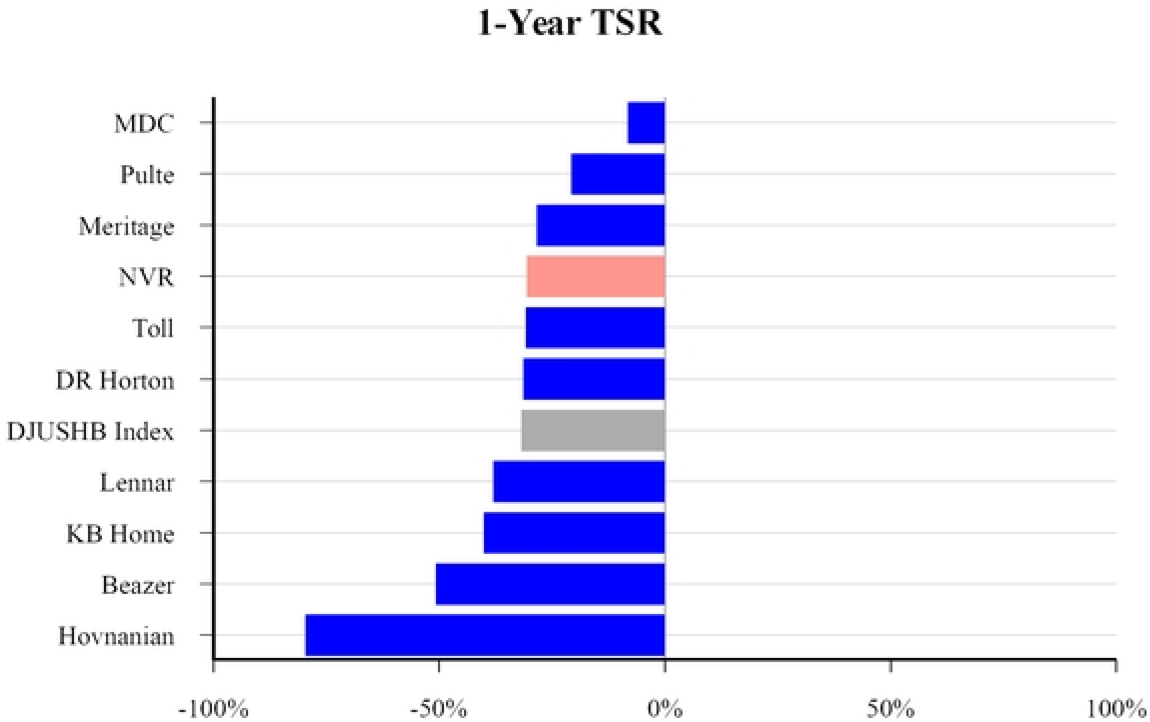
Our TSR of -31% during 2018 was fairly consistent with the homebuilding peer group as illustrated below.



We believe these superior results over the long-term relative to our homebuilding peers are due to:

- Our business model and strategies, which are designed to limit risk and maximize returns on capital in a cyclical industry; and
- Our highly skilled, long-tenured and motivated management team that has remained extremely disciplined in executing our more capital efficient business model.

Additionally, these key aspects of our strategy are well ingrained in our corporate culture, which includes:

- Strong alignment between management incentives (at all levels, not just named executive officers) and long-term shareholder returns;
- Stability and long-term retention of our management team; and
- Generation of cash flow through all points in the homebuilding cycle.

Compensation Policies and Practices

Our compensation program is designed to provide appropriate performance-based incentives to ensure alignment with our shareholders and to avoid compensation practices that do not promote the interests of our shareholders.

What We Do

- **Pay for Performance** - We tie pay to performance by making the majority of compensation “at risk” and linking it to shareholders’ interests.
- **Annual Bonuses** - Our annual bonuses are performance-based and limited to a maximum of 100% of base salary.
- **Long-Term Equity-Based Compensation** -The majority of our named executive officers’ compensation is in the form of stock options with long-term vesting.
- **Periodic Equity Grants** - We make periodic, not annual, grants of long-term stock options. The 2018 stock option grants were made as described in the 2018 Proxy, following shareholder approval of the NVR, Inc. 2018 Equity Incentive Plan. The vesting for our stock options granted in 2018 is based on continued service through the vesting

dates. For 50% of the options granted, the vesting is based on NVR's return on capital performance during the years 2018 to 2020.

- **Share Ownership Requirements** - We have robust NVR share ownership requirements.
- **Double Trigger Change in Control Provisions** - Our equity agreements and employment agreements include double trigger change in control provisions for post-employment benefits and equity awards.
- **Equity Clawback Provision** - Our equity agreements have a clawback provision.
- **Non-Competition Provision** - Our equity agreements and employment agreements have a non-competition provision.
- **Share Repurchase Program** - We mitigate the potential dilutive effect of equity awards through our robust share repurchase program.
- **Independent Compensation Consultant** - Our Compensation Committee utilizes an independent compensation consultant.

What We Don't Do

- **Discretionary Cash Awards** - We do not award any discretionary cash compensation.
- **Perquisites** - We do not provide perquisites.
- **Hedging and Pledging** - We do not permit short sales, hedging or pledging of NVR stock by named executive officers or directors.
- **Reprice Stock Options** - We do not reprice stock options.
- **Below Market Stock Options** - We do not grant stock options having an exercise price below 100% of fair market value.
- **Excise Tax Gross-Ups** - We do not provide any excise tax gross-ups.
- **Supplemental Executive Benefits** - We do not provide defined benefit or supplemental executive retirement, health or insurance plans.
- **Evergreen Provisions** - Our equity plans do not have evergreen provisions.

Say on Pay Results

In 2018, approximately 98.5% of the shares voted were cast in favor of the 2017 compensation of our named executive officers. During each of the last five years, our say on pay vote has resulted in at least 96% of the shares voted being cast in favor of our compensation. While the vote is advisory in nature, the Compensation Committee views the vote as confirmation that our shareholders generally believe that the compensation of our named executive officers is appropriately aligned with their performance and NVR's financial performance as well as the interests of our shareholders. The Compensation Committee will continue to consider the results of say-on-pay votes when making future compensation decisions for the named executive officers.

Compensation Philosophy and Objectives

Homebuilding is a cyclical business with long project life cycles. As such, our executive compensation program is structured to focus our executives on long-term performance, not short-term quarterly or annual performance. Our executive compensation program is designed to achieve the following:

- Motivate and retain highly qualified and experienced executives;
- Provide performance-based incentives; and
- Align our compensation with long-term creation of shareholder value.

We have structured our executive compensation to create long-term alignment with our shareholders through the following:

- Moderate target cash compensation;
- Low annual cash incentive maximums;
- Significant long-term equity incentives;

- Preferred use of stock options, which creates maximum alignment with shareholders and results in majority of compensation being "at risk"; and
- Robust NVR share ownership requirements.

Our compensation philosophy has been consistent for over 20 years.

The compensation program for our named executive officers includes the following three components:

Compensation Component	Type of Pay	Key Characteristics	Purpose
Base Salary	Fixed	Annual adjustments based on individual performance and relative to peer group market salaries.	Attracts, retains and rewards our named executive officers by providing a fixed source of income to reward experience, skills and performance relative to the market value of the position.
Annual Cash Bonus	Performance	Maximum opportunity is 100% of base salary, based on NVR's performance against pre-established performance goals.	Aligns the named executive officers with shareholders by focusing the named executive officers on the attainment of annual goals that we believe are necessary to achieve our five-year business plan.
Long-Term Equity-Based Compensation	Performance	Issued periodically, not annually. Issued as stock options, with 50% of the grant in the form of performance-based stock options. Performance-based stock options have a three-year performance period. Vests over four years, with a pre-vesting period that results in 5-6 years between grant date to final vesting date.	Aligns the named executive officers with shareholders by linking the majority of compensation to long-term company performance. Increases retention by providing the opportunity for wealth creation through the long vesting period. Also, protects our interests through a non-competition provision in the equity grant agreements.

We prefer the use of stock options (instead of restricted share units) for the following reasons:

- We believe stock options are inherently performance-based since the optionee does not realize value unless the stock price appreciates above the grant price;
- We believe stock options align the long-term interests of our named executive officers with our shareholders; and
- Since 50% of the vesting for our stock option grants are subject to NVR's return on capital performance, we believe that we are exceeding the standards for performance-based equity held by most shareholders.

If the stock price decreases between the grant date and vesting date, our named executive officers would still receive value if we issued restricted share units. By issuing stock options, the executives would receive no value if the stock price decreases between the grant date and the vesting date. We believe this provides 100% alignment with our shareholders. The stock option grant in 2018 (see further discussion of the 2018 stock option grants below) is an example of this scenario. We granted stock options on May 10, 2018 at $3,022.99 per share. As of December 31, 2018, the closing price of our Common Stock was $2,436.99 per share. The stock price must increase by 24% from the December 31, 2018 closing price for the May 2018 stock option grants to begin to have any value. If we had issued restricted share units, the restricted share units would have had 80% of the grant value remaining at December 31, 2018 even though our shareholders had experienced a 20% decrease in the value of their Common Shares. Based on the grant date Black-Scholes fair value of $707.10 per share, the price of our Common Stock must increase to $3,730.09, or by 53% from the December 31, 2018 closing price, in order for the equivalent number of stock options to have the same value as a restricted share unit issued at $3,022.99. Thus, the named executive officers will only realize value from the stock options if the share price appreciates significantly from the December 31, 2018 closing price.

Compensation Determination Process

Role of Our CEO

Mr. Saville makes recommendations to the Compensation Committee with respect to the amount of each component of compensation paid to the other named executive officers. These recommendations are partially based on compensation