

Remuneration report of Caterpillar Financial Services GmbH according to Section 7 InstitutsVergV

A. Introduction

Caterpillar Financial Services GmbH (hereinafter referred to as “Cat Financial”) has performed a self-assessment in accordance with the *InstitutsVergV* (German institute compensation ordinance). Pursuant to its self-assessment, it does not consider itself to be among the “significant institutes”. In the last three fiscal years, the balance sheet total has always been far below EUR 10 billion on average.

Caterpillar Financial is part of the Caterpillar Group (the parent company is Caterpillar Inc., Peoria, USA). Its main task is to promote sales of the Group’s own products (construction and underground mining machines, piston engines and industrial gas turbines). Cat Financial uses a simple, low-risk business model.

B. Remuneration philosophy

Cat Financial believes that employee satisfaction is the prerequisite for customer satisfaction. This necessitates a future-oriented remuneration system. The primary objective of this system is to offer an overall remuneration which is sufficiently competitive on the financial services sector and suited to attract good employees, to secure their commitment to the company and to motivate them.

Against this background, the remuneration system of Cat Financial is based on the following three basic principles:

- Fixed remuneration in line with market and functional parameters (basic salary structure and assessment of positions, taking the market conditions and employee qualification into consideration),
- Performance-based variable remuneration (target agreement system as well as achievement of company and Group targets), and
- Other variable remuneration, including employee social security (company pension scheme, insurance packages, stock options)

The remuneration system described hereinafter applies equally in all divisions of Cat Financial and is thus presented as Cat Financial’s remuneration system.

1. Fixed remuneration independent of performance

1.1 All employees receive a fixed basic salary, which is paid in 12 equal parts by the 15th of each calendar month. The essential parameters for determining the fixed basic salary include the function performed by the employee, his/her position in the company, the assessment of his/her past performance as well as his/her experience and length of service.

1.2 The appropriate basic salary is reviewed regularly with respect to functions and their valency, based on external remuneration comparisons within and outside the sector. Fixed remuneration is determined on the basis of a balanced structure internally.

2. Performance-based variable remuneration

2.1 In addition to the fixed basic salary, which comprises 12 monthly salaries, all employees are paid a variable remuneration, which is determined on a yearly basis and depends on the achievement of targets at Group, company, divisional and individual levels. The essential parameters include RoE, RoA at Group level, margin,

profit/loss figures, new business volume and default indices and are reviewed and, if necessary, changed annually, .

At an individual level, the targets are derived from the different levels, from the higher-level goals of the Group as well as from the company goals, in a cascaded fashion. The individual target achievement thus always factors in the target achievement of the divisional level of the relevant employee.

The percentage of the relevant parameters with respect to the target is pre-determined by Group management and depends on the employees' function in the company and the relevant hierarchical level.

2.2 Depending on their function and hierarchical level, each employee is paid a variable remuneration which may amount to between 7% and 38% of the basic salary (target value). If the target achievement with respect to profit contribution at Group, company, divisional and individual level is maximized, the variable remuneration share is limited to 200%. The amount paid out depends on the ascertained degree to which the target has been achieved, with respect to the target achievement at the different levels.

2.3 This remuneration is generally paid quarterly as an advance payment, taking into consideration any safety margins deducted. Upon completion of the global Group and company performance rating process and the corresponding ascertainment of the target achievement degree, the final variable remuneration share is paid in the first quarter of the year following the authoritative performance period, with advance payments taken into account.

2.4 In addition to the above-mentioned performance-based remuneration the employee may, depending on their individual performance rating, be eligible to receive additional variable remuneration (Discretionary STIP Award). Both the remuneration itself and the criteria for determining the level of the remuneration are in the company's discretion and are determined on an annual basis by the Compensation Committee of Caterpillar Inc's Board of Directors.

2.5 Furthermore, depending on their function and hierarchical levels, employees are paid long-term, variable remuneration elements, in the form of equity awards, including Restricted Stock Units (RSUs) and Non-qualified Stock Options (NQSO), to promote the company's sustained success. Equity awards are always granted upon prior approval by the Compensation Committee of Caterpillar Inc. Board of Directors. For equity awards received prior to 01.01.2015 the rights arising from these plans cannot be exercised until a three-year holding period has elapsed. For equity awards received after 01.01.2015 the employees are entitled to one third at the end of each subsequent 12 month period.

2.6 Further performance-based, variable remuneration elements do not exist.

3. Other variable remuneration

Further variable remuneration options include:

- Contributions to the company pension scheme, coupled with life insurance.
- Company car for sales staff and senior executives, including appropriate accident insurance.
- The right to participate in the Caterpillar stock purchase plan.

C) Overall amount of the remuneration paid by Cat Financial as well as number of beneficiaries

Cat Financial comprises the following eight divisions: Sales & Marketing, Credit, Customer Service, Finance & Accounting, and the Staff Units HR, Legal and Compliance. As the “Staff Units”, in particular, do not have more than 5 employees, this document does not show remuneration separately for divisional level. Instead, this is summarized to ensure that no conclusions may be drawn as to the income situation of individual employees.

In 2016, Cat Financial employed 65 people. The total remuneration for all divisions amounted to EUR 6.7 million. This includes the fixed and variable remuneration actually paid as well as entitlements to variable remuneration, earned during the fiscal year that had not yet been paid by December 31, 2016. Variable remuneration comprises elements both in the short-term (annual) and long-term (over several years).

Of the overall amount, 91% is fixed and 9% variable remuneration respectively. Variable remuneration was paid to 63 employees.

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