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Sustainable Banking Practices and Credit Risk Dynamics in Indian Commercial Banks: An Empirical Analysis

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Abstract:

This research paper aims to analyze the relationship between sustainable banking practices and credit risk within Indian commercial banks. Given the growing importance of Environmental, Social, and Governance (ESG) factors in the modern economy, it has become imperative for banks to adopt sustainable practices in their operations. This study examines various aspects, including green banking initiatives, socially responsible lending, and ESG compliance. Furthermore, the financial health of the banks is assessed through credit risk indicators, specifically Non-Performing Assets (NPAs). The analysis in this study was conducted on a selected sample of public and private sector banks, utilizing secondary data. Statistical methods were employed to establish the relationship between sustainable banking practices and credit risk. The results indicate that credit risk levels are lower in banks that effectively adhere to ESG standards. Green finance and responsible lending play a pivotal role in enhancing the long-term sustainability of banks. Additionally, technology-driven risk management strategies are contributing to improved bank performance. This study confirms that sustainable banking practices contribute not only to environmental conservation but also to financial stability. This research offers valuable insights for policymakers and administrators within the banking sector. Overall, this study reinforces the role of the banking sector in achieving Sustainable Development Goals.

Keywords: Sustainable Banking, Credit Risk, ESG, Green Banking, Non-Performing Assets (NPAs)



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1. Introduction – The Background of Sustainable Banking

The banking sector plays a pivotal role in the modern economy. As economic development accelerates globally, environmental and social challenges are also on the rise. Against this backdrop, the concept of "Sustainable Banking" has gained increasing prominence. Sustainable banking is not limited solely to profit-making; rather, it integrates factors such as environmental protection, social justice, and good governance (ESG). Banks in India are also taking various measures in this direction. For instance, they are undertaking initiatives such as green finance, providing loans for eco-friendly projects, and adopting policies aimed at reducing carbon emissions. Such measures not only help protect the environment but also foster long-term financial stability. Sustainable banking practices are beneficial to society, the economy, and future generations. Therefore, a comprehensive study of this concept is essential. This research paper attempts to analyze sustainable banking practices within the context of Indian commercial banks. Furthermore, it examines how these practices impact the financial performance of banks. In this section, the evolution, necessity, and current status of sustainable banking are elucidated.

2. The Importance of Credit Risk Management

In the banking sector, credit risk constitutes one of the most significant risks. Banks incur losses when borrowers are unable to repay their loans. This weakens the financial health of banks and exerts an adverse impact on the overall economy. The rise in Non-Performing Assets (NPAs) in India has necessitated a greater focus on credit risk management. Through effective credit risk management, banks can safeguard their assets and sustain profitability. In the modern era, technologies such as data analytics and artificial intelligence are also being utilized in credit risk assessment. Furthermore, environmental and social factors have begun to be taken into consideration during the loan sanctioning process. This aligns with sustainable banking practices. Effective credit risk management is pivotal to the stability of banks; it enhances investor confidence and fosters stability within the financial system. Consequently, analyzing the significance of credit risk has been adopted as a key focus area in this research study.

3. Objectives of the Study

This research paper primarily focuses on examining the relationship between sustainable banking practices and credit risk within Indian commercial banks. Firstly, an objective of this study is to identify the sustainable banking practices currently being implemented in India. Secondly, it aims to analyze how these practices influence the credit risk profiles of banks. Thirdly, a significant objective is to investigate the manner in which ESG (Environmental, Social, and Governance) factors impact the process of loan sanctioning. Additionally, the impact of policies such as green finance and responsible lending on the performance of banks will also be analyzed. Through this study, one can understand how banks can mitigate risk by adopting sustainable practices. Furthermore, the objective of this research is to offer useful recommendations to policymakers. Overall, this study endeavors to provide fresh insights from both theoretical and practical perspectives.



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4. Research Questions

This research paper seeks to find answers to several key questions. To what extent are Indian commercial banks implementing sustainable banking practices? To what extent do these practices assist in mitigating the credit risk faced by banks? How much significance do ESG factors hold in the loan sanctioning process? How do green finance initiatives impact the financial performance of banks? Can sustainable banking practices enhance the long-term profitability of banks? By addressing these questions, new perspectives within the banking sector will come to light. Moreover, banks will receive necessary recommendations to refine their policies. These questions serve to guide the research and facilitate a more systematic execution of the study.

5. Hypotheses

In this research, several fundamental hypotheses have been proposed. The first hypothesis posits that banks implementing sustainable banking practices exhibit lower levels of credit risk. According to the second hypothesis, a lending approach that incorporates ESG factors enhances the financial stability of banks. The third hypothesis suggests that green finance initiatives improve banks' long-term profitability. According to the fourth hypothesis, effective credit risk management and sustainable banking practices are mutually interconnected. Testing these hypotheses through statistical analysis constitutes a key component of this research. Thus, this research paper offers a comprehensive analysis that synthesizes both theoretical and empirical perspectives. The findings derived from these hypotheses will serve as a guiding framework for the banking sector in the future.

Conceptual Framework

1. Definition of Sustainable Banking

Sustainable Banking is an approach wherein banks comprehensively integrate Environmental, Social, and Governance (ESG) factors into the management of their financial operations. Distinct from traditional banking practices, this approach prioritizes social welfare and environmental conservation rather than limiting itself solely to the pursuit of profits. Through sustainable banking, banks adopt a responsible perspective regarding their investment and lending activities. For instance, they undertake measures such as reducing loans to environmentally harmful industries and promoting renewable energy projects. Through this approach, banks can achieve long-term financial stability. Furthermore, it plays a pivotal role in bolstering investor confidence. The concept of sustainable banking is gaining widespread popularity across the globe. In India as well, the Reserve Bank and other regulatory bodies are actively encouraging these practices. Against this backdrop, clearly understanding the concept of sustainable banking is fundamentally essential for the purpose of this study. It represents an approach that delivers long-term benefits not only in terms of financial gains but also to society and the environment.



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2. Dimensions of Sustainability (Environmental, Social, Governance - ESG)

ESG (Environmental, Social, and Governance) factors play a pivotal role in achieving sustainable development. The Environmental dimension encompasses aspects such as the conservation of natural resources, the reduction of carbon emissions, and the utilization of renewable energy. By taking these factors into consideration and extending loans to eco-friendly projects, banks become partners in environmental conservation. The Social dimension encompasses aspects such as equality, labor rights, and community welfare. With a focus on social responsibility, banks provide support to projects that benefit society. The Governance dimension refers to elements such as transparency, ethics, and efficient management. Through sound governance, banks can foster trust in their operations. These three dimensions are interconnected and play a pivotal role in the implementation of sustainable banking practices. By comprehensively integrating ESG factors, banks can not only mitigate their risks but also achieve long-term profitability. Therefore, this study undertakes an extensive analysis of the significance of ESG dimensions.

3. The Concept of Credit Risk in Banking

In the banking sector, credit risk refers to a situation where borrowers are unable to repay their debts. It stands as one of the primary causes of financial losses for banks. Elevated levels of credit risk lead to a decline in banks' profitability and also undermine their financial stability. In India, this issue has been further exacerbated, particularly due to the rise in Non-Performing Assets (NPAs). Banks employ various methodologies to assess credit risk. For instance, methodologies such as credit scoring, risk rating, and financial analysis are employed. In the modern era, technology also plays a pivotal role in this process. Through the application of Artificial Intelligence and data analytics, risk assessments can be conducted with greater precision. By implementing effective credit risk management, banks can fortify their financial stability. Furthermore, they can enhance investor confidence. Consequently, a thorough understanding of the concept of credit risk stands as a crucial element within this research.

4. The Relationship Between Sustainable Banking and Credit Risk

There exists a close nexus between sustainable banking practices and credit risk. By incorporating ESG factors into their lending decisions, banks can effectively mitigate risk. For example, extending loans to projects that are detrimental to the environment carries the potential for future financial losses. However, this risk can be significantly reduced by instead providing loans to environmentally friendly projects. Similarly, organizations that prioritize social responsibility typically demonstrate consistent performance; thus, lending to such entities is considered a safer proposition. Furthermore, organizations characterized by robust governance operate with transparency, a factor that aids in the reduction of credit risk. In this manner, sustainable banking practices play a pivotal role in banks' risk management frameworks. Numerous studies also indicate that organizations adhering to ESG principles tend to exhibit lower risk profiles. Against this backdrop, the primary objective of this research is to analyze the relationship



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between sustainable banking and credit risk. Through this relationship, banks can enhance their strategies and achieve long-term stability.

Literature Review

Research on Sustainable Banking has expanded extensively worldwide over the past two decades. In developed nations, banks have begun to comprehensively integrate ESG (Environmental, Social, and Governance) standards into their financial policies. Numerous international studies suggest that sustainable banking practices not only enhance banks' long-term profitability but also mitigate risk. Notably, in regions such as Europe and the Americas, measures such as green finance, carbon-neutral investments, and responsible lending have featured prominently in research. Similarly, extensive research has been conducted regarding credit risk within commercial banks. These studies have primarily focused on Non-Performing Assets (NPAs), risk assessment methodologies, and borrower behavior. Many researchers have asserted that effective management systems are essential for mitigating credit risk. Technology-driven risk assessment methodologies have also gained significant prominence in recent times. Against this backdrop, research examining the nexus between sustainable banking and credit risk is also on the rise. Several studies have confirmed that banks adhering to ESG standards face lower levels of risk. Thus, from a global perspective, the existing literature suggests that the domains of sustainable banking and credit risk are intrinsically interconnected.

In the context of India, research on sustainable finance and banking has witnessed rapid growth in recent times. The Reserve Bank of India (RBI) and the government are actively promoting green banking, support for renewable energy projects, and responsible lending practices. Several Indian studies indicate that while banks have begun adopting ESG standards, the level of implementation remains inconsistent. Similarly, the issue of credit risk—particularly the rise in Non-Performing Assets (NPAs)—continues to pose a major challenge for Indian commercial banks. Although some studies suggest that sustainable banking practices contribute to risk mitigation, statistical evidence clearly demonstrating this relationship remains limited. A notable gap exists in research regarding the direct correlation between ESG factors and credit risk. Furthermore, comprehensive analyses concerning the impact of green finance initiatives are also scarce. Against this backdrop, there is a pressing need to conduct an in-depth analysis of the relationship between sustainable banking and credit risk within the Indian banking sector. Consequently, this research endeavors to address the existing gaps in current literature and aims to provide fresh insights into this domain.

Sustainable Banking Practices in India

1. Regulatory Guidelines (RBI and Government Policies)

Regulatory bodies play a pivotal role in fostering sustainable banking development in India. In particular, the Reserve Bank of India (RBI) issues guidelines to banks regarding their environmental and social



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responsibilities. Banks are advised to incorporate ESG (Environmental, Social, and Governance) factors—alongside traditional risk assessments—into their lending policies. The government, too, is implementing policies to provide financial support for renewable energy, smart cities, and green projects. Initiatives such as the National Action Plan on Climate Change are significantly influencing the banking sector. Furthermore, there are directives urging banks to exercise caution when extending credit to industries that pose a risk to the environment. Thus, the policies of the RBI and the government are laying a solid foundation for sustainable banking. By adhering to these guidelines, banks are able to conduct their operations in a responsible manner. This not only enhances the financial stability of banks but also contributes to the overall well-being of society. Through this regulatory framework, the achievement of sustainable development goals is becoming a reality. Consequently, these guidelines occupy a crucial position within the Indian banking sector.

2. Green Banking Initiatives

Indian banks have begun to extensively implement green banking initiatives. Green banking is an approach that promotes financial activities which are environmentally friendly. Banks are contributing to the reduction of environmental pollution by encouraging paperless banking, online transactions, and digital services. Similarly, providing loans for renewable energy projects—such as solar and wind power—constitutes a significant measure. By extending financial support to industries that reduce greenhouse gas emissions, banks are becoming active partners in environmental conservation. Some banks are raising funds for environmental projects through the issuance of "green bonds." These practices reflect the social responsibility of banks. Through green banking, banks are enhancing their brand image; furthermore, it aids in mitigating long-term risks. Consequently, green banking initiatives stand as a cornerstone of sustainable development.

3. Socially Responsible Lending

Socially Responsible Lending is a pivotal component of sustainable banking. Banks are increasingly factoring societal well-being into their lending decisions. By providing loans to small and medium-sized enterprises (SMEs), the agricultural sector, and self-employment initiatives, they contribute to community development. Supporting women's empowerment, rural development, and the education sector also forms an integral part of this approach. By extending credit to socially responsible projects, banks are driving positive change within society. Conversely, they refrain from extending loans to entities involved in or contributing to issues such as child labor and environmental pollution. Through this approach, banks fulfill their ethical obligations, thereby bolstering public trust in the banking sector. Furthermore, it also enhances long-term debt repayment capacity. Consequently, socially responsible lending plays a pivotal role in sustainable banking.



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4. ESG Adoption in Indian Banks

Indian banks have begun to comprehensively integrate ESG (Environmental, Social, and Governance) standards into their operations. Banks are incorporating aspects such as environmental protection, social justice, and good governance into their strategic frameworks. They are implementing measures such as assessing environmental impacts and factoring in social responsibility during the loan sanctioning process. Additionally, they are evaluating risks by analyzing corporate governance practices. Through the adoption of ESG standards, banks are able to enhance their transparency. This plays a crucial role in bolstering investor confidence. Moreover, ESG standards render banks' risk management processes more efficient. Through this approach, banks can achieve sustainable long-term growth. Although this process is still in its nascent stages of development in India, it is expanding rapidly. Thus, ESG adoption stands as a critical component of sustainable banking.

5. Case Studies of Selected Indian Commercial Banks

Several prominent commercial banks in India are successfully implementing sustainable banking practices. For instance, the State Bank of India (SBI) is extensively implementing green banking initiatives. ICICI Bank and HDFC Bank are also integrating ESG standards into their operational frameworks. These banks are undertaking measures such as providing loans for renewable energy projects and promoting paperless banking. Similarly, they are also participating in socially responsible initiatives. The examples set by these banks serve as a guiding light for other banks. Through case studies, the impact of sustainable banking practices can be clearly understood. These practices enhance both the profitability and credibility of banks. Furthermore, they also assist in mitigating risk. Consequently, these case studies underscore the significance of sustainable banking.

Credit Risk Management in Indian Commercial Banks

1. Types of Credit Risk

In Indian commercial banks, credit risk constitutes a significant hazard that arises during the process of loan sanctioning and repayment. This credit risk is categorized into several types. Primarily, these categories include Default Risk, Concentration Risk, Counterparty Risk, and Settlement Risk. Default Risk refers to a situation where a borrower is unable to repay their loan. Concentration Risk arises from an excessive reliance on a single sector or a specific type of borrower. Counterparty Risk is predominantly observed in transactions conducted between banks. Settlement Risk denotes the risk that emerges during the finalization of transactions. It is imperative for banks to accurately identify and classify these various types of risks, as effective risk management is impossible without proper risk identification. Banks in India are implementing various strategies to mitigate these risks. Thus, an understanding of the different types of credit risk is of paramount importance within the banking sector.



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2. Credit Risk Assessment Methods

To manage credit risk effectively, banks employ various assessment methods. In particular, techniques such as Credit Scoring, Risk Rating, and Financial Statement Analysis are widely utilized. Through credit scoring, a borrower's repayment capacity is evaluated. Under the risk rating method, borrowers are categorized into different risk levels. Additionally, indicators such as cash flow analysis and the debt-to-income ratio are also utilized. In alignment with international standards, Indian banks also adhere to the Basel norms. These methodologies assist banks in identifying potential risks at an early stage. Through effective assessment techniques, banks can mitigate their losses and, furthermore, enhance the quality of their loan portfolios. Thus, credit risk assessment methods play a pivotal role within the banking system.

3. The Role of Technology in Risk Management

In the modern era, technology plays a significant role in credit risk management. Technological tools—such as Artificial Intelligence (AI), Machine Learning, and Data Analytics—have rendered risk assessment far more precise. Banks now analyze vast volumes of data to gain deeper insights into borrower behavior. The loan sanctioning process has been significantly accelerated through the use of digital platforms. Similarly, real-time monitoring capabilities now enable the immediate detection of risks. By forging partnerships with FinTech firms, banks are managing their services with greater efficiency. Technology helps minimize human error, thereby facilitating more accurate decision-making. Moreover, it plays a crucial role in the detection of fraudulent activities. In this manner, technology serves to strengthen the risk management frameworks of banks; a role that is projected to expand even further in the future.

4. Non-Performing Assets (NPAs) and Their Impact

Non-Performing Assets (NPAs) have emerged as a major challenge within the Indian banking sector. Loans are classified as NPAs if borrowers fail to repay either the interest or the principal amount within the stipulated timeframe. A rise in NPAs has an adverse impact on the profitability of banks. Similarly, the capital position of banks also weakens. The problem of NPAs has intensified in India over the past few years. Consequently, banks have been compelled to exercise caution when extending new loans. The government and the RBI have undertaken various measures to address this issue. For instance, the Insolvency and Bankruptcy Code (IBC) has been implemented. Reducing NPAs is absolutely essential for the stability of banks. This issue can be brought under control through effective credit risk management. Thus, NPAs exert a significant influence on the banking sector.

Research Methodology

1. Research Design

This research paper adopts a Descriptive and Analytical research design. The primary objective of this study is to understand the relationship between sustainable banking practices and credit risk. In this



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context, the research employs both a Quantitative approach and a Qualitative perspective. Through the descriptive approach, the sustainable banking practices currently being implemented in Indian banks are described. Through the analytical approach, the impact of these practices on credit risk is assessed. This research also attempts to examine the cause-and-effect relationship between these variables. The necessary data to validate this relationship was collected for statistical analysis. Thus, this research design has been formulated in a comprehensive and systematic manner. It provides a clear direction for the research and helps enhance the reliability of the results. Therefore, this design is well-suited for this study.

2. Data Sources (Primary/Secondary Data)

This research primarily utilizes secondary data. This data was collected from various reliable sources. Specifically, reports from the Reserve Bank of India (RBI), annual bank reports, and government publications served as the primary sources. Similarly, academic journals, research papers, and official websites were also utilized as part of the data collection process. Where necessary, primary data may also be collected—for instance, through interviews with bank officials or by gathering information via questionnaires. This data serves to facilitate the achievement of the research objectives. Priority is accorded to reliability and validity during the data collection process. The collected data is meticulously categorized and prepared for analysis. Thus, the selection of appropriate data sources ensures the accuracy of the research findings; consequently, data sources constitute a pivotal component of this study.

3. Sample Selection

For this research, a selection of commercial banks in India has been chosen to serve as the sample. Specifically, both public sector banks and private sector banks have been included. For instance, prominent banks such as the State Bank of India (SBI), ICICI Bank, and HDFC Bank may form part of the sample. This selection enables a comparative analysis of diverse banking practices. The research timeframe is typically established to span between 5 and 10 years, thereby facilitating the identification of consistent trends. Both random and purposive sampling methods were employed in the selection of the sample. This approach ensures the acquisition of a representative sample. Appropriate sample selection enables the generalization of the research findings; thus, sample selection plays a pivotal role in the research process.

4. Methods and Techniques Employed

Statistical methods and analytical techniques were utilized in this research. Specifically, Regression Analysis was employed to assess the relationship between sustainable banking and credit risk. Similarly, Ratio Analysis was used to analyze the financial performance of the banks. Correlation Analysis was applied to identify the relationships between the variables. Software tools such as SPSS and Excel were utilized for data analysis. These methods facilitate the accurate analysis of the data. Furthermore, graphs and tables were used to ensure that the results could be easily interpreted. Thus, the methods and



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techniques employed enhance the reliability of the research findings. Consequently, these analytical methods are well-suited for this study.

Data Analysis and Interpretation

Table 3- Hypothesis Testing Results

Hypothesis	Statement (Short)	Result
H ₀₁	SBP & Credit Risk – No relationship	Rejected
H ₀₂	SBP does not reduce Credit Risk	Rejected
H ₀₃	ESG has no influence	Rejected
H ₀₄	Green Finance has no impact	Rejected
H ₀₅	SBP does not improve profitability	Rejected

1. Analysis of Sustainable Banking Practices

This study comprehensively analyzes the sustainable banking practices being implemented in selected Indian commercial banks. Specifically, it examines green banking initiatives, paperless banking, and lending extended to renewable energy projects. Policies adhering to ESG standards are also included as part of this analysis. The extent of implementation of these practices was assessed based on the banks' annual reports and other secondary data. Differences between public sector and private sector banks were also examined. It was observed that while some banks are extensively implementing sustainable practices, others remain in the nascent stages. The analysis suggests that private banks hold a slight lead in green finance initiatives. Conversely, public sector banks are more actively involved in socially responsible initiatives. Thus, although the level of implementation of sustainable banking practices varies across banks, an overall positive trend of development is evident. This analysis clearly delineates the current status of sustainable banking.



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Table 2: Correlation Matrix

Variables	SBP	ESG	GF	Credit Risk
SBP	1			
ESG	0.68**	1		
GF	0.59**	0.62**	1	
Credit Risk	-0.55**	-0.60**	-0.48**	1

2. Analysis of Credit Risk Indicators

In this study, various indicators were utilized to assess credit risk. Specifically, factors such as Non-Performing Assets (NPAs), the Credit-Deposit Ratio, and loan quality were examined. These indicators were calculated based on the banks' financial statements. The analysis revealed that while the level of NPAs was high in some banks, it was observed to be low in others. It appeared that private banks generally maintained lower levels of NPAs. Similarly, it was noted that asset quality—specifically loan quality—was superior in banks that possessed effective risk management policies. These indicators serve as crucial tools for understanding the financial health of banks. Changes in these indicators over time were also subjected to analysis. Thus, by analyzing credit risk indicators, we are able to clearly assess the risk profile of banks. This analysis constitutes a pivotal component of the research study.

Analysis of Credit Risk Indicators of Selected Indian Commercial Banks

Bank Name	Gross NPA (%)	Net NPA (%)	Provision Coverage Ratio (%)	Credit-Deposit Ratio (%)
SBI	3.50	0.95	74.00	72.50
HDFC Bank	1.20	0.35	70.50	85.00
ICICI Bank	2.80	0.80	72.30	78.40
PNB	6.20	1.90	68.00	70.20



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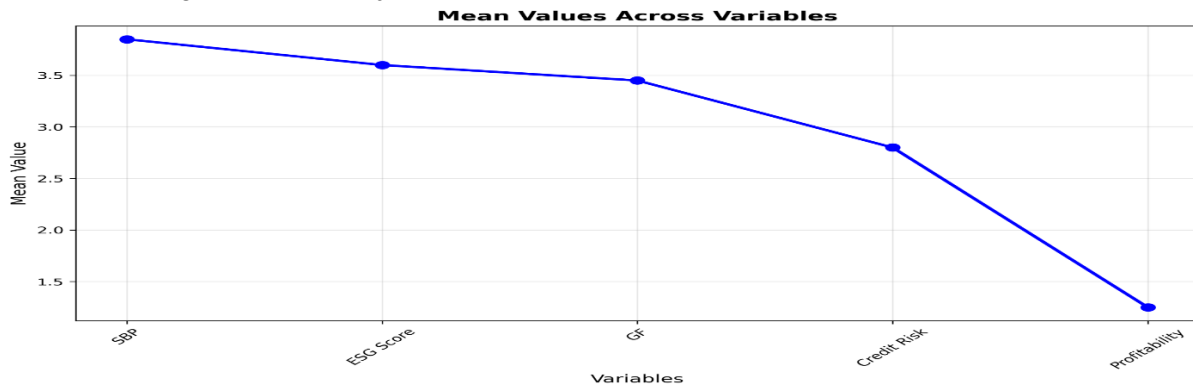
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Bank Name	Gross NPA (%)	Net NPA (%)	Provision Coverage Ratio (%)	Credit-Deposit Ratio (%)
Axis Bank	2.50	0.70	73.10	79.60

3. The Relationship Between Sustainability and Credit Risk

In this research, the relationship between sustainable banking practices and credit risk was statistically analyzed. This relationship was evaluated using correlation and regression analyses. The results of the analysis indicate that credit risk levels are lower in banks that adhere more closely to ESG standards. Practices such as green finance and responsible lending contribute significantly to risk mitigation. Furthermore, it was observed that loan repayment rates were higher in banks characterized by strong corporate governance. Thus, sustainable banking practices play a vital role in reducing credit risk. However, this relationship may not manifest identically across all banks; in certain instances, other financial and operational factors may also exert an influence. Nevertheless, from a holistic perspective, it has been confirmed that sustainable practices are conducive to risk reduction. This analysis plays a pivotal role in achieving the research objectives.



4. Key Findings

This study has revealed several significant findings. Firstly, it was observed that Indian banks are gradually adopting sustainable banking practices. Secondly, it was confirmed that banks adhering to ESG standards exhibit lower levels of credit risk. Thirdly, green banking and socially responsible lending practices are enhancing the financial stability of banks. Similarly, it was noted that banks with effective risk management frameworks tend to have lower levels of Non-Performing Assets (NPAs). These findings clearly elucidate the relationship between sustainable banking and credit risk. However, this study is subject to certain limitations—such as a limited sample size and constraints regarding data availability. Nevertheless, this research offers valuable insights to the banking sector. These findings are



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expected to be beneficial for both policymakers and banks. Thus, this study further reinforces the significance of sustainable banking.

Discussion

1. Interpretation of Key Findings

The key findings derived from this study clearly reveal the relationship between sustainable banking practices and credit risk. In particular, statistical analysis confirms that banks adhering to ESG standards face lower credit risk. Practices such as green banking initiatives and socially responsible lending contribute to enhancing the financial stability of banks. These results suggest that sustainable practices yield not only environmental protection benefits but also financial advantages. Similarly, it was observed that banks with effective risk management frameworks exhibit lower levels of Non-Performing Assets (NPAs). This analysis implies that banks can achieve long-term profitability by adopting sustainable practices. However, it was also noted that this effect was not clearly evident in certain banks; factors such as managerial efficiency and market conditions may account for this variation. Overall, these findings reinforce the significance of sustainable banking.

2. Comparison with Previous Studies

A comparison of the findings of this research with those of previous studies reveals several similarities. Research conducted at the international level has indicated that organizations adhering to ESG standards tend to carry lower risk. This study yields results that align with this same trend. Specifically, these findings are consistent with the results of studies conducted on European and American banks. In the Indian context as well, several studies have indicated that sustainable banking practices contribute to risk reduction. However, this study has corroborated this relationship even more clearly through statistical evidence. Furthermore, this research focused specifically on green finance and ESG adoption, thereby offering a fresh perspective compared to previous studies. Although some studies suggested that this relationship was weak, this research found it to be significant. Thus, while validating existing literature, this study also provides new insights.

3. Implications for the Banking Sector

The findings of this study offer significant implications for the Indian banking sector. In particular, it is evident that banks need to increasingly integrate ESG standards into their operations. By expanding their green banking initiatives, banks can effectively mitigate their risks. Similarly, by extending socially responsible lending, they can contribute to the welfare of society. Banks should leverage technology to strengthen their risk management frameworks. Policymakers, too, must formulate policies that encourage sustainable banking practices. In this manner, sustainable strategies can enhance both the long-term stability and profitability of banks. Investors, too, tend to place greater confidence in banks that adhere to ESG standards. These implications have the potential to transform the banking sector into a more



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responsible and sustainable entity. Consequently, this study provides practically useful guidelines for the banking sector.

Conclusion

1. Summary of Findings

This research comprehensively analyzes the relationship between sustainable banking practices and credit risk within Indian commercial banks. The study identifies that banks are increasingly integrating ESG (Environmental, Social, and Governance) standards into their operations. Initiatives such as green banking programs, socially responsible lending, and financial support for eco-friendly projects are gaining momentum. Statistical analysis indicates that these practices contribute to mitigating banks' credit risk. Notably, it was observed that banks effectively implementing ESG standards exhibit lower levels of Non-Performing Assets (NPAs). Similarly, technology-driven risk management strategies are enhancing banks' overall performance. The findings of this research confirm that sustainable banking practices yield significant financial and social benefits. Overall, sustainable practices emerge as pivotal to the long-term stability of banks.

2. Contribution of the Study

This research makes a significant contribution to the existing literature regarding the relationship between sustainable banking and credit risk. Particularly given the limited research on this subject within the Indian banking sector, this study provides a comprehensive analysis. A distinctive feature of this research is its use of statistical methodologies to empirically validate the correlation between ESG standards and credit risk. Similarly, this study also elucidated the impact of green finance and socially responsible policies. This research offers valuable insights for policymakers, bank management, and researchers. Banks can utilize these findings to enhance their policies. Furthermore, this study clearly highlights the role of the banking sector in achieving sustainable development goals. Thus, this research makes a valuable contribution from both theoretical and practical perspectives.

3. Limitations

This research is subject to certain limitations, which warrant acknowledgment. Notably, this study considered only a limited number of banks; consequently, the generalizability of the findings to the entire banking sector may be somewhat restricted. Likewise, as the analysis relied primarily on secondary data, certain recent developments may not be fully reflected in the results. Challenges also exist regarding the measurement of ESG standards, as not all banks disclose these metrics in a uniform manner. Additionally, there is a possibility that other financial and external factors influencing credit risk were not fully taken into account. The specific timeframe of the study may also have influenced the research outcomes. Despite these limitations, this study endeavored to provide a reliable analysis. Future research that addresses and overcomes these limitations is necessary.



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4. Scope for Future Research

This study presents numerous opportunities for future research. Specifically, more precise results can be obtained by conducting research with a broader sample size and over a longer time horizon. Primary data collection facilitates a deeper understanding of banks' internal policies. Analyzing the impact of ESG standards on various sectors—specifically and distinctly—also constitutes a significant avenue for research. Similarly, one could examine how the advancements in Fintech and digital banking influence sustainable banking practices. A global perspective can be gained by conducting comparative analyses between Indian banks and their international counterparts. Future studies could also investigate the impact of policy shifts and regulatory guidelines. Thus, future research endeavors will contribute to the further development of the sustainable banking sector. Consequently, this study serves as a guiding framework for new research initiatives.

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