company expects to contribute up to 5% of each participant's eligible compensation for the year, up to a maximum compensation of \$210,000, to each participant's plan account on the participant's behalf, which fully vests at the time of the contribution. The contribution with respect to compensation in excess of \$210,000 is made to the Deferred Compensation Plan I. On February 25, 2005, the 401(k) Plan held less than 1% of the outstanding shares of the Company. See Voting Securities.

#### **Individual Performance Award**

The Compensation Committee has established a long-term incentive compensation program whereby the Compensation Committee of the Board of Directors determines an individual performance award for certain officers annually, generally at the beginning of each year. In determining the award for any one officer, the Compensation Committee considers individual performance factors, as well as the individual's contribution to the returns generated for stockholders, among other factors. The individual performance awards are deposited in a trust in approximately

equal cash installments, on a quarterly basis, and the cash is used to purchase shares of the Company's common stock in the market. See Deferred Compensation Plan II. The following table presents the individual performance awards that have been awarded by the Compensation Committee for 2005 to the Compensated Persons as well as for all other participants as a group:

Name and Position	2005 Individual Performance Award <sup>(1)</sup>
William L. Walton, <i>Chief Executive Officer</i>	\$ 1,475,000
Joan M. Sweeney, <i>Chief Operating Officer</i>	750,000
John M. Scheurer, <i>Managing Director</i>	550,000
All Executive Officers as a Group (excluding the Compensated Persons)	3,385,500
Non-Executive Officers as a Group	1,345,000

<sup>(1)</sup> Represents individual performance awards expected to be expensed for financial reporting purposes for 2005 for these officers, assuming each participant remains employed by the Company throughout the year. These amounts are subject to change if there is a change in the composition of the pool of award recipients during the year.

#### Individual Performance Bonus

As a result of recent changes in regulation imposed by the Jobs Creation Act of 2004 associated with deferred compensation arrangements, as well as an increase in the competitive market for recruiting and retaining top performers in private equity firms, the Compensation Committee recommended to the Board and the Board has approved that for 2005 a portion of the IPA should be replaced with an individual performance bonus ( IPB ). The IPB for 2005 has been determined to be approximately \$7.5 million. The IPB will be distributed in cash to award recipients in equal bi-weekly installments as long as each recipient remains employed by the Company. If a recipient terminates employment during the year, any remaining cash payments under the IPB would be forfeited. The following table presents the individual performance bonuses that have been awarded for 2005 for the Compensated Persons, as well as for all other recipients as a group:

Name and Position	2005 Individual Performance Bonus <sup>(1)</sup>
William L. Walton, <i>Chief Executive Officer</i>	\$ 1,475,000
Joan M. Sweeney, <i>Chief Operating Officer</i>	750,000
John M. Scheurer, <i>Managing Director</i>	550,000
All Executive Officers as a Group (excluding the Compensated Persons)	3,385,500
Non-Executive Officers as a Group	1,345,000

<sup>(1)</sup> Represents individual performance bonuses expected to be expensed for financial reporting purposes for 2005 for these officers, assuming each recipient remains employed by the Company throughout the year. These amounts are subject to change if there is a change in the composition of the pool of award recipients during the year.

#### Deferred Compensation Plan

The Company maintains a deferred compensation plan (the DCP I ). The DCP I is an unfunded plan, as defined by the Internal Revenue Code of 1986, as amended (the Code ), that provides for the deferral of compensation by directors, employees, and consultants of the Company. Any director, senior officer, or





consultant of the Company is eligible to participate in the Plan at such time and for such period as designated by the Board of Directors. The DCP I is administered through a trust, and the Company funds this plan through cash contributions. Directors may choose to defer director's fees through the DCP I, and may choose to invest such deferred income in shares of the Company's common stock through a trust. On February 25, 2005, the DCP I held 1,372 shares of the Company's common stock. The DCP I may be amended during 2005 as needed in order to conform to the requirements of the Jobs Creation Act of 2004.

#### **Deferred Compensation Plan II**

In conjunction with the IPA, the Company established a non-qualified deferred compensation plan (DCP II) in 2004, which is administered through a trust by an independent third-party trustee. The individual performance awards are generally deposited in the trust in equal installments, on a quarterly basis, in the form of cash. The Compensation Committee designed the DCP II to require the trustee to use the cash to purchase shares of the Company's common stock in the market on the New York Stock Exchange. A participant only vests in the award as it is deposited into the trust. The Compensation Committee, in its sole discretion, shall designate the senior officers who will receive individual performance awards and participate in the DCP II. During any period of time in which a participant has a deferral account in the DCP II, any dividends declared and paid on shares of common stock allocated to the participant's account shall be reinvested by the trustee as soon as practicable in shares of the Company's common stock purchased in the open market.

In the event of termination of employment, one-third of the participant's deferral account will be immediately distributed, one half of the then current remaining balance will be distributed on the first anniversary of his or her employment termination date, and the remainder of the account balance will be distributed on the second anniversary of the employment termination date. In the event of a change of control, which is defined on page 22 in Employment Agreements, all amounts in a participant's deferral account will be immediately distributed to the participant.

The aggregate maximum number of shares of the Company's common stock that the trustee is authorized to purchase in the open market for the purpose of investing the cash from individual performance awards is 3,500,000 shares, subject to appropriate adjustments in the event of a stock dividend, stock split, or similar change in capitalization affecting the Company's common stock. On February 25, 2005, the DCP II held 506,065 shares of the Company's common stock.

A participant who violates certain non-solicitation covenants contained in the DCP II during the two years after the termination of his or her employment will forfeit back to the Company the remaining value of his or her deferral account.

The DCP II is administered by the Compensation Committee of the Company's Board of Directors. The Board of Directors reserves the right to amend, terminate, or discontinue DCP II, provided that no such action will adversely affect a participant's rights under DCP II with respect to the amounts paid to his or her deferral account. The DCP II may be amended during 2005 as needed in order to conform to the requirements of the Jobs Creation Act of 2004.

## Employment Agreements

The Company entered into employment agreements in 2004 with William L. Walton, the Company's Chairman and CEO, and Joan M. Sweeney, the Company's Chief Operating Officer, each of whom is a Compensated Person. The Company also entered into an employment agreement in 2004 with Penni F. Roll, the Company's Chief Financial Officer. Each of the agreements provides for a three-year term that extends one day at the end of every day during its length, unless either party provides written notice of termination of such extension. In that case, the agreement would terminate three years from such notification.

Each agreement specifies each executive's base salary compensation during the term of the agreement. The Compensation Committee has the right to increase the base salary during the term of the employment agreement. In addition, each employment agreement states that the Compensation Committee may provide, at their sole discretion, an annual cash bonus. This bonus is to be determined with reference to each executive's performance in accordance with performance criteria to be determined by the Compensation Committee in its sole discretion. Under each agreement, each executive also is entitled to participate in the Company's Amended Stock Option Plan, and to receive all other awards and benefits previously granted to each executive including life insurance premiums.

The executive has the right to voluntarily terminate employment at any time with 30 days' notice, and in such case, the employee will not receive any severance pay. Among other things, the employment agreements prohibit the solicitation of employees from the Company in the event of an executive's departure for a period of two years.

If employment is terminated with cause, the employee will not receive any severance pay. If employment is terminated without cause during the term of the agreement, or within 24 months after a change in control, the executive shall be entitled to severance pay for a period not to exceed 36 months. Severance pay shall include three times the average base salary for the preceding three years, plus three times the average bonus compensation for the preceding three years, plus a lump sum amount equal to \$3,178,000 for Mr. Walton and \$2,831,000 for Ms. Sweeney. In the event of a change in control, each executive would be entitled to a tax equalization payment calculated in accordance with Section 280G of the Internal Revenue Code on distributions to which the employee is entitled upon termination, and the Company would also provide compensation to offset any applicable excise tax penalties imposed on the executive under Section 4999 of the Internal Revenue Code. Such severance pay shall be paid in two installments: 75% of such pay shall be paid at the time of separation, and 25% shall be paid on the second anniversary of such separation. Stock options would cease to vest during the severance period.

Under the employment agreements, a Change in Control means (i) the sale or other disposition of all or substantially all of the Company's assets; or (ii) the acquisition, whether directly, indirectly, beneficially (within the meaning of Rule 13d-3 of the 1934 Act), or of record, as a result of a merger, consolidation or otherwise, of securities of the Company representing fifteen percent (15%) or more of the aggregate voting power of the Company's then outstanding common stock by any person (within the meaning of Section 13(d) and 14(d) of the 1934 Act), including, but not limited to, any corporation or group of persons acting in concert,

other than (A) the Company or its subsidiaries and/or (B) any employee pension benefit plan (within the meaning of Section 3(2) of the Employee Retirement Income Security Act of 1974) of the Company or its subsidiaries, including a trust established pursuant to any such plan; or (iii) the individuals who were members of the Board of Directors as of the Effective Date (the Incumbent Board ) cease to constitute at least two-thirds<sup>(2/3)</sup> of the Board; provided, however, that any director appointed by at least two-thirds<sup>(2/3)</sup> of the then Incumbent Board or nominated by at least two-thirds<sup>(2/3)</sup> of the Corporate Governance/ Nominating Committee of the Board of Directors (a majority of the members of the Corporate Governance/ Nominating Committee shall be members of the then Incumbent Board or appointees thereof), other than any director appointed or nominated in connection with, or as a result of, a threatened or actual proxy or control contest, shall be deemed to constitute a member of the Incumbent Board.

These employment agreements may be amended during 2005 as needed in order to conform to the requirements of the Jobs Creation Act of 2004.

#### **Retention Agreements**

In March 2005, the Company entered into a retention agreement with John M. Scheurer, Managing Director in the Company's commercial real estate group, in connection with the Company's consideration of strategic alternatives for its commercial real estate investment portfolio, including a sale, spin-out or recapitalization of all or part of the Company's commercial real estate assets. This agreement expires on June 30, 2005, if a transaction has not been completed by that date.

If the Company consummates a transaction, the agreement provides that the Company will pay Mr. Scheurer a one-time lump sum bonus of \$500,000 if 1) he remains employed by the Company until the transaction is consummated; or 2) the Company terminates his employment without cause prior to the consummation of a transaction. If the Company consummates a transaction and Mr. Scheurer is hired by an acquirer and either remains employed by the acquirer for at least 90 days following the transaction or is terminated by the acquirer without cause during such period, he will receive an additional \$500,000. In addition, Mr. Scheurer will receive a supplemental payment of \$600,000 if a transaction is consummated and he satisfies other conditions.

If the company consummates a transaction and an acquirer either 1) does not offer to employ Mr. Scheurer; 2) offers to employ Mr. Scheurer but at a base salary below \$750,000; or 3) employs Mr. Scheurer but later terminates his employment for any reason other than for cause within the initial twelve months of employment, the agreement provides that the Company will pay Mr. Scheurer a one-time lump sum payment of \$1,200,000. Should Mr. Scheurer remain with the acquirer for twelve months after the consummation of a transaction and receive compensation of less than \$1,200,000 from the acquirer during the initial 12-month period, the agreement provides that the Company will pay Mr. Scheurer a one-time lump sum payment equal to the difference between the amount paid to him by the acquirer during such period and \$1,200,000.

The Company also entered into similar agreements with four other executives in the commercial real estate group, including Douglas Cooper and Jordan Paul, both of

whom are Managing Directors in the commercial real estate group. These agreements expire on June 30, 2005, if a transaction has not been completed by that date.

If the Company consummates a transaction, the agreement provides that the Company will pay the four executives, in the aggregate, one-time lump sum bonuses totaling \$900,000 if 1) the individuals remain employed by the Company until the transaction is consummated; or 2) the Company terminates the individuals' employment without cause prior to the consummation of a transaction. If the Company consummates a transaction and the individuals are hired by an acquirer and either remain employed by the acquirer for at least 90 days following the transaction or are terminated by the acquirer without cause during such period, the individuals in the aggregate would receive an additional amount totaling \$900,000.

If the Company consummates a transaction and an acquirer either 1) does not offer to employ the individuals; 2) offers to employ the individuals but at a base salary below a certain threshold; or 3) employs the individuals but later terminates the individuals' employment for any reason other than for cause or does not agree to pay a minimum compensation amount within the initial twelve months of employment, the agreement provides that the Company will pay the individuals, in the aggregate, one-time lump sum payments totaling up to \$2,750,000

#### **Indemnification Agreements**

The Company has entered into indemnification agreements with its directors and certain senior officers of the Company. The indemnification agreements are intended to provide these directors and senior officers the maximum indemnification permitted under Maryland law and the Investment Company Act of 1940. Each indemnification agreement provides that the Company shall indemnify the director or senior officer who is a party to the agreement (an Indemnitee), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Company.

#### **Certain Relationships and Related Transactions**

The following table sets forth certain information, as of March 21, 2005, regarding indebtedness to the Company in excess of \$60,000 of any person serving as a director or executive officer of the Company and of any nominee for election as a director at any time since January 1, 2004. All of such indebtedness results from loans made by the Company to enable the exercise of stock options. The loans are required to be fully collateralized and are full recourse against the borrower and have varying terms not exceeding ten years. The interest rates charged generally reflect the applicable federal rate on the date of the loan.

As a business development company under the Investment Company Act of 1940, the Company is entitled to provide and has provided loans to officers of the Company in connection with the exercise of options. However, as a result of

provisions of the Sarbanes-Oxley Act of 2002, the Company has been prohibited from making new loans to its executive officers since July 30, 2002.

Name and Position with Company	Highest Amount Outstanding During 2004	Range of Interest Rates		Amount Outstanding at March 21, 2005
		High	Low	
<b>Executive Officers who are Interested Directors<sup>(1)</sup>:</b>				
William L. Walton, <i>Chief Executive Officer</i>	\$ 2,416,230	6.24%	4.45%	\$ 0
Joan M. Sweeney, <i>Chief Operating Officer</i>	2,231,157	6.63%	4.45%	399,962
<b>Executive Officers:</b>				
Kelly A. Anderson, <i>Executive Vice President and Treasurer</i>	1,432,225	6.34%	3.91%	496,225
Scott S. Binder, <i>Chief Valuation Officer</i>	297,923	4.93%	4.93%	0
Douglas L. Cooper, <i>Managing Director</i>	282,845	4.98%	4.45%	276,845
Michael J. Grisius, <i>Managing Director</i>	242,788	4.68%	3.91%	230,727
Penni F. Roll, <i>Chief Financial Officer</i>	1,273,924	6.24%	4.45%	1,174,832
John M. Scheurer, <i>Managing Director</i>	2,058,996	6.63%	4.73%	167,453
John D. Shulman, <i>Managing Director</i>	99,991	2.85%	2.85%	99,991
Suzanne V. Sparrow, <i>Chief Compliance Officer and Secretary</i>	713,809	6.18%	4.45%	626,309
Thomas H. Westbrook, <i>Managing Director</i>	370,134	4.98%	4.98%	370,134

(1) Interested directors are interested persons as defined by the Investment Company Act of 1940.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Securities Exchange Act of 1934, the Company's directors and executive officers, and any persons holding 10% or more of its common stock, are required to report their beneficial ownership and any changes therein to the Commission and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based on the Company's review of Forms 3, 4, and 5 filed by such persons, the Company believes that during 2004 all Section 16(a) filing requirements applicable to such persons were met in a timely manner.

#### PROPOSAL 2.

#### RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee and the disinterested members of the Board of Directors have appointed KPMG LLP as the Company's independent registered public accounting firm for the year ending December 31, 2005. If the stockholders ratify the selection of KPMG LLP as the Company's accountants, KPMG LLP also will be the independent registered public accounting firm for the consolidated subsidiaries of the Company.

KPMG LLP has advised the Company that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in the Company or its subsidiaries.



The Company expects that a representative of KPMG LLP will be present at the Meeting and will have an opportunity to make a statement if he or she so chooses and will be available to respond to appropriate questions.

**Unless marked to the contrary, the shares represented by the enclosed proxy card will be voted for ratification of the selection of KPMG LLP as the independent registered public accounting firm of the Company.**

**THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS THAT  
STOCKHOLDERS VOTE TO RATIFY THE SELECTION OF KPMG LLP AS THE  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY.**

**Fees Paid to KPMG LLP for 2004 and 2003**

The following are aggregate fees billed to the Company by KPMG LLP during 2004 and 2003.

	Fiscal Year Ended December 31	
	2004	2003
Audit Fees	\$ 1,447,000	\$ 764,495
Audit-Related Fees	432,000	73,014
Tax Fees	58,500	77,075
All Other Fees		
<b>TOTAL FEES:</b>	<b>\$ 1,937,500</b>	<b>\$ 914,584</b>

*Audit Fees.* Audit fees consist of fees billed for professional services rendered for the audit of our year-end consolidated financial statements and reviews of the interim consolidated financial statements included in quarterly reports and services that are normally provided by KPMG LLP in connection with statutory and regulatory filings. These services for 2004 also include the audits of management's assessment of the effectiveness of the Company's internal controls over financial reporting.

*Audit-Related Fees.* Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees. These services include attest services that are not required by statute or regulation, consultations concerning financial accounting and reporting standards, and fees related to requests for documentation and information from regulatory and other government agencies.

*Tax Fees.* Tax fees consist of fees billed for professional services for tax compliance. These services include assistance regarding federal, state, and local tax compliance.

*All Other Fees.* All other fees would include fees for products and services other than the services reported above.

**Report of the Audit Committee**

As part of its oversight of the Company's financial statements, the Audit Committee reviewed and discussed with both management and the Company's independent registered public accounting firm all of the Company's financial statements filed with the Commission for each quarter during 2004 and as of and for the year ended December 31, 2004. Management advised the Audit Committee that all financial statements were prepared in accordance with accounting principles

generally accepted in the United States of America ( GAAP ), and reviewed significant accounting issues with the Audit Committee. The Audit Committee also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The Audit Committee of the Board has established a pre-approval policy that describes the permitted audit, audit-related, tax, and other services to be provided by KPMG LLP, the Company's independent registered public accounting firm. The policy requires that the Audit Committee pre-approve the audit and non-audit services performed by the independent registered public accounting firm in order to assure that the provision of such service does not impair the firm's independence.

Any requests for audit, audit-related, tax, and other services that have not received general pre-approval must be submitted to the Audit Committee for specific pre-approval, irrespective of the amount, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to management.

The Audit Committee received and reviewed the written disclosures from the independent registered public accounting firm required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and has discussed with the firm its independence. The Audit Committee has reviewed the audit fees paid by the Company to the independent registered public accounting firm. It has also reviewed non-audit services and fees to assure compliance with the Company's and the Audit Committee's policies restricting the independent registered public accounting firm from performing services that might impair its independence. The Audit Committee also reviewed the requirements and the Company's implementation of Section 404 of the Sarbanes-Oxley Act of 2002 including the Public Company Accounting Oversight Board's Auditing Standard No. 2 regarding the audit of internal controls over financial reporting.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the financial statements as of and for the year ended December 31, 2004, be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the Commission. The Audit Committee also recommended the selection of KPMG LLP to serve as the independent registered public accounting firm of the Company for the year ending December 31, 2005.

*Audit Committee*

Brooks H. Browne, Chairman

Anthony T. Garcia, Member

Ann Torre Grant, Member

Laura W. van Roijen, Member



### **OTHER BUSINESS**

The Board of Directors knows of no other business to be presented for action at the Meeting. If any matters do come before the Meeting on which action can properly be taken, it is intended that the proxies shall vote in accordance with the judgment of the person or persons exercising the authority conferred by the proxy at the Meeting. The submission of a proposal does not guarantee its inclusion in the Company's Proxy Statement or presentation at the Meeting unless certain securities law requirements are met.

### **2006 ANNUAL MEETING OF STOCKHOLDERS**

Any stockholder proposals submitted pursuant to the SEC's Rule 14a-8 for inclusion in the Company's proxy statement and form of proxy for the 2006 annual meeting of stockholders must be received by the Company on or before December 7, 2005. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in the proxy statement and form of proxy. Any such proposal should be mailed to: Allied Capital Corporation, 1919 Pennsylvania Avenue, N.W., Washington, D.C. 20006, Attention: Corporate Secretary.

Stockholder proposals or director nominations to be presented at the 2006 annual meeting of stockholders, other than stockholder proposals submitted pursuant to the SEC's Rule 14a-8, must be delivered to, or mailed and received at, the principal executive offices of the Company not less than ninety (90) days in advance of the one year anniversary of the date the Company's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders. For the Company's 2006 annual meeting of stockholders, the Company must receive such proposals and nominations no later than January 6, 2006. If the date of the annual meeting has been changed by more than thirty (30) calendar days from the date contemplated at the time of the previous year's proxy statement, stockholder proposals or director nominations must be so received not later than the tenth day following the day on which such notice of the date of the 2006 annual meeting of stockholders or such public disclosure is made. Proposals must also comply with the other requirements contained in the Company's bylaws, including supporting documentation and other information. Proxies solicited by the Company will confer discretionary voting authority with respect to these proposals, subject to SEC rules governing the exercise of this authority.

**ALLIED CAPITAL CORPORATION**  
**1919 PENNSYLVANIA AVE. NW**  
**WASHINGTON, DC 20006**

**VOTE BY INTERNET [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**VOTE BY PHONE 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to Allied Capital Corporation, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: p

ALCAP1

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**ALLIED CAPITAL CORPORATION**

**Election of Directors**

1. This election of the following five persons (except as marked to the contrary) as Class I Directors who will serve as directors of Allied Capital Corporation until 2008, or until their successors are elected and qualified.

For All    For All Except  
 Withhold    To withhold authority to vote, mark  
 For All    and write the nominee's number on the line below.

NOMINEES:	CLASS I	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	_____
DIRECTORS	01) John D. Firestone				
	02) Anthony T. Garcia				

I. Hebert  
 Racicot  
 van Roijen

03) Lawrence  
 04) Marc F.  
 05) Laura W.

**Vote On Proposal**

**For      Against      Abstain**

- |   |   |   |   |
|---|---|---|---|
| 2. The ratification of the selection of KPMG LLP as independent registered public accounting firm for Allied Capital Corporation for the year ending December 31, 2005. | o | o | o |
| 3. To transact such other business as may properly come before the Meeting.   |   |   |   |

**IMPORTANT:** Please sign your name(s) exactly as shown hereon and date your proxy in the blank provided. For joint accounts, each joint owner should sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. If the signer is a corporation or partnership, please sign in full corporate or partnership name by a duly authorized officer or partner.

Yes      No

Please indicate if you plan to attend this meeting in person.      o      o

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Signature [PLEASE SIGN WITHIN BOX]      Date      **P10330** Signature (Joint Owners)      Date

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**ALLIED CAPITAL CORPORATION**  
**Annual Meeting of Stockholders**

**Admission Ticket**

*May 17, 2005*

*10:00 a.m.*

*The Four Seasons Hotel*

*2800 Pennsylvania Avenue, NW*

*Washington, DC*

If you plan to attend the Annual Meeting of Stockholders on May 17th, please detach this card and bring it with you for presentation at the Meeting. Please be sure to bring this ticket with you, as you will need it to gain access to the Meeting.

*The doors will open at 9:15 a.m.; a continental breakfast buffet will be served.*

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**ALLIED CAPITAL CORPORATION**

**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS**  
**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints WILLIAM L. WALTON, PENNI F. ROLL and SUZANNE V. SPARROW, or any one of them, and each with full power of substitution, to act as attorneys and proxies for the undersigned to vote all the shares of Common Stock of the Company which the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company to be held at the Four Seasons Hotel, 2800 Pennsylvania Avenue, NW, Washington, DC on May 17, 2005 at 10:00 A.M. [Eastern] and at all adjournments thereof, as indicated on this proxy.

**THIS PROXY IS REVOCABLE AND WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE NOMINEES AND FOR THE PROPOSAL LISTED.** If any other business is presented at the meeting, this proxy will be voted by the proxies in their best judgment, including a motion to adjourn or postpone the meeting to another time and/or place for the purpose of soliciting additional proxies. At the present time, the Board of Directors knows of no other business to be presented at the meeting.

PLEASE MARK, SIGN AND RETURN THIS PROXY IN THE ENCLOSED ENVELOPE. THE UNDERSIGNED ACKNOWLEDGES RECEIPT FROM THE COMPANY PRIOR TO THE EXECUTION OF THIS PROXY OF A NOTICE OF ANNUAL MEETING OF STOCKHOLDERS AND A PROXY STATEMENT.

**(CONTINUED ON REVERSE SIDE)**