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NATIONAL Australia Bank has agreed to sell its $1.2 billion portfolio of distressed British loans to New York-based private equity firm Cerberus Capital management for £485 million ($876m), ahead of what could be a shake-up across other parts of its business.

At least £2.3bn worth of British commercial property loans have been run off by NAB in the past two years as part of its refocus on the Australian market, and outgoing chief executive Cameron Clyne has suggested the bank will move to accelerate the process.

Previously under the control of subsidiary Clydesdale Bank, the British loans are now held on NAB's balance sheet and stood at £3.3bn in March.

The distressed debt, reportedly sold in the past week, was put up for sale as part of NAB's Project Chestnut earlier this year through Morgan Stanley, timed to coincide with improving demand for commercial property and ahead of the British elections early next year.

According to a Britain's CoStar Finance News, Cerberus is believed to be paying a £485m for the loans, equating to a 28 per cent discount to the loans' face value.

NAB would not comment yesterday on media reports on the sale of the debt to Cerberus. With $US25bn worth of assets under management, Cerberus specialises in distressed debt. It fended off competition from three other bidders, including giant bond fund manager Pimco, opportunistic investor CarVal and hedge fund Oaktree Capital Management to secure the portfolio.

NAB's reported move to sell the loans comes just weeks before Andrew Thorburn replaces Mr Clyne as chief executive.

The bank, which is currently working with Boston Consulting Group on various projects, confirmed it was exploring options for its asset servicing business. Also up for a potential sale or an overhaul are NAB's low-returning assets such as its wealth management arm MLC and its US-based banking outfit Great Western, and Britain's Clydesdale and Yorkshire banks could go after dragging returns lower for years.

The wealth business, Clydesdale and Great Western consume 28 per cent of the group's equity, but in the nine years to 2013 returns were below the average 6 per cent levels, according to Citi research. Citi estimates NAB's wealth arm returns less than half that of rival Commonwealth Bank's wealth business. NAB signalled two years ago that it would distance itself from the British market.

Co-star News said the loans being sold had been sliced into two tranches. One included 123 loans secured against 255 commercial properties and 490 residential properties with a gross balance of €442m, while the second pool had 309 small business loans with a gross balance of €232m.

The loans originated through Clydesdale and Yorkshire banks and about three-quarters of those in the second pool were in default.

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