NATIONAL Australia Bank will be closely watching the float of Lloyds' TSB banking arm, after the deal was priced below book value amid jitters in Britain's initial public offering market.

As NAB mulls options for its British Clydesdale and Yorkshire banks, Lloyds was yesterday expected to price the TSB offer at about 0.7 to 0.9 times its net asset value of £1.6 billion ($2.8bn), or £1.1bn- £1.4bn.

In a note last week, Sydney-based Credit Suisse analyst Jarrod Martin said NAB selling Clydesdale at 0.8 times its £2.7bn book value would be "modestly positive", and book valuation or better "firmly positive".

Martin noted TSB was about the same size as Clydesdale with loans of about £23bn. NAB has explored a float, according to sources.

"The most promising recent development for NAB's prospects for exiting its continuing UK business has been further progress in the ... TSB IPO," said Martin.

"We would regard TSB ultimately trading on healthy multiples post IPO as creating a clear path for NAB's own UK exit."

Some reports in Britain suggested TSB had been priced below book value to ensure it trades well upon debut. "It's less than Lloyds would have hoped for three months ago. TSB is thought to be making substantially less than its cost of capital, and there are an awful lot of competing IPOs out there," said James Chappell, of Berenberg Bank.

Partly nationalised Lloyds is selling 25 per cent of TSB, a 631-branch operation, under the European Commission bailout rule.

Lloyds must offload the remaining 75 per cent by 2015.

While TSB will initially not pay a dividend to invest in growth, it will be one of the best capitalised banks in Britain and — importantly — not be burdened with historic claims for mis-selling of various products, which will stay with Lloyds.

NAB last month warned the total cost from the "conduct related matters" was hard to determine, which sources say hurts its ability to exit Britain.

NAB also owns a £3.3bn portfolio of commercial real-estate loans being run off and is trying to sell a £650m parcel, with first bids due at the end of this month.

Additional reporting: The Times