

The Impact of Accounting Information Relevance on the Effectiveness of the CAMELS Model in Predicting Financial Failure in Light of the Moderating Role of International Financial Reporting Standards and Geopolitical Tensions an Applied Study on Yemeni Banks (2015–2021)

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ABSTRACT

Purpose: The first objective of this study is to analyze the impact of accounting information relevance on the effectiveness of the CAMELS model in predicting financial failure. Second, the study analyzes the impact of the moderating role of International Financial Reporting Standards (IFRS) and geopolitical tensions on the relationship between accounting information relevance and the effectiveness of the CAMELS model in predicting financial failure.

Design/Methodology/Approach: To achieve the study's objective, the researcher conducted an applied study on a sample of banks operating in Yemen during the period from 2015 to 2021. Manual content analysis was used to analyze the banks' financial reports, and multiple regression analysis was employed to test the study's hypotheses using statistical software.

Findings: The study found a statistically significant effect of accounting information relevance on the effectiveness of using the CAMELS model. The study also found a statistically significant effect of compliance with IFRS application requirements on the relevance of accounting information. Furthermore, there is a statistically significant effect of the interaction index between geopolitical tension risks and the level of information asymmetry on the effectiveness of using the CAMELS model. In addition, there is a statistically significant effect of the interaction index between compliance with IFRS requirements and the level of information asymmetry, as a measure of relevance, on the effectiveness of using the CAMELS model. Finally, there is a statistically significant effect of the effectiveness of using the CAMELS model on the level of financial failure.

Practical Implications: The findings recommend that bank management and other policymakers take into account the effect of bank size when formulating financial soundness policies, in order to ensure an optimal level of financial soundness for banks with the aim of improving their financial performance, as well as applying IFRS to enhance the qualitative characteristics of accounting information and, in turn, improve the effectiveness and efficiency of the CAMELS model in predicting financial failure.

Originality/Value: This study represents a significant development in the field of banking governance, as it is—to the researcher's knowledge—the first study of its kind to address the impact of accounting information relevance on the effectiveness of the CAMELS model in predicting financial failure in light of the moderating role of IFRS and geopolitical tensions.

Keywords: Accounting information relevance, CAMELS model, financial failure, International Financial Reporting Standards, geopolitical tensions.

INTRODUCTION

An effective financial system is a fundamental prerequisite for economic growth and constitutes the backbone of economic development. The volume of funds available in the market depends on banks' skill in channeling surplus funds into investments—that is, on their efficiency. Likewise, the strength of the banking system is of critical importance for protecting the interests of investors, individuals, and the financial market.

Bank performance has been, and remains, a subject of considerable importance over at least the past several years, owing to its close association with the general health of the economy. A strong and stable banking sector is more likely to successfully withstand adverse shocks affecting the financial sector and the economy as a whole. In response to the financial crisis of 2007–2009, the Basel Committee issued the Basel III Accord in 2010, which encompassed multiple pillars for regulation, supervision, and risk management. Financial performance is regarded as a general measure of a firm's overall financial health, and there are numerous indicators for measuring the financial performance of institutions, among the most important of which are the indicators and models used to assess bank performance—most notably the American CAMELS model (Islam and Shohidul, 2018). Since accounting information constitutes the backbone of any economic entity, the success or failure of the decisions made by relevant stakeholders depends on the validity and accuracy of the information provided to them. Analyzing the accounting information contained in an economic entity's financial statements for a given period or periods helps users of financial statements and decision-makers to predict financial failure and to identify its causes, given that financial failure represents a process in which an economic entity begins down a long path of financial distress that may ultimately culminate in insolvency or bankruptcy. Accounting information is also critical to firms' ability to obtain financing; small and medium-sized enterprises face difficulty in securing external financing due to a lack of transparent information regarding their activities (Ciza et al., 2025).

Problem Statement

Financial institutions, particularly banks, are exposed to a diverse range of risks that are becoming increasingly complex at present. The economic downturn that began in 2008 led to the failure of numerous banks in the United States, after which the crisis spread randomly throughout the world, underscoring the necessity of continuous banking supervision. Assessing the performance and efficiency of banks and monitoring their activity is essential for banks' survival amid ongoing risks and changes, particularly given that many financial crises have been primarily caused by banks themselves, since credit institutions play a pivotal role in the financial systems of national economies, with their stability contingent upon the stability of the financial system as a whole. The financial data provided by banks' financial statements offer indicators of considerable value regarding the state of the economy during a given period. Moreover, financial statements constitute a primary source of financial information for decision-makers at the economic level (the public, economic actors, etc.), influencing their expectations and behavior and, consequently, economic development. The financial reporting framework aims to establish specific standards for reporting that ensure a fair presentation of the financial position and performance of credit institutions. These standards are periodically refined to ensure their adaptability to increasingly complex financial instruments and to enable efficient risk identification, with the aim of presenting financial information in a manner that is easy for users to process and understand.

Geopolitical risks lead to a deterioration in the quality of financial reporting by heightening uncertainty, which in turn drives earnings management aimed at achieving short-term stability, particularly in the presence of weak audit processes. Such risks also widen information gaps, making the forecasting process more difficult for analysts and investors. Elevated geopolitical risks result in less transparent reporting, higher financing costs, and the potential for capital flight, and may affect dividend distribution policies, thereby necessitating enhanced disclosures to maintain trust, given that these risks increase the risks faced by investors and, consequently, affect firm value. Conversely, managing these risks through a sound scientific and practical methodology improves the transparency of accounting information and the efficiency of operational processes.

The study's problem is embodied in the following main research question:

What is the impact of the relevance of accounting information in financial reports on the prediction of banks' financial failure according to the CAMELS model, in light of International Financial Reporting Standards and geopolitical tensions?

Study Objectives

The primary objective of the study is to analyze the impact of accounting information relevance on the effectiveness of the CAMELS model in predicting financial failure, in light of the moderating role of International Financial Reporting Standards and geopolitical tensions. From this primary objective, the following sub-objectives are derived:

1. The impact of accounting information relevance on the effectiveness of the CAMELS model in predicting financial failure.
2. The impact of International Financial Reporting Standards on the relationship between accounting information relevance and the effectiveness of the CAMELS model in predicting financial failure.
3. The impact of geopolitical tensions on the relationship between accounting information relevance and the effectiveness of the CAMELS model in predicting financial failure.

Study Hypotheses

Based on the study's problem and objectives, the study hypotheses can be formulated as follows:

Hypothesis 1 (Null): There is no statistically significant effect of accounting information relevance on the effectiveness of using the CAMELS model.

Hypothesis 2 (Null): There is no statistically significant effect of compliance with the requirements for applying International Financial Reporting Standards (IFRS) on accounting information relevance.

Hypothesis 3 (Null): There is no statistically significant effect of geopolitical tensions on the relationship between accounting information relevance and the effectiveness of using the CAMELS model.

Hypothesis 4 (Null): There is no statistically significant effect of the level of compliance with IFRS application requirements on the relationship between accounting information relevance and the effectiveness of using the CAMELS model.

Hypothesis 5 (Null): There is no statistically significant effect of the effectiveness of using the CAMELS model on the level of financial failure.

Scope and Limitations of the Study

Application Setting: An applied study on a sample of banks operating in Yemen; banks were selected because the CAMELS model pertains specifically to bank regulation and supervision.

Application Period: From 2015 to 2021.

Significance of the Study

Academic Significance: The academic significance of the study derives from the importance of its subject matter within contemporary accounting thought, given that topics related to bank performance evaluation and the CAMELS model have received growing attention in recent years from governments, regulatory bodies, and banks, owing to the positive effects they can achieve in improving the financial stability of banks.

Practical Significance: The practical significance of the study derives from its provision of empirical evidence, drawn from the study setting, on the impact of accounting information relevance—under conditions of geopolitical tensions and the application of International Financial Reporting Standards—on the effectiveness of using the CAMELS model in predicting financial failure. Moreover, the study's findings will provide stakeholders, particularly regulatory bodies, with information to strengthen the supervision and oversight of banks.

STUDY METHODOLOGY

The researcher relied on both the deductive and inductive approaches, as follows:

The Deductive Approach: In this approach, the researcher moves from the general to the specific, with the aim of deriving the propositions and findings necessary to answer the study's questions, and of formulating testable hypotheses in light of the study problem. Relevant references and specialized academic journals related to the study's subject matter are reviewed in order to construct the study's theoretical framework.

The Inductive Approach: In this approach, the study proceeds from the specific to the general, and this approach is used to carry out the applied component of the research.

Review and Analysis of Prior Studies

Darwish and Antar (2024), titled: *"The Impact of American Bank Rating Model (CAMELS) Indicators on Improving the Economic Value Added of Conventional and Islamic Banks: An Applied Study on the Egyptian Banking Sector for Conventional and Islamic Banks Listed on the Egyptian Stock Exchange during the Period (2018–2022)."* The findings showed that all banks in the study sample achieved negative economic value added, indicating weak financial performance. The study model successfully explained 56.7% of the variation in EVA. The findings also confirmed a statistically significant effect of asset quality, management, profitability, and sensitivity to market risk—for both conventional and Islamic banks combined—on improving EVA, whereas no statistically significant effect was found for capital adequacy or liquidity.

Le et al. (2023), titled: *"Capital Requirements and Banks Performance Under Basel-III: A Comparative Analysis of Australian and British Banks."* The study aimed to explore whether capital requirements—specifically the capital adequacy ratio—under Basel III are effective in enhancing the profitability and efficiency of the banking sector. This was examined using a sample of five of the largest banks in England and five of the largest banks in Australia over the period from 2000 to 2019. The study found that the capital adequacy ratio leads to an increase in bank performance as measured by earnings before interest and taxes, while it reduces bank efficiency as measured by return on assets and return on equity. With respect to macroeconomic variables, the study observed that higher inflation and interest rates in England enhanced bank performance, whereas lower inflation and interest rates in Australia enhanced bank performance.

Kashef (2022), titled: *"The Role of CAMELS Indicators in Evaluating Banking Performance: A Case Study of the National Bank of Egypt."* This research focused on examining the role of CAMELS indicators in evaluating banking performance through a case study of the National Bank of Egypt. The research aimed to study and analyze accounting efforts in the field of banking performance and its evaluation indicators, to assess the strength, direction, and significance of the correlational relationship between CAMELS indicators and banking performance, and to assess the statistical significance of the effect of the independent variables (CAMELS indicators) on the dependent variable (banking performance). To achieve these objectives, a set of hypotheses was tested, yielding a number of findings, the most important of which were that a significant correlational relationship exists between CAMELS indicators and banking performance at the National Bank of Egypt, in addition to a significant effect of CAMELS indicators on banking performance at the National Bank of Egypt.

Ahmed et al. (2019), titled: *"The Impact of Applying the American Bank Rating System on the Financial Performance of Egyptian Banks: An Applied Study."* The study aimed to analyze the impact of applying the American bank rating system on the financial performance of Egyptian banks, through an applied evaluation of bank performance using the CAMEL approach in terms of capital adequacy, asset quality, profitability,

liquidity, and the management component. The study also aimed to analyze the annual data of Egyptian banks, to determine the relative importance of the key CAMELS criteria in evaluating banks' financial performance, and to identify the impact of applying the CAMELS standard on the financial performance of Egyptian banks. This study relied on the collection of financial information for the banks under study (9 banks) during the period from 2010 to 2015. The study's findings showed a statistically significant positive effect of the American bank rating system on the financial performance of Egyptian banks as measured by CAMELS indicators.

Mutawie et al. (2018), titled: *"Evaluating Bank Performance According to the CAMEL Rating System: An Applied Study on Yemeni Banks."* The study aimed to evaluate and compare the performance of Yemeni Islamic banks and conventional banks according to the variables of the CAMEL system. The study was conducted on a sample of 6 banks (3 Islamic banks and 3 conventional banks), representing 50% of the study population, during the period from 2008 to 2014. The findings showed that the performance of conventional banks according to the CAMEL system variables was, overall, better than that of Yemeni Islamic banks, with significant differences in favor of conventional banks in capital adequacy (C), management capability (M), earnings quality (E), and liquidity adequacy (L), while no statistically significant differences were found in terms of asset quality (A). The bank classification results according to the CAMEL composite rating also showed that Islamic banks obtained an average rating score of 2.86, indicating acceptable performance containing a mix of strengths and weaknesses, whereas conventional banks obtained an average rating score of 3.31, a rating indicating relatively sound and satisfactory performance, despite the presence of certain negative aspects requiring improvement.

Building on the foregoing, the scholarly contribution the researcher seeks to offer through the present study can be summarized as follows: most prior studies that analyzed the impact of accounting information relevance on the effectiveness of the CAMELS model were confined to examining the direct effect and did not take into account the "moderating effect" of other dimensions. It is therefore useful to examine what previous researchers have thus far overlooked and to derive new insights into the effectiveness of the CAMELS model and financial performance beyond that narrow perspective. This is precisely what the researcher undertakes by examining the impact of accounting information relevance on the effectiveness of the CAMELS model in predicting financial failure, in light of the moderating role of International Financial Reporting Standards and geopolitical tensions—novel variables not addressed by prior studies, to the researcher's knowledge.

The Concept of the CAMELS Model and Its Components

There are several early-warning supervisory criteria used to measure the soundness of banking performance. These criteria are used as indicators to evaluate the performance of banks, subsequently classify them, and detect financial deficiencies in their performance at an early stage. Among the most important of these criteria is the bank rating system based on the indicators derived from the on-site examination process, known as CAMELS—an American system for evaluating bank performance according to a unified standard, comprising six performance indicators under the name CAMELS, where each letter of the acronym refers to a specific indicator, as follows:

1. Capital
2. Assets Quality
3. Management
4. Earnings
5. Liquidity
6. Sensitivity to Market Risk

The researcher holds that the CAMELS model plays an important role in predicting the financial failure of banks through a comprehensive and continuous assessment of their financial and operational performance across six dimensions (capital adequacy, assets, management, earnings, liquidity, and sensitivity to market

risk). It reveals weaknesses at an early stage through the analysis of complex financial ratios and comparison against benchmarks, thereby enabling regulatory authorities and management to intervene early and take corrective action before full-blown distress occurs, and thereby strengthening the stability of the banking system as a whole.

Financial and Accounting Theories Relevant to the CAMELS Model

Agency Theory: Agency theory and the CAMELS model are distinct concepts, yet they can be linked when analyzing financial institutions. CAMELS is a rating system used to assess a bank's overall condition, focusing on six key areas: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. Agency theory, on the other hand, explores the relationship between principals (such as shareholders) and agents (such as managers) and the potential conflicts of interest between them (Omar and Mugabe, 2016).

Stakeholder Theory: This theory addresses the relationship between a company and the society in which it operates, how the company behaves within that society, and how it responds to its stakeholders. According to this theory, companies must fundamentally take into account the needs and demands not only of shareholders but also of other groups connected to the company, including shareholders, creditors, suppliers, customers, employees, non-governmental organizations, and society at large. Companies therefore resort to voluntary disclosure in an effort to enhance their image by responding to stakeholder demands, so as to persuade them that the company is complying with their requirements (Hafez, 2016).

Legitimacy Theory: Legitimacy is fundamental to an organization's success or failure. It has been argued that a company's continued existence depends on society's willingness to keep allowing it to operate, by virtue of the social contract. The notion of a social contract between the company and society implies that, while the primary objective of business is profit generation, it also carries a moral obligation to act in a socially responsible manner. Accordingly, a company's continuity is contingent upon its ability to fulfill the obligations expected of it toward society, not merely its ability to fulfill its obligations toward its owners. Legitimacy theory therefore focuses on the relationship between the company and society across all of its constituent groups (Alvesson and Spicer, 2019).

The researcher concludes that there is no fundamental or substantive divergence among these theories; rather, they complement one another. The researcher concurs with Oliveira et al. (2013) that adopting multi-theoretical approaches is likely to be beneficial and to yield insights beyond those produced by reliance on a single theory. Furthermore, since theories are, by nature, abstractions of reality, no single theory can be expected to provide a complete description or account of a particular behavior. Given that explaining motivations is, at its core, a study of human behavior, no theory can fully and definitively explain decision-making processes.

The Concept and Nature of Financial Failure

Given the multiple risks facing banks and the adverse effects their failure can inflict on the rest of the economy, banks are subject to strict oversight and periodic stress tests by regulatory authorities across all countries. The recent financial crisis highlighted the importance of banks and the impact of their failure on the economy as a whole. Bankruptcy prediction and corporate governance are among the most important research areas contributing to banks' success. The impact of bank failure is not confined to the banks themselves but extends to the global economy. The selection of financial ratios is a critical process in bankruptcy prediction. Since the financial structure and characteristics of banks differ from those of other sectors, the financial ratios commonly used in non-financial sectors do not apply to banks. As a result, the CAMELS rating system is adopted as a tool for predicting bank failure (Alzayed, 2023). Timely prediction of a bank's probability of failure can substantially assist regulatory authorities, as it helps identify the bank's vulnerabilities to failure risk and enables the conduct of on-site inspections and risk-based audits. Bank failure prediction models contribute to this end, as they provide a better understanding of a bank's operations. Regulatory authorities have also developed an early-warning system for this purpose. The prediction of bank failure has a long history, and the CAMELS rating system—introduced by the U.S. Federal Reserve in the mid-1990s—remains in use to this day, albeit with periodic modifications (Liu, 2021). Long-term prediction of bank failure is also a critically

important aspect, as it influences decision-making, particularly lending decisions. The Basel Committee on Banking Supervision has recommended that banks assess the risks of lending decisions over the long term. For this precautionary reason, forecasting beyond a one-year horizon is of considerable importance, particularly for banks (du Jardin, 2017).

The Yemeni Banking Sector: Unprecedented Challenges

The Yemeni crisis has been exacerbated by ongoing conflict and political and economic instability, with the Yemeni coasts having become the site of an international and regional conflict. These challenges do not merely affect the ability of banks and financial institutions to operate efficiently and effectively; their impact also extends to the broader economy and the lives of citizens, including the following (Shawtari, 2019):

1. Acute Liquidity Crisis

The liquidity crisis is among the most prominent challenges facing Yemeni banks and financial institutions. This crisis has been exacerbated by geopolitical instability and economic uncertainty, which have substantially eroded depositor confidence, adversely affected lending activities, and impeded overall economic growth. The causes of this crisis include:

- **Ongoing conflict and political turmoil:** The war has led to a significant deterioration of the economy, affecting the ability of banks and financial institutions to operate effectively. Political divisions have also led to the division of the Central Bank of Yemen, which complicates liquidity management and increases operational risks. These banks have incurred exceptional operating expenses that have affected their ability to perform their operational functions and to devote resources to developing advanced digital banking services aimed at improving the customer experience and delivering satisfactory services (Alobaidi et al., 2017).
- **Erosion of depositor confidence:** The economic crisis and political instability have led to a decline in depositor confidence in the banking system, resulting in substantial deposit withdrawals and, consequently, a reduction in the liquidity base available to banks—a development that has significantly affected commercial activity in the country and the circulation of cash needed to drive the wheels of the economy.

2. International Sanctions

Sanctions imposed on certain banks have complicated international banking transactions, further isolating the Yemeni banking sector from the global financial system. This affects the ability of banks and financial institutions to carry out external transfers and to receive financial support from abroad.

3. Infrastructural and Legislative Challenges

- **Absence of a unified payment system:** The absence of a unified, rapid nationwide payment system limits interoperability among banks and impedes efficient electronic transfers, e-commerce, and inter-governmental payments.
- **Fragmented services:** Financial institutions operate in silos, making it impossible to efficiently transfer funds between different service providers and thereby limiting the payment options available—whether in cash, by check, or within the same institution (Sharyan and Al Hemyari, 2025).
- **Low service quality:** Service quality remains poor, and banks lack the entrepreneurial capabilities needed to meet customer needs or to build awareness among potential savers.

4. Trust and Governance Challenges

- **Lack of public trust:** There is a lack of trust in the banking system, resulting in a scarcity of deposits and limited capital available for investment.

- **Impact of the policies of terrorist organizations:** The Houthi movement's policies have imposed arbitrary regulations and disrupted the financial sector, further undermining its stability.
- **The informal economy:** The inability to conduct formal international transactions has driven the flow of funds through informal networks, which are largely unregulated and can facilitate illicit financial activities.

From a macroeconomic perspective, an increase in the level of national risk resulting from escalating political shocks and other disturbances harms a country's economic activities and may directly or indirectly affect bank performance. From a microeconomic perspective as well, any increase in the level of risk distorts firms' resource allocation decisions and may delay investment and production decisions, thereby adversely affecting the services provided by financial institutions. Moreover, political instability in oil- and gas-exporting economies is likely to adversely affect the movement of oil and gas prices, causing macroeconomic disruption that may, in turn, negatively affect banking services (Saif-Alyousfi, 2020).

Furthermore, the Yemeni banking sector is the primary and most severely affected party as a result of the duality and division of the Central Bank of Yemen. The Central Bank of Yemen in Aden began exercising its duties and functions as soon as the decision to relocate it was issued, while at the same time the Central Bank in Sana'a—controlled by illegitimate organizations, or the so-called de facto authority in Sana'a and the areas under its control—retained the scope of its internal and local authority only, given that it lacks legitimacy and international recognition, as well as the ability to conduct any international transactions, open foreign accounts, or print currency. This has resulted in intense competition and conflict between the two central banks, which has exacerbated the liquidity crisis already afflicting the banking sector as a result of the relocation process. This has extended to the adoption of a different exchange rate for the Yemeni rial and its depreciation against foreign currencies in the areas under each bank's respective control, the loss of revenues due to frozen assets, the suspension of public debt servicing, a decline in public confidence in official banking operations, and a decrease in cash deposits at Yemeni banks. In addition, there have been increasingly arbitrary measures by both central banks to consolidate their unilateral authority over the banking system and to manage and regulate the operations of Yemeni commercial and Islamic banks, alongside other difficulties and challenges facing these banks, such as the erosion of customer trust in them and in the banking sector generally. This has contributed significantly to increasing the activity of the parallel sector and the black market, has exposed Yemen to money-laundering risks, and has intensified the procedures, restrictions, requirements, and risk-mitigation measures imposed by regional and international bodies and organizations on Yemeni banks and the Yemeni banking sector as a whole (Saif-Alyousfi, 2020).

The Role of the Central Bank in Risk Management

The role of the central bank in managing banking risks encompasses the supervision and oversight of banks, the formulation of the policies and regulations necessary for risk management, and the implementation of precautionary measures aimed at ensuring the safety and stability of the financial system. The central bank's functions include establishing risk management policies, monitoring banks' compliance with these policies through on-site and off-site supervision, managing banking crises, and providing the data and reports necessary for risk analysis and assessment. Banking activity is among the economic activities most exposed to escalating risk amid the challenges of globalization, innovations in banking practice, and the expanding scope and scale of banking activity. In recent years, the global economy has experienced numerous financial crises, prompting international financial institutions such as the World Bank, the International Monetary Fund, the Bank for International Settlements, and the Basel Committee on Banking Supervision to study the causes and consequences of these crises. It was found that the fundamental cause underlying these crises was the growing and increasingly diverse range of risks facing banking activity and the failure to manage them effectively (Simamora and Oswari, 2019).

Geopolitical Tensions and Risks and Their Impact on the CAMELS Model

NguyenHuu and Örsal (2024) hold that geopolitical risks are the potential risks and threats arising from political tensions between states, wars, terrorist acts, trade conflicts, and cyberattacks, which can significantly

affect the economies of nations and financial markets in terms of their impact on GDP, consumer prices, exchange rates, inflation, commodity prices, and long-term bond yields—effects that, in turn, are reflected directly or indirectly on firms, such as through impacts on supply chains and the cost of production inputs.

In recent years, the interconnectedness of global markets has created new opportunities for firms to expand their operations and achieve significant growth. However, alongside this expansion, firms face challenges arising from geopolitical risks, which can jeopardize their financial stability and hinder their ability to sustain and survive in the business world (Mahmoud et al., 2025).

Geopolitical risks pose a significant threat to the performance of many firms, necessitating the collection and evaluation of reliable information in order to manage these risks effectively. Moreover, the increasingly stringent legal requirements of recent years call for more comprehensive reporting on firm-specific risks. Detailed knowledge of the regulatory framework, accounting implications, and measurement issues is therefore essential for corporate managers, board members, and regulators to address, manage, and disclose geopolitical risks (Voeller, 2024). Understanding the implications associated with geopolitical risk disclosure is of critical importance to numerous academic, business, and regulatory communities, given the anticipated impact of this type of disclosure on firm performance and stakeholder decisions.

Geopolitical risks affect the banking sector by influencing the various components of the CAMELS model. Geopolitical shocks can adversely affect banks' stability, capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risk. Geopolitical risks, such as wars, terrorism, and trade restrictions, generate uncertainty and volatility, which may adversely affect a bank's operations and financial position. The impact of geopolitical risks on each dimension of the CAMELS model is set out below (Khoirun and Setyowati, 2025):

1. **Capital Adequacy:** Geopolitical risks may lead to a decline in asset prices and an increase in borrowing costs, which in turn reduces a bank's net asset value and may increase the burden on its regulatory capital.
2. **Asset Quality:** Economic downturns and trade disruptions arising from geopolitical risks may increase the risk of loan default, adversely affecting the quality of a bank's loan and investment portfolios.
3. **Management:** Geopolitical events test management's ability to identify, measure, and manage new, unforeseen risks. Effective management involves formulating strategies to overcome supply-chain disruptions, sanctions, and market volatility.
4. **Earnings:** Geopolitical risks may adversely affect corporate profitability and economic activity in general, reducing a bank's ability to generate sustainable earnings from its core operations.
5. **Liquidity:** During crises, a "flight to safe assets" phenomenon may occur, whereby capital moves away from riskier assets and emerging markets. This, in turn, may increase a bank's reliance on volatile short-term funding and affect its ability to meet its obligations.
6. **Sensitivity to Market Risk:** Geopolitical events cause significant fluctuations in commodity prices, exchange rates, and equity markets, to which banks may be substantially exposed.

Melega (2025) holds that geopolitical risks can be managed through hedging against such risks, whether via insurance or other financial instruments such as futures contracts or currency options. Firms must record these instruments in a manner that contributes to reducing geopolitical risk within financial reports. In our increasingly globalized and interconnected world, geopolitical events can rapidly propagate across markets and adversely affect global financial stability. In this context, various stakeholders—including, but not limited to, policymakers, managers, auditors, analysts, and investors—require a comprehensive understanding of how economic factors, whether firm-specific or broader in scope, particularly geopolitical risks, affect the financial soundness of firms.

International Financial Reporting Standards (IFRS) and Their Impact on the CAMELS Model

The concept of accounting convergence and the standardization of accounting practices emerged with the issuance of International Financial Reporting Standards (IFRS), through the convergence process between the International Accounting Standards Board and the U.S. Financial Accounting Standards Board. This convergence rests on reducing the divergence in accounting practices followed across different countries, with the aim of ensuring a reasonable level of relevance and reliability in accounting information and of improving the quality of published financial statements to serve all stakeholders. Convergence also aims to achieve harmony and consistency in accounting practices by reducing the differences among them, so that they become consistent and non-contradictory, thereby improving the quality of accounting information in financial reports. The convergence process further represents the systematic and orderly blending and unification of accounting practices followed across different countries of the world, with the aim of meeting investors' decision-making needs and overcoming the difficulties and constraints associated with the flow of investments between countries (Amelio, 2016).

Financial reports provide accounting information, and for this information to be useful in guiding decision-makers' thinking, it must possess a set of attributes known as the qualitative characteristics of accounting information. The application of IFRS helps improve the qualitative characteristics of accounting information (Nasser, 2015). The qualitative characteristics of accounting information are as follows:

1. Fundamental Characteristics

First: Relevance

Relevance means that accounting information is capable of making a difference in the decisions taken by users. Data must be relevant to the intended use by potential users; in other words, financial data must strive to meet the information needs of its users (Shahwan, 2008).

Second: Faithful Representation

Information must reflect the internal structure and the true financial position of the company. The reliability characteristic requires the following (Miller and Bahnson, 2007):

- a. **Completeness** — the information must be complete, conveying all information necessary for users to understand the events being represented, whether descriptive or explanatory in nature.
- b. **Neutrality** — the information must be unbiased, such that financial statements are not prepared and presented to serve a particular party or group of users at the expense of other parties, or to achieve a specific purpose or objective, but rather are intended for general use without bias.
- c. **Freedom from error** — financial information must be free of errors or omissions in the description of economic events, and there must be no errors in the process of preparing the reported financial information.

2. Enhancing Characteristics

There are four qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented: comparability, understandability, verifiability, and timeliness. Furthermore, these enhancing qualitative characteristics should be maximized to the greatest extent possible (Nasser, 2015).

The researcher holds that the relevance of accounting information exerts a significant and positive effect on the CAMELS model, in that relevant information increases the model's capacity to predict financial failure and to assess banking performance with greater accuracy, particularly when IFRS is adopted to improve information quality—thereby enhancing the efficiency of the six indicators (C-A-M-E-L-S: capital, assets, management, earnings, liquidity, sensitivity to market risk) and rendering them more reliable for decision-makers and investors. IFRS positively and substantially affects the relevance of financial information, making it more closely connected to, and more capable of influencing, users' decisions (investors, creditors) through enhanced

transparency, improved disclosure, and a focus on materiality: the standards direct companies to disclose information whose omission or misstatement would be likely to influence users' decisions, thereby focusing attention on the most significant aspects of financial performance.

The application of IFRS raises the level of transparency and comparability within the banking sector, rendering the CAMELS model a more effective tool for evaluating banks, as the standards provide higher-quality and more relevant financial information across all components of the model, thereby contributing to better investment and regulatory decisions. The impact of IFRS on each dimension of the CAMELS model is set out below (Abebe, 2022):

1. **Capital Adequacy:** IFRS strengthens capital disclosure requirements, particularly with respect to new standards such as IFRS 9 (Financial Instruments) and IFRS 17 (Insurance Contracts), which provide greater clarity regarding capital adequacy and its associated risks.
2. **Asset Quality:** The introduction of fair value measurement and risk assessment (such as expected credit losses under IFRS 9) provides a more realistic evaluation of asset risk, rather than relying solely on historical cost.
3. **Management:** IFRS increases the transparency of information relating to management efficiency and risk through detailed disclosures of accounting policies and operational risks, thereby supporting the assessment of managerial performance.
4. **Earnings:** IFRS provides a more consistent basis for assessing earnings quality and relevance, particularly in light of changes to revenue recognition and earnings management practices, thereby reducing information asymmetry.
5. **Liquidity:** Standards such as IFRS 7 (Financial Instruments: Disclosures) require detailed disclosures regarding funding sources, maturities, and liquidity, thereby enhancing the assessment of a bank's liquidity risk.
6. **Sensitivity to Market Risk:** IFRS requires quantitative and qualitative disclosures regarding market risks (interest rates, exchange rates, etc.), enabling a better overall assessment of a bank's financial risk exposure.

Johri (2024) holds that the application of these standards improves the quality of financial reporting for multinational corporations.

In the context of CAMELS model indicators for performance evaluation—such as asset quality, profitability, and liquidity—Abu Alrub et al. (2020) examined the effect of applying International Accounting Standards (IAS/IFRS) on the profitability of 24 Lebanese banks, in light of the financial crisis. The period from the first quarter of 2000 to the fourth quarter of 2015 was divided into three phases: pre-adoption of IAS/IFRS, post-adoption and pre-global financial crisis, and post-adoption and post-crisis. The main findings showed that asset quality has a positive effect on bank profitability under Generally Accepted Accounting Principles (GAAP) and a negative effect under IAS/IFRS, with this direction reversing after the financial crisis. The study also found that liquidity and capital adequacy have a negative effect on bank profitability, with this ratio rising in the period following the adoption of IAS/IFRS and following the global financial crisis compared with GAAP, indicating the presence of pre-crisis indicators under IAS/IFRS, which in turn led to increased financial leverage.

The Applied Study and Hypothesis Testing

The applied component of this research aims to analyze the effect of variation in accounting information relevance—under conditions of geopolitical tensions and the application of financial reporting standards—on the effectiveness of using the CAMELS model and on the assessment of financial failure in Yemeni commercial banks. The study population consists of all Yemeni commercial banks operating in the Yemeni market during the period from 2015 to 2021, comprising the International Bank of Yemen, the Yemen and

Kuwait Bank, the Yemen Bank for Reconstruction and Development, the National Bank of Yemen, the Commercial Bank, and CAC Bank. Each bank contributed 7 observations, yielding a total of 42 observations across the study period. The researcher justifies the relatively small sample size by noting the study's focus on the specific time period marked by geopolitical tensions and international crises. In order to achieve the study's objective and test the formulated statistical hypotheses—specifically to test the direct relationships involved in the hypothesis testing—the researcher defines the study variables and their measurement instruments as set out below:

The First Study Variable (Accounting Information Relevance):

The first study variable is accounting information relevance. The information asymmetry index can be relied upon to express the level of accounting information relevance, reflecting the perspective of external users of financial reports in terms of the informational advantage enjoyed by internal parties (management) over external parties who use the financial statements. Information asymmetry and reduced accounting information relevance thus emerge from the perspective of the predictive value of stock prices. Accordingly, information asymmetry can be measured using the bid–ask spread associated with stock trading, representing the difference between the ask price and the bid price, which can be substituted with the difference between the closing price and the opening price of the stock for listed banks.

The Second Study Variable (the CAMELS Model):

The CAMELS model is regarded as one of the most important elements of the Basel III Accord. The measurement mechanism for each component of the CAMELS model can be illustrated in Table (2) below:

Table (1): CAMELS Model Indicators

Indicator	Symbol	No.	Measurement Ratio	Sub-Code
Capital Adequacy Indicator	C	1	Capital / Deposits	C1
		2	Tier 1 Capital / Risk-Weighted Assets	C2
		3	Financial Leverage	C3
Asset Quality Indicator	A	4	Non-Performing Loans / Total Loans	A1
		5	Risk-Weighted Assets / Total Assets	A2
		6	Liquid Assets / Total Assets	A3
		7	Loans at Risk / Deposits	A4
		8	Held-to-Maturity Assets / Total Assets	A5
		9	Held-to-Maturity Assets / Deposits	A6
		10	Provisions / (Equity + Provisions)	A7
		11	Operating Expenses / Loans	A8
		12	Past-Due Loans / Loans	A9
Management Quality Indicator	M	13	Net Income / Total Loans	M

Earnings Quality Indicator	E	14	Net Income / Total Assets	E1
		15	Net Income / Equity	E2
Liquidity Quality Indicator	L	16	Liquidity Coverage Ratio (LCR) greater than 100%	L1
		17	Total Loans / Total Deposits	L2
		18	Liquid Assets / Total Assets	L3
Market Quality Indicator	S	19	Securities Portfolio / Total Assets	S

The Third Study Variable (Geopolitical Tensions):

The third study variable is geopolitical tensions, which can be measured using the Geopolitical Risk (GPR) Index developed by Caldara and Iacoviello (2022). This index encompasses several distinct geopolitical issues and all associated risk-laden events, drawing on numerous related studies. The index's weighting details are derived from political determinants relating to eight key indicators: war threats, peace threats, military buildups, nuclear threats, terrorist threats, war onset, war escalation, and acts of terrorism. This measure is linked to the level of geopolitical tension at the country level and is issued monthly for the country as a whole. For the purpose of using it to measure geopolitical risk, the index can be adapted to fit each individual bank through the following formula:

$$\text{Bank-Level Geopolitical Risk} = \text{Country-Level Geopolitical Risk Index Value} \times (\text{Number of Words Indicating Geopolitical Risk for the Bank} / \text{Total Number of Words Indicating Geopolitical Risk in the Disclosure Index})$$

The Fourth Study Variable (Compliance with IFRS Requirements):

The fourth study variable is compliance with IFRS requirements, which can be measured based on the level of qualitative disclosure in the notes accompanying banks' financial statements. Accordingly, the level of qualitative disclosure in these accompanying notes can be relied upon as an indicator of the extent of compliance with IFRS requirements.

The Fifth Study Variable (Prediction of Financial Failure):

The fifth study variable is the prediction of financial failure. A firm's going-concern status rests on its ability to generate profits and maintain a reasonable level of liquidity, thereby enabling all stakeholders to feel confident about their investments. Financial failure can therefore be measured using the (Altman) financial distress index, specifically the Z-score financial distress index, which is an index generally agreed upon among academics and professional bodies. A higher value of the index indicates financial failure, and vice versa. This index is measured as follows:

$$\text{Z-Score} = 1.2 X_1 + 1.4 X_2 + 3.3 X_3 + 0.6 X_4 + 1 X_5$$

where:

- X_1 = Working Capital ÷ Total Tangible Assets
- X_2 = Retained Earnings ÷ Total Tangible Assets
- X_3 = Earnings Before Interest and Tax ÷ Total Tangible Assets
- X_4 = Market Value of Equity (Number of Shares × Share Price) ÷ Total Liabilities
- X_5 = Net Sales ÷ Total Tangible Assets

The Z-value is classified into three categories:

Category	Risk Level	Z
First	The firm is sound and is not expected to fail	Greater than 2.7
Second	The company's status is questionable and requires further study and analysis	Ranges from 1.8 to 2.7
Third	High probability of distress and bankruptcy	Less than 1.8

Within the framework of the study's objective of testing its statistical hypotheses, the hypothesis-testing models of the study can be formulated as follows:

Model for Analyzing the Relationship between Accounting Information Relevance and the Effectiveness of Using the CAMELS Model:

The first hypothesis of the study predicts an analysis of the effect of accounting information relevance on the effectiveness of using the CAMELS model. Accordingly, the model for testing the first statistical hypothesis can be formulated as follows:

$$\text{CAMELS} = \beta_0 + \beta_1 (\text{INFO_Assy}) + \varepsilon \quad (1)$$

Model for Analyzing the Relationship between the Level of Compliance with IFRS Requirements and Accounting Information Relevance:

The second hypothesis of the study predicts an analysis of the effect of the level of compliance with IFRS requirements on accounting information relevance. Accordingly, the researcher formulates the model for testing the study's second statistical hypothesis as follows:

$$\text{Info_Assy} = \beta_0 + \beta_1 (\text{IFRS}) + \varepsilon \quad (2)$$

Model for Analyzing the Effect of Geopolitical Tensions on the Relationship between Accounting Information Relevance and the Effectiveness of Using the CAMELS Model:

The third hypothesis of the study predicts an analysis of the effect of geopolitical tensions on the relationship between accounting information relevance and the effectiveness of using the CAMELS model. Accordingly, the model for testing this statistical hypothesis can be formulated as follows:

$$\text{CAMELS} = \beta_0 + \beta_1 (\text{Geo_Polit} \times \text{Info_Assy}) + \varepsilon \quad (3)$$

Model for Analyzing the Effect of the Level of Compliance with IFRS Application Requirements on the Relationship between Accounting Information Relevance and the Effectiveness of Using the CAMELS Model:

The fourth hypothesis of the study predicts an analysis of the effect of the level of compliance with IFRS application requirements on the relationship between accounting information relevance and the effectiveness of using the CAMELS model. Accordingly, the model for testing the fourth statistical hypothesis has been formulated as follows:

$$\text{CAMELS} = \beta_0 + \beta_1 (\text{IFRS} \times \text{Info_Assy}) + \varepsilon \quad (4)$$

Model for Analyzing the Relationship between the Effectiveness of Using the CAMELS Model and the Level of Financial Failure:

The fifth hypothesis of the study predicts an analysis of the effect of the effectiveness of using the CAMELS model on the level of financial failure. Accordingly, the model for testing the fifth statistical hypothesis has been formulated as follows:

$$Z\text{-Score} = \beta_0 + \beta_1 (\text{CAMELS}) + \varepsilon \quad (5)$$

Where:

Variable Symbol	Variable Description
CAMELS	The level of effectiveness of applying the CAMELS model across all of its sub-indicators
INFO_Assy	The level of information asymmetry, as a means of measuring the level of accounting information relevance
Geo_Polit	The level of geopolitical tensions in the bank's surrounding environment
Z-Score	The level of financial failure, based on the level of financial distress
IFRS	The level of compliance with the requirements of International Financial Reporting Standards

Descriptive Statistics

Descriptive statistics represent the primary method used by the researcher to characterize the shape and distribution of the sample, thereby enabling the generalization of the findings to comparable samples and allowing the results of the present study to be compared with those of relevant prior studies. Accordingly, descriptive statistics—namely, the mean, standard deviation, and minimum and maximum values—were used to illustrate the distribution of the sample across the study's variables. The results of the statistical analysis are presented in Table (2) below:

Table (2): Descriptive Statistics Results

Variable	N	Mean	Std. Dev.	Min.	Max
C1	42	0.064	0.027	0.032	0.169
C2	42	0.095	0.035	0.037	0.166
C3	42	0.037	0.030	0.006	0.107
A1	42	0.081	0.048	0.020	0.184
A2	42	0.164	0.066	0.075	0.291
A3	42	0.256	0.078	0.133	0.436
A4	42	0.188	0.070	0.092	0.332
A5	42	0.644	0.114	0.403	0.798
A6	42	0.772	0.167	0.448	1.195
A7	42	0.245	0.201	0.014	0.626
A8	42	0.061	0.019	0.034	0.117
A9	42	0.140	0.056	0.057	0.256

M	42	0.014	0.012	-0.009	0.048
E1	42	0.010	0.008	-0.005	0.035
E2	42	0.120	0.112	-0.105	0.406
L1	42	0.434	0.227	0.151	1.254
L2	42	0.828	0.131	0.556	1.086
L3	42	0.256	0.078	0.133	0.436
S	42	0.638	0.114	0.398	0.790
INFO_Assy	42	0.280	1.136	-1.655	2.297
Geo_Polit	42	0.087	0.010	0.001	0.115
Z-Score	42	4.521	1.205	-7.651	9.251
IFRS	42	0.260	0.055	0.125	0.337

From the results presented in Table (2), a number of observations can be made, as clarified below:

First, with respect to the first variable relating to the effectiveness of the CAMELS model, the arithmetic means of the CAMELS model indicators show a moderate distribution across the following ratios: capital/deposits, Tier 1 capital/risk-weighted assets, financial leverage, non-performing loans/total loans, risk-weighted assets/total assets, liquid assets/total assets, loans at risk/deposits, held-to-maturity assets/total assets, held-to-maturity assets/deposits, provisions/(equity + provisions), operating expenses/loans, past-due loans/loans, net income/total loans, net income/total assets, net income/equity, liquidity coverage ratio (LCR), total loans/total deposits, liquid assets/total assets, and securities portfolio/total assets, standing at 6.4%, 9.5%, 3.7%, 8.1%, 16.4%, 25.6%, 18.8%, 64.4%, 77.2%, 24.5%, 6.1%, 14%, 1.4%, 1%, 12%, 43.4%, 82.8%, 25.6%, and 63.8%, respectively.

Second, with respect to the independent variable relating to geopolitical tension risk, this is an index weighted by the global geopolitical tension measure at the level of each individual bank, with a mean value of 8.7%. This also indicates a considerable direct impact of geopolitical tensions on the business outcomes of the banks included in the study sample, confirming the presence of geopolitical risk exposure among the sampled banks.

Third, the mean value of the Info_Assy variable, relating to the relevance of the accounting information contained in the financial statements, stands at 0.280 as expressed by the information asymmetry index. This value indicates a low level of information dispersion, reflecting a narrow price range and, consequently, a reduced informational advantage held by internal parties within the firm over external parties who use the financial reports. This, in turn, points to a relatively high level of relevance of the accounting information contained in the financial statements.

Fourth, with respect to the variable relating to financial failure, the arithmetic mean of the Z-index value stands at 4.521. In accordance with the classification thresholds associated with this index, it is evident that the overall mean for the study sample exceeds the value of 2.7, indicating that the majority of banks included in the study sample are sound and not experiencing distress.

Fifth, with respect to the variable relating to the level of compliance with IFRS application requirements, the arithmetic mean stands at 26%, indicating a relatively low level of compliance with International Financial Reporting Standards.

Finally, the low standard deviation values observed across the variables included in the study sample indicate a low degree of dispersion within the sample and a correspondingly high suitability of the sample for analysis. On the basis of the results presented above, the researcher is able to compare the results of the study sample with those of other relevant studies, finding that they are broadly consistent with the results obtained in the present study sample.

Correlation Analysis Results

Correlation analysis is conducted here with the aim of verifying the nature of the relationship between the study variables and testing for multicollinearity problems, so as to corroborate the preceding results. In this regard, it should be noted that correlation coefficients range between +1 and -1, given that the maximum possible correlation between variables is that of a variable with itself. The results of the statistical analysis yielded the correlation matrix presented in Table (3) below:

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
C1	1																						
C2	.321**	1																					
C3	-.129	.277	1																				
A1	-.187	-.149	-.187	1																			
A2	-.170	-.179	-.150	.030**	1																		
A3	-.021**	-.299	-.222	-.231*	.222*	1																	
A4	-.177	-.122	-.174	.498**	.947**	.222*	1																
A5	.297	.025**	-.201	.020**	-.247**	-.231**	.222*	1															
A6	.222*	.025**	.220**	.029**	-.247**	-.231**	-.231**	.222*	1														
A7	.100	.101	.200	.200**	-.247**	-.231**	.222*	.222*	.222*	1													
A8	.101	.222*	-.200	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1												
A9	.101	.222*	-.200	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1											
M	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1										
E1	-.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1									
E2	-.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1								
L1	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1							
L2	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1						
L3	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1					
S	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1				
INFO_Assy	-.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1			
Geo_Polit	-.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1		
Z-Score	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1	
IFRS	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	.222*	1

*** > 0.01, ** > 0.05, * > 0.10, ** > 0.01, *** > 0.001

According to the results presented therein, a significant correlation was found between the information asymmetry index and each of the following indicators: capital/deposits, Tier 1 capital/risk-weighted assets, financial leverage, risk-weighted assets/total assets, liquid assets/total assets, held-to-maturity assets/deposits, past-due loans/loans, net income/total loans, net income/total assets, liquidity coverage ratio (LCR), liquid assets/total assets, and securities portfolio/total assets, with correlation coefficients of -0.404, -0.387, 0.393, -0.363, -0.393, -0.384, 0.408, -0.373, -0.421, -0.378, -0.361, and -0.406, respectively.

A significant relationship was also found between the geopolitical tensions index and the indicators of financial leverage, non-performing loans/total loans, loans at risk/deposits, provisions/(equity + provisions), past-due loans/loans, net income/total loans, total loans/total deposits, and liquid assets/total assets, with correlation coefficients of 0.400, 0.421, 0.391, -0.425, 0.384, -0.379, -0.408, and -0.373 [and -0.379], respectively.

In addition, a significant relationship was found between the financial distress index and the indicators of capital/deposits, Tier 1 capital/risk-weighted assets, non-performing loans/total loans, liquid assets/total assets, held-to-maturity assets/deposits, provisions/(equity + provisions), net income/total assets, liquidity coverage ratio (LCR), and liquid assets/total assets, with correlation coefficients of 0.374, 0.385, -0.420, 0.358, 0.376, 0.371, 0.373, 0.361, and 0.395, respectively.

Finally, a significant relationship was found between the level of compliance with the application of financial reporting standards and the indicators of Tier 1 capital/risk-weighted assets, financial leverage, liquid

assets/total assets, operating expenses/loans, past-due loans/loans, net income/total assets, net income/equity, liquidity coverage ratio (LCR), and securities portfolio/total assets, with correlation coefficients of 0.374, -0.392, 0.399, -0.418, -0.371, 0.385, 0.415, 0.378, and 0.421, respectively.

Statistical Hypothesis Testing Results

The purpose of this section is to analyze the direct relationships among the study's key variables through the application of the regression models presented earlier for hypothesis testing, proceeding through the following stages:

First: The Effect of Accounting Information Relevance on the Effectiveness of Using the CAMELS Model (the Study's First Statistical Hypothesis):

The relationship between accounting information relevance and the effectiveness of using the CAMELS model was analyzed by running Regression Model (1), used to test the study's first statistical hypothesis, based on the level of significance and the direction of the relationships between the variables. In this regard, the results of the statistical analysis obtained from running Regression Model (1) are presented in Table (4) below:

Table (4): Results of Testing the Study's First Statistical Hypothesis

Independent	Dependent	Estimate	CR	Sig.	Result
Info_Assy	C1	-0.422	-3.143	***	Accepted
	C2	-0.467	-3.252	***	Accepted
	C3	0.429	3.408	***	Accepted
	A1	0.107	0.868	0.211	Rejected
	A2	-0.419	-3.262	***	Accepted
	A3	-0.463	-3.191	***	Accepted
	A4	0.104	0.942	0.233	Rejected
	A5	-0.083	-1.037	0.212	Rejected
	A6	-0.466	-3.288	***	Accepted
	A7	-0.102	-0.921	0.198	Rejected
	A8	0.096	0.968	0.223	Rejected
	A9	0.080	1.025	0.187	Rejected
	M	-0.453	-3.160	***	Accepted
	E1	-0.469	-3.368	***	Accepted
	E2	-0.088	-1.025	0.211	Rejected
	L1	-0.446	-3.136	***	Accepted
	L2	-0.131	-1.047	0.188	Accepted

	L3	-0.422	-3.256	***	Rejected
	S	-0.458	-3.324	***	Rejected

According to the results presented in Table (4), a significant inverse effect of the information asymmetry index used to measure relevance is found on the indicators of capital/deposits, Tier 1 capital/risk-weighted assets, risk-weighted assets/total assets, liquid assets/total assets, held-to-maturity assets/deposits, net income/total loans, net income/total assets, liquidity coverage ratio (LCR), liquid assets/total assets, and securities portfolio/total assets, with path coefficients of -0.422 , -0.476 , -0.419 , -0.463 , -0.466 , -0.453 , -0.469 , -0.446 , -0.422 , and -0.458 , respectively, all significant at the 5% level. This indicates that an increase in the level of information asymmetry (i.e., a decrease in the level of accounting information relevance) leads to a decline in the indicators of capital/deposits, Tier 1 capital/risk-weighted assets, risk-weighted assets/total assets, liquid assets/total assets, held-to-maturity assets/deposits, net income/total loans, net income/total assets, liquidity coverage ratio (LCR), liquid assets/total assets, and securities portfolio/total assets.

The results also reveal a significant positive effect of the information asymmetry index used to measure relevance on the financial leverage indicator, with a path coefficient of 0.429 , significant at the 5% level. This indicates that an increase in the level of information asymmetry (i.e., a decrease in the level of accounting information relevance) leads to an increase in the financial leverage indicator.

Accordingly, the relationship between accounting information relevance and the effectiveness of the CAMELS model, as embodied in the study's first main statistical hypothesis, can be depicted as follows:

Second: The Effect of the Level of Compliance with IFRS Requirements on Accounting Information Relevance (the Study's Second Statistical Hypothesis):

The study's second hypothesis states that "there is no statistically significant effect of compliance with the requirements for applying International Financial Reporting Standards (IFRS) on accounting information relevance." The results of the simple regression analysis are presented in Table (6) below:

Table (5): Results of the Simple Regression Analysis for the Second Statistical Hypothesis

Model	Sum of Squares	df	Mean Square	F	Sig.	R ²	R
Regression	57.754	1	57.754	239.908	0.000	0.462	-0.680
Residual	78.272	40	0.241				
Total	136.026	41					

Source: Prepared by the researcher based on the results of the statistical analysis.

Table (5) reveals the following:

- The regression model is confirmed to be statistically significant, with an F-value of 339.908 at a significance level of $\alpha = 5\%$.
- The coefficient of determination (R^2) is 0.462, meaning that the level of compliance with IFRS requirements explains 46.2% of the variation occurring in accounting information relevance, while the remaining 53.8% is attributable to factors not included in the model.
- There is a significant effect of the level of compliance with IFRS requirements on accounting information relevance, with a significance value of 0.000, which is below the 5% significance threshold. The researcher attributes this to the existence of a significant inverse correlation between the level of compliance with IFRS requirements and the level of information asymmetry, amounting to

−0.680. Accordingly, an increase in the level of compliance with IFRS requirements leads to a decrease in the level of information asymmetry and, consequently, an increase in the level of accounting information relevance.

On this basis, it becomes evident that the null hypothesis can be rejected in favor of the alternative hypothesis, which states that "there is a statistically significant effect of compliance with the requirements for applying International Financial Reporting Standards (IFRS) on accounting information relevance."

Third: The Effect of Geopolitical Tensions on the Relationship between Accounting Information Relevance and the Effectiveness of Using the CAMELS Model (the Study's Third Statistical Hypothesis):

The effect of geopolitical tension risks on the relationship between accounting information relevance and the effectiveness of using the CAMELS model was analyzed by running Regression Model (3), used to test the study's third statistical hypothesis, based on the level of significance and the direction of the relationships between the variables. In this regard, the results of the statistical analysis obtained from running Regression Model (3) are presented in Table (6) below:

Table (6): Results of Testing the Study's Third Statistical Hypothesis

Independent	Dependent	Estimate	CR	Sig.	Result
Geo_Polit × Info_Assy	C1	-0.105	-0.903	0.236	Rejected
	C2	-0.111	-1.026	0.204	Rejected
	C3	0.365	3.370	***	Accepted
	A1	0.323	3.397	***	Accepted
	A2	-0.127	-0.903	0.184	Rejected
	A3	-0.057	-0.959	0.192	Rejected
	A4	0.298	3.558	***	Accepted
	A5	-0.100	-1.032	0.199	Rejected
	A6	-0.098	-1.018	0.216	Rejected
	A7	-0.339	-3.302	***	Accepted
	A8	0.119	0.985	0.179	Rejected
	A9	0.304	3.563	***	Accepted
	M	-0.354	-3.492	***	Accepted
	E1	-0.087	-1.099	0.218	Rejected
	E2	-0.327	-3.357	***	Accepted
	L1	-0.121	-0.925	0.228	Rejected
	L2	-0.353	-3.497	***	Accepted

	L3	-0.343	-3.337	***	Accepted
	S	-0.103	-1.081	0.213	Rejected

According to the results presented in Table (6), a significant positive effect of the interaction index between geopolitical tension risks and the level of information asymmetry is found on the indicators of financial leverage, non-performing loans/total loans, loans at risk/deposits, and past-due loans/loans, with path coefficients of 0.365, 0.323, 0.298, and 0.304, respectively, all significant at the 5% level. This indicates that an increase in the interaction index between geopolitical tension risks and the level of information asymmetry leads to an increase in the indicators of financial leverage, non-performing loans/total loans, loans at risk/deposits, and past-due loans/loans. A significant inverse effect of this interaction index is also found on the indicators of provisions/(equity + provisions), net income/total loans, net income/equity, total loans/total deposits, and liquid assets/total assets, with path coefficients of -0.339 , -0.354 , -0.327 , -0.353 , and -0.343 , respectively, all significant at the 5% level. This indicates that an increase in the interaction index between geopolitical tension risks and the level of information asymmetry leads to a decrease in the indicators of provisions/(equity + provisions), net income/total loans, net income/equity, total loans/total deposits, and liquid assets/total assets.

The study's third statistical hypothesis can thus be accepted in the following alternative form: "There is a statistically significant effect of the interaction index between geopolitical tension risks and the level of information asymmetry on the effectiveness of using the CAMELS model."

Fourth: The Effect of the Level of Compliance with IFRS Requirements on the Relationship between Accounting Information Relevance and the Effectiveness of Using the CAMELS Model (the Study's Fourth Statistical Hypothesis):

Here, the effect of the level of compliance with IFRS requirements on the relationship between accounting information relevance and the effectiveness of using the CAMELS model is analyzed by running Regression Model (4), used to test the study's fourth statistical hypothesis, based on the level of significance and the direction of the relationships between the variables. In this regard, the results of the statistical analysis obtained from running Regression Model (4) are presented in Table (7) below:

Table (7): Results of Testing the Study's Fourth Statistical Hypothesis

Independent	Dependent	Estimate	CR	Sig.	Result
IFRS $\times$ Info_Assy	C1	0.090	0.777	0.203	Rejected
	C2	0.095	0.882	0.175	Rejected
	C3	-0.314	-2.898	***	Accepted
	A1	-0.278	-2.921	***	Accepted
	A2	0.109	0.777	0.158	Rejected
	A3	0.049	0.825	0.165	Rejected
	A4	-0.256	-3.060	***	Accepted
	A5	0.086	0.888	0.171	Rejected
	A6	0.084	0.875	0.186	Rejected

	A7	0.292	2.840	***	Accepted
	A8	-0.102	-0.847	0.154	Rejected
	A9	-0.261	-3.064	***	Accepted
	M	0.304	3.003	***	Accepted
	E1	0.075	0.945	0.187	Rejected
	E2	0.281	2.887	***	Accepted
	L1	0.104	0.796	0.196	Rejected
	L2	0.304	3.007	***	Accepted
	L3	0.295	2.870	***	Accepted
	S	0.089	0.930	0.183	Rejected

According to the results presented in Table (7), a significant inverse effect of the interaction index between compliance with IFRS requirements and the level of information asymmetry as a measure of relevance is found on the indicators of financial leverage, non-performing loans/total loans, loans at risk/deposits, and past-due loans/loans, with path coefficients of -0.314 , -0.278 , -0.256 , and -0.261 , respectively, all significant at the 5% level. This indicates that an increase in the interaction index between compliance with IFRS requirements and the level of information asymmetry as a measure of relevance leads to a decrease in the indicators of financial leverage, non-performing loans/total loans, loans at risk/deposits, and past-due loans/loans. This demonstrates the positive effect of the level of compliance with IFRS, in that it contributed to reversing the originally positive relationships into negative ones. The researcher attributes the relatively weak magnitude of these path coefficients compared with those in the original relationship to the fact that the Yemeni environment has not fully implemented International Financial Reporting Standards, with such application remaining limited to isolated individual practices.

A significant inverse effect of the interaction index between compliance with IFRS requirements and the level of information asymmetry as a measure of relevance is also found on the indicators of provisions/(equity + provisions), net income/total loans, net income/equity, total loans/total deposits, and liquid assets/total assets, with path coefficients of 0.292 , 0.304 , 0.281 , 0.304 , and 0.295 , respectively, all significant at the 5% level. This indicates that an increase in the interaction index between compliance with IFRS requirements and the level of information asymmetry as a measure of relevance leads to an increase in the indicators of provisions/(equity + provisions), net income/total loans, net income/equity, total loans/total deposits, and liquid assets/total assets. This demonstrates the positive effect of the level of compliance with IFRS, in that it contributed to reversing the originally negative relationships into positive ones. The researcher attributes the relatively weak magnitude of these path coefficients compared with those in the original relationship to the fact that the Yemeni environment has not fully implemented International Financial Reporting Standards, with such application remaining limited to isolated individual practices.

Accordingly, the study's fourth statistical hypothesis can be accepted in the following alternative form: "There is a statistically significant effect of the interaction index between compliance with IFRS requirements and the level of information asymmetry as a measure of relevance on the effectiveness of using the CAMELS model."

Fifth: The Effect of the Effectiveness of Using the CAMELS Model on the Prediction of Financial Failure (the Study's Fifth Statistical Hypothesis):

The relationship between the effectiveness of using the CAMELS model and the prediction of financial failure can be analyzed by running Regression Model (5), used to test the study's fifth statistical hypothesis, based on

the level of significance and the direction of the relationships between the variables. In this regard, the results of the statistical analysis obtained from running Regression Model (5) are presented in Table (8) below:

Table (8): Results of Testing the Study's Fifth Statistical Hypothesis

Independent	Dependent	Estimate	CR	Sig.	Result
C1	Z-Score	0.398	3.718	***	Accepted
C2		0.357	3.657	***	Accepted
C3		-0.104	-0.998	0.204	Rejected
A1		-0.353	-3.708	***	Accepted
A2		0.060	0.866	0.185	Rejected
A3		0.395	3.600	***	Accepted
A4		-0.128	-1.086	0.218	Rejected
A5		0.074	0.980	0.213	Rejected
A6		0.360	3.741	***	Accepted
A7		0.414	3.681	***	Accepted
A8		-0.121	-1.023	0.184	Rejected
A9		-0.072	-0.991	0.175	Rejected
M		0.098	1.057	0.223	Rejected
E1		0.388	3.708	***	Accepted
E2		0.063	0.845	0.183	Rejected
L1		0.346	3.799	***	Accepted
L2		0.088	1.010	0.195	Rejected
L3		0.351	3.655	***	Accepted
S		0.094	0.959	0.215	Rejected

According to the results presented in Table (8), a significant positive effect is found for the indicators of capital/deposits, Tier 1 capital/risk-weighted assets, liquid assets/total assets, held-to-maturity assets/deposits, provisions/(equity + provisions), net income/total assets, liquidity coverage ratio (LCR), and liquid assets/total assets on the financial soundness index (Z-Score), with path coefficients of 0.398, 0.357, 0.395, 0.360, 0.414, 0.388, 0.346, and 0.351, respectively, all significant at the 5% level. This indicates that an increase in the levels of capital/deposits, Tier 1 capital/risk-weighted assets, liquid assets/total assets, held-to-maturity assets/deposits, provisions/(equity + provisions), net income/total assets, liquidity coverage ratio (LCR), and liquid assets/total assets leads to an increase in the Z-Score financial soundness index and, consequently, a reduction in the likelihood of financial failure. A significant inverse effect is also found for the non-performing loans/total loans indicator on the Z-Score financial soundness index, with a path coefficient of -0.353 , significant at the 5% level, indicating that an increase in the level of non-performing loans/total loans leads to

a decrease in the Z-Score financial soundness index and, consequently, an increase in the likelihood of financial failure.

Based on the foregoing results, the study's fifth main statistical hypothesis can be accepted in the following alternative form: "There is a statistically significant effect of the effectiveness of using the CAMELS model on the level of financial failure."

DISCUSSION AND ANALYSIS OF THE FINDINGS

The study found a statistically significant effect of accounting information relevance on the effectiveness of using the CAMELS model. This finding is consistent with Al-Anbagi (2025), which aimed to assess the quality of the financial reports issued by domestic banks (using Union Bank as a case study) through application of the CAMELS model. This model evaluates bank performance and is used as a monitoring tool through the application of several indicators. The distinguishing feature of that study lies in linking the CAMELS model to financial reporting quality within the Iraqi context. To achieve its objective, the study used Union Bank's financial reports (statement of financial position and income statement) for the period from 2021 to 2024 and applied the CAMELS model indicators. The relationship between financial reporting quality and the model was then established through the accuracy of disclosures regarding capital, asset valuation, loan loss provisions, expense recognition, internal controls, earnings transparency, and liquidity reporting. The research arrived at several conclusions, the most notable being that Union Bank's CAMELS indicators for the 2021–2024 period demonstrate strong capital and liquidity adequacy, supported by improved management efficiency. Nevertheless, earnings quality remains modest, pointing to limited profitability sustainability. The reliability of these indicators depends heavily on the quality of financial reporting, as transparent reports that comply with International Financial Reporting Standards enhance the accuracy of CAMELS-based assessments of a bank's strength and performance.

The study also found a statistically significant effect of compliance with the requirements for applying IFRS on accounting information relevance. This finding is consistent with Hassan (2023), which examined and tested the effect of adopting IFRS on improving the value relevance of accounting information, as well as testing the effect of the control variables—firm size, financial leverage ratio, and sales growth rate—on the dependent variable. To achieve its objective, the study was conducted on a sample of companies listed on the Egyptian Stock Exchange during the period from 2012 to 2020, following a firm-year observation approach. The study period was divided into two sub-periods: the first spanning 2012 to 2014 (with 2015 excluded due to incomplete application of the international standards), representing the period prior to the adoption of IFRS, with a sample size of 38 companies totaling 114 observations; and the second spanning 2016 to 2020, representing the period following the adoption of IFRS, with a sample size of 46 companies totaling 230 observations. The results showed a statistically significant positive effect of IFRS adoption on the value relevance of accounting information for firm valuation purposes.

Moreover, there is a statistically significant effect of the interaction index between geopolitical tension risks and the level of information asymmetry on the effectiveness of using the CAMELS model. This finding is consistent with Mohamed (2025), which found a statistically significant negative effect of both the level of geopolitical risk and economic policy uncertainty on the investments of companies listed on the Egyptian Stock Exchange, in a manner supporting real options theory. During periods of heightened uncertainty, firms tend to postpone or reduce their capital expenditure rather than commit to a costly decision—such as an investment decision—with uncertain consequences, particularly given that most of their capital investments are highly irreversible. This is because heightened uncertainty increases the risks associated with management's financing and capital decisions, compelling firms to operate within a complex, unstable, and difficult-to-predict political and economic environment, which may impede their ability to allocate resources efficiently and pressures them toward more conservative investment decisions. Furthermore, the ambiguity and complexity of financial reporting during periods of heightened geopolitical and economic uncertainty exacerbate the adverse impact of both factors on corporate investment, as lower financial reporting quality and transparency intensify information asymmetry and agency problems and increase financing frictions and financial constraints. This, in turn, adversely affects firms' ability to assess the returns on their available capital

opportunities and to access low-cost external financing or secure internal financing resources, prompting them to postpone and reduce their capital expenditure until the uncertainty subsides.

Finally, there is a statistically significant effect of the effectiveness of using the CAMELS model on the level of financial failure. This finding is consistent with Jasim (2019), which aimed to assess the quality of asset management in Iraqi banks (Baghdad and Al-Ahli) and Saudi banks (Al-Rajhi and Al-Jazira), with a focus on banking supervision and banks' sensitivity to banking risks. The study also addressed the achievement of banks' objectives and the enhancement of their value and continuity within a highly competitive environment during the fiscal years 2016–2018, using the CAMELS standard. The study found that banks which adopted the CAMELS standard were able to achieve higher levels of competitiveness, as a result of their capacity to identify, manage, and forecast banking risks. The standard highlighted the strengths and weaknesses within these banks, helping them take the necessary corrective actions to improve their performance.

Summary of the Theoretical Study

1. The use of CAMELS indicators reveals a comprehensive analysis of a bank's internal environment by identifying strengths and weaknesses, thereby enhancing the bank's efficiency in managing assets and liabilities.
2. The CAMELS model is one of the comprehensive models that evaluate banks from all aspects—both managerial and financial—and predicts risks before they occur, in addition to its capacity to conduct annual or multi-year assessments.
3. IFRS help improve and strengthen the qualitative characteristics of accounting information, foremost among them relevance and faithful representation.
4. Geopolitical tension risks increase the level of information asymmetry.

Second: Findings of the Applied Study

1. There is a statistically significant effect of accounting information relevance on the effectiveness of using the CAMELS model.
2. There is a statistically significant effect of compliance with IFRS application requirements on accounting information relevance.
3. There is a statistically significant effect of the interaction index between geopolitical tension risks and the level of information asymmetry on the effectiveness of using the CAMELS model.
4. There is a statistically significant effect of the interaction index between compliance with IFRS requirements and the level of information asymmetry as a measure of relevance on the effectiveness of using the CAMELS model.
5. There is a statistically significant effect of the effectiveness of using the CAMELS model on the level of financial failure.

RECOMMENDATIONS

1. Central banks should monitor banks' proper implementation of the Basel Accords in order to improve banks' financial stability.
2. Bank management should take bank-specific characteristics into account when properly determining the drivers of bank profitability.

3. Banks should apply International Financial Reporting Standards in order to improve the qualitative characteristics of accounting information, thereby enhancing the effectiveness and efficiency of the CAMELS model in predicting financial failure.
4. Geopolitical risks should be integrated into the bank risk measurement and management model in order to improve the effectiveness of risk management for a more accurate performance assessment.

Areas for Future Research

1. The effect of the moderating role of corporate governance mechanisms on the relationship between the Basel Accords and bank value.
2. The effect of the moderating role of corporate governance mechanisms on the relationship between the Basel Accords and investment efficiency.
3. The effect of the faithful representation characteristic of accounting information on the effectiveness of the CAMELS model in predicting financial failure, in light of the moderating role of International Financial Reporting Standards and geopolitical tensions.
4. The effect of the CAMELS model on stakeholders' decisions within the framework of legitimacy theory and signaling theory.

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