Risk Management

Risk Capital Management and Management of Concentrated Risks

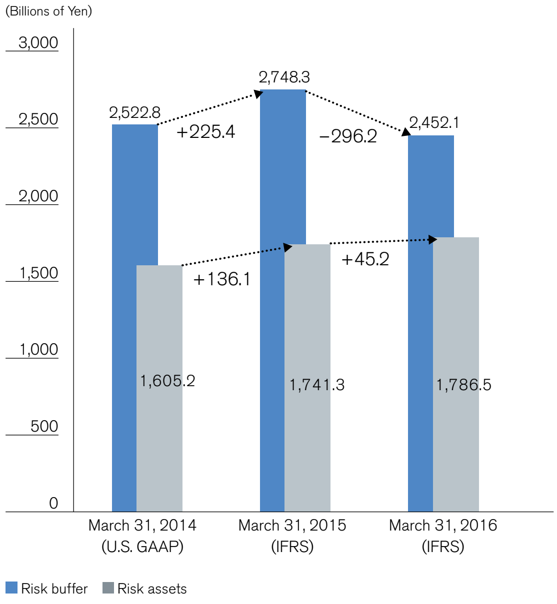
Risk Capital Management

We have introduced, and are utilizing, a Risk Capital Management (RCM) strategy. Under this strategy, we first calculate "risk assets" based on the maximum amount of the possible future losses from all assets on the balance sheet including investments, and all off-balance-sheet transactions. Second, we manage to control the quantity of risk assets within the limits of our "risk buffer" (consolidated shareholders' equity + noncontrolling interests). At the end of March 2016, the amount of risk assets stood at 73% of the risk buffer.

Managing Concentrated Risks

We also manage overall country risk exposure to non-industrialized countries and manage individual country risk based on internal country rating standards. Country limits are deliberated by the Asset Liability Management (ALM) Committee and approved by the HMC.

Risk Assets



<Reference> The ITOCHU Group's Major Business Risks and Countermeasures

Risks		Overview	Countermeasures
Market Risk	Foreign Exchange Rate Risk	• Foreign exchange rate risk related to transactions in foreign currencies in import/export trading • In regard to investments in overseas businesses, risk that fluctuations in foreign exchange rates could affect shareholders' equity through the accounting for foreign currency translation adjustments and risk that fluctuations in foreign exchange rates could affect the amount of periodic income when converted to yen	• The Group implements hedge transactions that utilize such derivatives as forward exchange contracts.
	Interest Rate Risk	• Interest rate risk in both raising and using money for investing, financing, and operating activities	• Among the interest insensitive assets such as investment securities or fixed assets, the part acquired using floating interest loans is considered to be the interest mismatch amount exposed to interest rate risk. ITOCHU is working to quantify the interest rate risk to control the fluctuation of gains and losses due to interest rate change properly. • To be specific, using the Earnings at Risk (EaR) method, ITOCHU has set a certain limit (Loss Cut Limit) for interest expense and has executed hedging transactions primarily in the form of interest rate swaps to manage interest rate risk.
	Commodity Price Risk	• Commodity price fluctuation risk arising from the holding of long or short positions in a variety of commodities • Price fluctuation risk due to participation in development businesses such as mineral resources and energy and other manufacturing businesses	• The Group has analyzed inventories and purchase and sales contracts, and each Division Company has established middle and back offices for major commodities, which establish a balance limit and loss cut limit for each commodity and conduct monitoring, management, and periodic reviews. • The Group implements hedging transactions, such as commodity futures and forward contracts.
	Stock Price Risk	• Stock price fluctuation risk associated with the holding of various marketable stocks that are held in order to pursue business earnings and corporate value by strengthening relationships with customers and suppliers and by submitting various proposals to investees	• The Group uses the Value at Risk (VaR) method to analyze and monitor the effect of stock price fluctuations on consolidated shareholders' equity periodically.