FEDERAL MINISTRY OF FINANCE

DEBT MANAGEMENT OFFICE NIGERIA

THE USD 5 BILLION TOTAL RETURN SWAP

With First Abu Dhabi Bank PJSC

Frequently Asked Questions

Background

The Federal Government of Nigeria (FGN) has entered into an agreement for a USD 5 billion Total Return Swap (TRS) facility with First Abu Dhabi Bank PJSC (FAB). The facility is part of Nigeria's diversified funding strategy, widening the country's access to international capital to finance critical infrastructure, create jobs and grow the economy.

The transaction was approved by the Federal Executive Council and the National Assembly, with full disclosure of its terms at each stage. Drawdowns and collateral will be reported quarterly in the Debt Management Office (DMO) Public Debt Statistical Report.

Transaction Summary

Instrument	Structured Total Return Swap (TRS)
Facility size	Up to USD 5,000,000,000
Tenor	6 years, with a 3-year break clause
Collateral	Naira-denominated FGN securities at 133.3%
Pricing — Tranche 1	SOFR* + 3.95% (395 bps)
Pricing — Subsequent tranches	SOFR* + 4.00% (400 bps)
Drawdown	In phased tranches, by mutual agreement
Governing framework	ISDA Master Agreement
Statutory approvals	Federal Executive Council (FEC) and National Assembly
Use of proceeds	Budget implementation; priority infrastructure; refinancing costlier domestic and external debt; and other urgent needs approved by the President.

** SOFR - Secured Overnight Financing Rate*

Frequently Asked Questions

Q1. What is a Total Return Swap, and how does it work here?

A Total Return Swap lets a sovereign or corporate access US dollar liquidity against pledged assets. Here, Nigeria pledges naira-denominated FGN bonds to FAB, receives US dollar funding, and pays interest at SOFR plus an agreed margin.

Q2. Why choose a TRS instead of a Eurobond?

The TRS complements rather than replaces Eurobonds. TRS structures have been used by sovereigns across emerging markets for over a decade. It gives Nigeria faster access to dollar liquidity and remains available during periods of market volatility, when Eurobond markets can become more expensive or constrained. It diversifies the FGN's funding sources and reduces reliance on any single market.

Q3. How does the pricing compare with a Eurobond?

Both are commercial instruments priced on prevailing market conditions at the time funds are raised. The TRS has the added advantage of a faster close, giving quicker access to liquidity. It is also flexible enabling the borrower to benefit from lower interest rates in the future albeit with the downside risk of a higher interest cost if rates go up.

Q4. What collateral is pledged?

Naira-denominated FGN Bonds. These are domestic securities which Nigeria can manage through its own fiscal and monetary policy tools. No oil revenues or strategic assets, such as ports or airports, are pledged.

Q5. What does 133.3% over-collateralisation mean?

Nigeria pledges collateral worth about a third more than the dollars received, creating a buffer before any extra margin is required. This is a standard risk mitigant, not a cost to the FGN. Comparable sovereigns have posted up to 166.67%, so Nigeria's 133.3% reflects favourable terms.

Q6. When would Nigeria face a margin call?

Only if collateral value falls below the 133.3% threshold, and any call is paid in US dollars. Nigeria negotiated monthly (rather than the market-standard daily) margining and a five-business-day cure period - both easing the operational burden of managing collateral.

Q7. Is posting margin a loss to Nigeria?

No. Margin posted is held as collateral, not paid away - it is returned once the collateral position normalises or the TRS closes, consistent with standard derivatives practice.

Q8. What does the three-year break clause do?

It gives the FGN optionality: at year three, Nigeria may continue, refinance, partially reduce, or exit the facility, depending on market conditions and its needs at the time rather than being locked into the full six-year term.

Q9. Can FAB terminate at year three?

A side letter from FAB ensures the break cannot be exercised in a way that undermines Nigeria's financing strategy. The clause is designed to give Nigeria flexibility to renegotiate terms or refinance on better pricing.

Q10. What will the proceeds be used for?

As approved by the FEC and National Assembly: *budget implementation, priority infrastructure development, repayment of relatively more expensive domestic and external debt*, and to meet other critical financing needs.

Q11. What does this mean for debt sustainability?

The TRS is a debt instrument, and drawdowns will be included in Nigeria's Public Debt Statistics and its debt sustainability analysis.

Q12. Will Nigeria draw the full USD 5 billion?

Not necessarily. Drawdowns happen in tranches, by mutual agreement on amount and timing, guided by the FGN's cost and financing needs.

Q13. Did the transaction comply with applicable laws?

Yes. The transaction complies with the Fiscal Responsibility Act 2007 (as amended) and the DMO (Establishment, Etc.) Act 2003. Approvals were secured from the FEC and National Assembly, and the Attorney-General of the Federation issued a formal opinion on the transaction.

Q14. How transparent is the transaction?

Beyond the statutory approvals, all drawdowns and collateral will be disclosed quarterly in the DMO's published Public Debt Data.

Q15. What happens if FAB defaults?

Standard ISDA close-out protections apply: the transaction is closed out, exposures are netted, and Nigeria's collateral is released or applied under the agreed mechanics - the purpose of using ISDA documentation is precisely to remove uncertainty in a default scenario.

Q16. What are the main risks, and how are they managed?

The key risks are market, interest-rate, FX, collateral-valuation, counterparty and refinancing risk. Each is actively mitigated:

- Counterparty risk — mitigated by FAB's strong credit rating and ISDA protections.
- Refinancing risk — mitigated by the year-three break option and Nigeria's access to other funding sources.
- Collateral valuation risk — the naira-denominated collateral is exposed to local interest-rate and exchange-rate movements, but over-collateralisation and recent improvements in inflation, the exchange rate and reserves reduce this risk.
- Margin-call risk — mitigated by improved external reserves, a USD 30 million minimum threshold below which margin is not called, and the five-business-day cure period.

Q17. Has Nigeria already paid fees?

Fees are payable only on amounts actually drawn down.

Q18. Why are some stakeholders expressing concerns about the transactions?

Some stakeholders and development partners have raised general concerns about transparency in sovereign TRS deals. This is not the case for Nigeria as the issue is addressed on two fronts (1) the terms of the borrowing is disclosed during approval under Section 20 of the DMO (Establishment, Etc.) Act 2003, and (2) Nigeria's broader debt-management practice already embraces transparency with TRS drawdowns and collateral to be published in the DMO's debt data.

Q19. Will the government publish the utilisation of the loan?

There is no legal requirement, nor established practice, for government to publish the utilisation report for an individual loan facility. Such reporting is typically reserved for project-tied financing, where it is possible to track disbursement against specific deliverables. What government does publish, on a regular and comprehensive basis, is the use of all public resources including borrowed funds through budget implementation reports, debt reports, and other statutory disclosures that cover total resource utilisation rather than facility-by-facility tracking.

Q20. Where can the public access information on government debt and expenditure?

Information on government borrowing and public expenditure is publicly available through:

- The DMO: www.dmo.gov.ng - for debt stock, debt service, and borrowing plans
- The Budget Office of the Federation: www.budgetoffice.gov.ng - for budget documents, implementation reports, and expenditure data.
- The Federal Ministry of Finance: www.finance.gov.ng - for overall fiscal reporting on revenue, debt, spending, fiscal policy, and financial reporting.

For further enquiries, kindly contact the DMO below.

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