Nexus Mutual Leveraged Liquidation Cover Terms and Conditions **(the "Cover Terms")**

These Cover Terms, including any Annexes, govern the use of the Nexus Mutual Leveraged Liquidation Cover. The Annexes shall be deemed incorporated into and shall have the same force and effect as if set forth in full in the body of these Cover Terms. Accordingly, any reference to these Cover Terms shall include the Annex. In the event of any inconsistency or conflict between the provisions of these Cover Terms, and the Annex, the provisions of the Annex shall prevail.

CLAIMS SUBMISSION.

To be eligible to submit a Claim under these Cover Terms, the individual or entity making the Claim must:

a. Be a Member of Nexus Mutual at the time the Claim is submitted, having satisfied all membership requirements set forth in the Nexus Mutual Member Agreement https://app.nexusmutual.io/assets/Nexus-Mutual-DAO-Member-Agreement-FIN.pdf ;
b. Have successfully completed the Know Your Customer process;
c. Have paid the required membership fee (the "**Membership Fee**") in full, as specified at: https://docs.nexusmutual.io/overview/membership; and
d. Not reside in, or otherwise be located in, a country or jurisdiction that is subject to sanctions or other legal restrictions that prohibit participation in Nexus Mutual or the submission of a Claim as detailed in the: https://docs.nexusmutual.io/overview/membership.

COVERED EVENTS.

1. Subject to clause 5 (Exclusions) and these Cover Terms, Nexus Mutual *may* approve a Claim, if, during the Cover Period:
   1.1. the Reference Value and the Market Value of the Covered Token differ in price by more than the Depeg Percentage, resulting in liquidation in the Designated Protocol ("**Depeg Liquidation Event**"), provided that the Leverage used is within the Acceptable Leverage Limit;
      1.1.1. where a depeg event has occurred, but no actual liquidation takes place because the Covered Market uses a Fixed-rate Oracle or a Hardcoded Oracle, and the Principal Funds have suffered an Unrealized Loss as a result, then a liquidation will be deemed to have occurred, provided the following conditions are met;
         1.1.1.1. If the Designated Protocol had used a Market-Based Oracle instead, a liquidation would have actually occurred; and

1.1.1.2. The Covered Token Team has publicly announced that the assets backing the Covered Token suffered material losses and there is no viable path forward to restore the backing of the Covered Token;

OR

1.2. the assets backing the Covered Token suffer material losses resulting in a change in the Reference Value by the Depeg Percentage, resulting in liquidation in the Designated Protocol, provided that the Leverage used is within the Acceptable Leverage Limit;

OR

1.3. a sudden and widespread economic event that is clearly outside the normal or intended operation of the Designated Protocol, resulting in liquidation ("**Liquidation Event**"), provided that the Leverage used is within the Acceptable Leverage Limit where the Liquidation Event is caused by:

1.3.1. Oracle Failure; or

1.3.2. Oracle Manipulation

And for both 1.1, 1.2, and 1.3:

1.4. the Covered Token is only used as collateral on the Designated Protocol to borrow Like-Kind Assets;

and

1.5. the Principal Funds are equal to or less than the Cover Amount;

and

1.6. the Covered Member provides a Designated Wallet Address;

and

1.7. the Impacted Account has suffered a Material Loss.

<u>CLAIM AMOUNT.</u>

2. For a Claim resulting from clause 1.1 or 1.2, Loss Amounts shall be calculated:

2.1. using the Principal Funds before the Depeg Liquidation Event immediately prior to the Block where the Loss actually occurred less the net assets after the Depeg Liquidation Event (including any liquidation penalties resulting from the Depeg Liquidation Event) calculated immediately following the Block where the Loss actually occurred; and

2.2. after subtracting any Reimbursements.

3. For a Claim resulting from clause 1.3, Loss Amounts shall be calculated:

3.1. using the Principal Funds before the Liquidation Event immediately prior to the Block where the Loss actually occurred less the net assets after the Liquidation Event (including any liquidation penalties resulting from the Liquidation Event) calculated immediately following the Block where the Loss actually occurred; and

3.2. after subtracting any Reimbursements.

4. The Claim Amount should reflect the loss actually incurred by the Covered Member, and calculated by taking the Loss Amount and applying the following adjustments in sequential order:
   4.1. Subtracting the Deductible applicable under the Cover Terms; then
   4.2. adjusted proportionally if the Principal Funds at the time of the Loss exceed the Cover Amount;
   as per the following formula and illustrated in Explanatory Note 1
   $(Loss\ Amount\ -\ Deductible) \times \frac{Cover\ Amount}{Principal\ Funds}$;
   and
   4.3. The Claim Amount shall not exceed the Cover Amount.

<u>EXCLUSIONS.</u>

5. Covered Member will not be able to submit a Claim under these Cover Terms for any of the following:
   5.1. any losses where the vulnerability in a deployment of the Designated Protocol originates on a non–Ethereum Virtual Machine compatible chain, unless it is otherwise specified in the Annex.
   5.2. any losses due to phishing, private key security breaches, malware, miner behaviour or any other activity where the Designated Protocol continues to act as intended.
   5.3. any losses where the Designated Protocol was deployed primarily for the purpose of submitting a Claim under this Cover and not for real usage by the User. In such circumstances, the Cover shall be deemed void and unenforceable.
   5.4. any losses occurring during the Cover Period if:
      5.4.1. the event occurred before the Cover Period began; or
      5.4.2. a public bug disclosure or warnings related to the event were made for the Designated Protocol before the Cover Period began; or
      5.4.3. where a public bug disclosure or warnings related to the event were made for the parent protocol before the Cover Period began, and the Designated Protocol is a fork of that parent protocol.
   5.5. any losses where the Acceptable Leverage Limit is exceeded.
   5.6. any losses incurred as a result of the Covered Token being used as collateral on the Designated Protocol to borrow non-Like-Kind Assets.
   5.7. any losses due to the user interface or website errors where the Designated Protocol continues to act as intended.
   5.8. any losses that occur prior to the Cover NFT being transferred to another address.
   5.9. a Claim under this Cover if the Cover has been purchased by a third party without the knowledge and consent of the User, or where the recovery under this Cover is

not intended to be transferred to the User. In such circumstances, this Cover shall be deemed void and unenforceable.

REIMBURSEMENTS.

6. The Covered Member shall take all reasonable steps to preserve any rights to Reimbursement or other recovery from any third party in connection with any Claim for any Loss, and preserve Nexus Mutual's Reimbursement rights with respect thereto.
7. Upon approval and redemption of a Claim Amount, the Covered Member agrees and warrants to:
    7.1. Promptly, and in any event no later than within 20 days, assign all rights over any Reimbursements, or rights to any Reimbursements to the Foundation; and
    7.2. If assignment is not possible, allow the Foundation to pursue recovery on their behalf.
8. If the Covered Member receives any Reimbursement or other compensation (including from a third party, insurance, legal proceeding or settlement) after a Claim Amount has been paid, the Covered Member shall:
    8.1. Promptly notify Nexus Mutual of the Reimbursement amount received; and
    8.2. Promptly, and in any event no later than within five (5) days of receipt, repay to the Foundation
        8.2.1. The amount received as Reimbursement; or
        8.2.2. The Claim Amount previously paid by Nexus Mutual under these Cover Terms.
9. In no event shall the Covered Member waive any rights that could adversely affect Nexus Mutual's or the Foundation's ability to recover Reimbursement or exercise its assignment rights. Any amounts recovered by the Covered Member or by Nexus Mutual and/or the Foundation in connection with the exercise of its Reimbursement or assignment rights shall be applied as follows:
    9.1. First, to reimburse Nexus Mutual for the Claim Amount paid by Nexus Mutual under this Cover and for any costs or expenses incurred in connection with such recovery; and
    9.2. Second, any remaining recovered amounts shall be paid to the Covered Member.
10. The Covered Member shall not retain any compensation that results in double recovery for the same loss. In the event that the total amount recovered from all sources (including the Claim Amount, Reimbursements, or other recoveries) exceeds the Covered Member's actual loss, the Covered Member must return the excess to Nexus Mutual and/or the Entity.
11. OFFSETTING RECOVERIES. Any Claims under this Cover shall be reduced by any recoveries (including recoveries from any contractors, subcontractors, suppliers or any insurance policies or indemnities) actually paid to the Covered Member.
12. MATERIAL CHANGE IN RISK DISCLAIMER. Nexus Mutual reserves the right to deny a

Claim made by the Covered Member in the circumstances where the Covered Member made an alteration in the Covered Member's business activities and terms and conditions that are within the control of the Covered Member and that would result in a material change in the risk assumed by this Cover, or affect the risk profile of the Covered Events.

13. SEVERABILITY. If any provision or provisions of this Cover shall be held to be invalid, illegal, or unenforceable for any reason whatsoever, then the validity, legality and enforceability of the remaining provisions of these Cover Terms (including, without limitation, all portions of any paragraphs of this Cover containing any such provision held to be invalid, illegal, or unenforceable that are not themselves invalid, illegal, or unenforceable) shall not in any way be affected or impaired.

14. NO BENEFIT TO THIRD PARTIES. Except as expressly set forth in these Cover Terms, none of the provisions in this Cover shall be for the benefit of or be enforceable by any person other than the Covered Member.

ENTIRE AGREEMENT.

15. These Cover Terms and any applicable Annexes constitute the entire agreement between the parties and no Member, or Nexus Mutual as a whole, shall be liable or bound to any other Member in any manner by any warranties, representations or covenants outside these Cover Terms, whether or not in writing, in relation to the subject matter of this Cover.

DEFINITIONS

Covered Event specific definitions:

For ease of reference, the following definitions assist in the interpretation of the term Covered Event, as defined in clause 1.1, 1.2, and 1.3.

"Covered Event/s" shall have the meaning given to it in clause 1.1, and 1.2, and 1.3.

For the purposes of interpreting clause 1.3.1 and 1.3.2 specifically, the following defined terms apply:

"**Oracle Failure**" means an event in which incorrect price feed data is used by the Designated Protocol's smart contracts which results in a Liquidation Event.

"**Oracle Manipulation**" means an event where price feed data is deliberately corrupted and leads to a Liquidation Event in the Designated Protocol.

"**Fixed-Rate Oracle**" means a price feed for the Covered Token that returns either a predetermined exchange rate or a price feed for the Covered Token that is manually updated through a proxy contract.

"**Hardcoded Oracle**" means a price feed for the Covered Token that returns a static predetermined value for the Covered Token that cannot be updated.

"**Market-Rate Oracle**" means a price feed that aggregates real-time data from external sources.

"**Unrealized Loss**" means a lending position where the value of Covered Token has met or exceeded the Depeg Percentage but the Fixed-Rate Oracle or Hardcoded Oracle does not reflect the Covered Token's price, resulting in a lending position that is unprofitable to exit and results in a Material Loss for the Covered Member.

General Definitions:

"**Acceptable Leverage Limit**" means the maximum Leverage ratio for a User's lending position, as specified in the Annex.

"**Annex**" means a supplementary document attached to the Members Smart Contract Data and forming part of the Cover, providing additional conditions, definitions, and further details relevant to the Cover.

"**Claim**" means a request by a Covered Member in accordance with these Cover Terms for reimbursement of a Loss resulting from a Covered Event, subject to the Cover Amount and these Cover Terms.

"**Claim Amount**" means the amount requested by the Covered Member in respect of a Claim under these Cover Terms, and subject to the calculation methodology set out in clause 5 and capped at the remaining Cover Amount.

"**Claim Assessor**" means a Member who assesses a Covered Member's Claim under these Cover Terms.

"Cool Down Period" means a period of seven (7) days following the occurrence of the Covered Event, during which no Claims may be made. The duration of the Cool Down Period may be adjusted as specified in the Annex for individual agreements.

"**Cover**" means collectively the matters which are the subject of the discretionary cover provided by Nexus Mutual as set out in the Member Smart Contract Data and these Cover Terms.

"**Cover Amount**" means the amount of Cover specified by the Covered Member at the time of purchase of the Cover, as recorded in the Member Smart Contract Data.

"**Cover NFT**" means the NFT token generated by the Nexus Mutual protocol that represents the Cover.

"**Cover Period**" means the duration of protection under this Cover, as specified by the Covered Member at the time of purchase of the Cover, as recorded in the Member Smart Contract Data.

"Covered Markets" means only the markets for the Covered Token on the Designated Protocol, as specified in the Annex.

"**Covered Member**" means a Member who has Cover and, where the context requires, a former Covered Member. For the purpose of these Cover Terms, the Covered Member can be the User, a third party acting on behalf of the User (with the User's knowledge and for their benefit), or the Designated Protocol Team Member, as specified in the Annex.

"**Covered Token**" means tokens specified in the Annex.

"Covered Token Team" means the team that manages and operates the platform that issues the Covered Token.

"**CRS**" means Collective Risk Services CIC, a company (Company Number 11353187) which has its registered office at 71-75 Shelton Street, Covent Garden, London, United Kingdom, WC2H 9JQ.

"**Deductible**" means the portion of the Cover Amount (e.g., 5%) that is excluded from payout. For the purpose of this Cover, Deductible is five percent (5%) of the Cover Amount unless stated otherwise in the Annex. See the Explanatory Note 2 for more information.

"**Depeg Percentage**" means the percentage drop in Market Value versus Reference Value as specified in the Annex.

"**Designated Protocol/s**" means open source smart contract code marketed under one brand, running on one or more public blockchain networks including any directly linked layer two components but excluding the underlying blockchain network or networks and the related mining or consensus activities. Designated Protocol specifically excludes any user interfaces, including websites or any other interface that is used to interact with the Designated Protocol.

"Designated Wallet Addresses" means the wallet addresses chosen by the Covered Member at the time of Cover purchase held in the Member Smart Contract Data.

"**Entity**" means CRS, Foundation or any other entity designated by Nexus Mutual.

"**Foundation**" means Terrapin International Foundation.

"Grace Period" means the period during the Cover Period or within thirty five (35) days following Cover Period ending during which the Covered Member may submit a Claim.

"Impacted Account" means an account which directly suffered a Loss.

"Leverage" means, subject to the Acceptable Leverage Limits, the Total Value of a Position divided by the Principal Funds, where both the total position value and the Principal Funds are denominated in the Covered Token.

For example: if you post 100,000 USDe as the Principal Funds and borrow 900,000 USDC to open a 1,000,000 USDe position (the Total Value of a Position), your Leverage is 10×.

"**Like-Kind Assets**" means categories of crypto assets denominated in the same currency including but not limited to:

- ETH-based Covered Tokens can only be used to borrow ETH-based tokens; and
- USD-based Covered Tokens can only be used to borrow USD-based tokens; and
- BTC-based Covered Tokens can only be used to borrow BTC-based tokens.

“Loss” means the occurrence of a financial loss to the Covered Member arising from a Covered Event.

“Loss Amount” means the value of a Loss, calculated in accordance with clauses 2 and 3

"**Market Value**" means either the value of the Covered Tokens as reported on websites such as https://www.coingecko.com/, https://coinmarketcap.com/ or another widely accepted equivalent; or the market value of the tokens that the Covered Tokens can be redeemed for from their corresponding smart contracts.

"**Material Loss**" means a loss of funds where the Claim Amount after subtracting any Reimbursement and the Deductible, exceeds the gas related costs reasonably required to operate the contract.

"**Member**" means an individual or entity who has paid their Membership Fee and is entered in the Mutual’s register of members and, where the context requires, a former member.

"Member Address" means the designated Ethereum blockchain address that is associated with the Covered Member, where the membership is active.

"**Member Smart Contract Data**" means data held on the Ethereum Network in relation to a specific Member.

"**Nexus Mutual**" means Nexus Mutual DAO.

"**Owner or Controller**" means the blockchain address or addresses which have permission to upgrade, change or alter the Designated Protocol either in part or in full.

"**Principal Funds**" means the value of the Covered Tokens used as collateral on the Designated Protocol before any leverage is applied.

"Reference Value" means the intended value of the token in the Reference Currency. The Reference Value depends on how the Covered Token is implemented. For example, the Reference Value can be either:

- directly expressed as the number of Covered Tokens where the Covered Tokens are designed to have a 1-to-1 basis with the Reference Currency *(eg, like a rebasing token)*; or
- indirectly expressed where the number of Covered Tokens has a defined programmatic relationship to the Reference Currency *(eg, like a non-rebasing token)*; or
- indirectly expressed where the number of Covered Tokens is designed to represent proportional ownership of a liquidity pool that accumulates in value relative to the Reference Currency *(eg like an ERC-4626 token); or*
- expressed via some other representation.

"**Reference Currency"** means either:

- USD, GBP, EUR or other national currencies; or

- ETH, BTC or other crypto currencies.

"**Reimbursement**" means any current, past, or future indemnification, reimbursement or recovery or right to indemnification, reimbursement or recovery of an approved and redeemed Claim made under the Cover, or promised to be made, or made available to Covered Members.

“Sub-limit” means the portion of the overall Cover Amount that is specifically allocated to a particular Covered Event under this Cover. The Sub-limit represents the maximum amount payable by Nexus Mutual for Claims arising from that specific Covered Event, and is subject to the overall Cover Amount and all other Cover Terms.

“Total Value of a Position” means the total amount of the lending position resulting from applying the Leverage to the Principal Funds.

"**User**" means the end-user of the Designated Protocol.

<u>Explanatory Note 1</u>

Example 1

- **Cover Amount:** $100,000
- **Principal Funds at the time of Loss**: $200,000
- **Loss Amount**: $95,000
- **Deductible:** $2,500

In this scenario, the Principal Funds ($200,000) are double the Cover Amount ($100,000). Therefore, the Claim Amount would be reduced proportionately. Since the Principal Funds are twice the Cover Amount, the Claim Amount would be reduced by 50%.

- **Claim Amount after reduction**:

  $= (Loss\ Amount\ -\ Deductible) \times \frac{Cover\ Amount}{Principal\ Funds}$

  $= (\$95,000\ -\ \$2,500) \times \frac{\$100,000}{\$200,000}$

  = $46,250

Example 2

- **Cover Amount**: $100,000
- **Principal Funds at the time of loss**: $150,000
- **Loss Amount**: $89,000
- **Deductible:** $2,500

The Principal Funds ($150,000) are 1.5 times the Cover Amount ($100,000). Therefore, the Claim will be reduced by 1/3.

- **Claim Amount after reduction**:

  $= (Loss\ Amount\ -\ Deductible) \times \frac{Cover\ Amount}{Principal\ Funds}$

  $= (\$89,000\ -\ \$2,500) \times \frac{\$100,000}{\$150,000}$

  = $57,666.67

Example 3: Multiple Users on a single Cover

Where there are multiple Users for a single Cover, the Claim Amount after reduction will be calculated at the User level using the Cover Amount allocated to that User in the Member Smart Contract Data.

For example, there are three users:

A) Allocated Cover Amount: $20,000
B) Allocated Cover Amount: $10,000
C) Allocated Cover Amount: $30,000

Aggregate Cover Amount = $60,000

Assume that only User C loses funds for a Loss Amount of $20,000

- **Allocated Cover Amount**: $30,000

- **Principal Funds of User C at the time of Loss**: $45,000
- **Loss Amount:** $42,750
- **Deductible:** $750

The Principal Funds ($45,000) exceed the Cover Amount ($30,000) by 1.5 times. Therefore, the Claim will be reduced proportionately by 1/3.

- **Claim Amount after reduction**:

  $= (Loss\ Amount\ -\ Deductible) \times \frac{Cover\ Amount}{Principal\ Funds}$

  $= (\$42,750\ -\ \$750) \times \frac{\$30,000}{\$45,000}$

  = $28,000

<u>Explanatory Note 2</u>

The Deductible shall be calculated using the following formula

- Claim Amount = min[Loss Amount - (Deductible x Cover Amount), Cover Amount]

See the examples below for further explanation.

Example 1

- **Cover Amount**: 1,000 USDC
- **Loss Amount**: 800 USDC
- **Deductible**: 5%
- **Deductible Value**: 50 USDC
- **Claim Amount**: 750 USDC

In this scenario, the Covered Member suffered a Loss of 800 USDC. The Covered Member's Deductible is 50 USDC. The Claim Amount shall be calculated as follows:

- Claim Amount = min[800 USDC - (5% x 1,000 USDC), 1,000 USDC] = 750 USDC

Accordingly, the maximum the Covered Member may claim for in this scenario would be 750 USDC, after applying the deductible and subject to the remaining amount of the Cover Amount.

Example 2

- **Cover Amount**: 1,000 USDC
- **Loss Amount**: 1,100 USDC
- **Deductible**: 5%
- **Deductible Value**: 50 USDC
- **Claim Amount**: 1,000 USDC

In this scenario, the Covered Member suffered a Loss of 1,100 USDC. The Covered Member's Deductible is 50 USDC. The Claim Amount shall be calculated as follows:

- Claim Amount = min[1,100 USDC - (5% x 1,000 USDC), 1,000 USDC] = 1,000 USDC

Accordingly, the maximum the Covered Member may claim for in this scenario would be 1,000 USDC, after applying the deductible and subject to the remaining amount of the Cover Amount.