

ZKB Capital Protection Certificate with Leverage on Quam Fund LU0220404726 with Lock-In

04.05.2012 - 04.05.2017 | Swiss Security Code 14 631 734

Eigenanlage

1. Product Description

Product Category / Name	Capital Protection Product / Capital Protection without Cap (1100, according to the "Swiss Derivative Map" provided by the Swiss Structured Products Association)
CISA Notification	These Structured Products constitute structured products in Switzerland according to Art. 5 CISA. They do not constitute collective investment schemes in the meaning of the Swiss Federal Act on Collective Investment Schemes (CISA). They are not subject to an authorisation or supervision by the FINMA and investors do not benefit from protection under the CISA.
Preamble	The present structured product is issued in combination with the linked life insurance line "PAX-DiamondLife".
Issuer	Zürcher Kantonalbank Finance (Guernsey) Limited, Guernsey
Keep-Well Agreement	With Zürcher Kantonalbank (full text in Annex 3 of the Issuance Programme); Zürcher Kantonalbank obtained the following ratings: Standard & Poor's: AAA, Moody's: Aaa, Fitch: AAA
Lead Manager, Paying Agent, Exercise Agent and Calculation Agent	Zürcher Kantonalbank, Zurich
Swiss Security Code / ISIN	14 631 734 (not listed) / CH0146317349
Notional Amount / Denomination / Trading Units	Up to CHF 10 000 000, with the right to increase / Denomination CHF 10 each / CHF 10 or multiples thereof
Issue Price	100.00 % of Denomination
Fixing Fee	On Initial Fixing Date, the Investment Account is charged a non-recurring fee of 2.00 % of Denomination; CHF 0.20 per Denomination CHF 10.00.
Currency	CHF
Underlying / ISIN / Currency / Launch date / Share class	Edm de Roth Quam Multimanager 10 CHF Fund / LU0220404726 / CHF / 24 May 2005 / Institutional
Minimum Redemption	100.00 % of Denomination at Maturity
Capital Protection Level	100.00 % of Denomination. The Capital Protection Level may be increased in case of a Lock-in Event or in case of a Stop-Loss Event.
Guaranteed Interest Income	The Guaranteed Interest Income of 0.00 % p.a. is based on the Denomination and calculated with the formula below: Guaranteed Interest Income = 0.00 % * (number of days between Initial Fixing Date and Final Fixing Date)/365 resp. 366 (act/act)

Initial Fixing Date	30 April 2012 (investment in the Underlying QUAM)
Settlement Date	04 May 2012
Last Trading Date	03 April 2017
Final Fixing Date	01 May 2017 (disinvestment of the Underlying QUAM)
Redemption Date	04 May 2017
Initial Fixing Level Underlying	CHF 116.07, price of Underlying 1 banking day after Initial Fixing Date
Final Fixing Level Underlying	Price of Underlying 2 banking days after Final Fixing Date
Trading Days	Zurich
Leverage	4 The Calculation Agent may, depending on market situation and especially in the case of low liquidity of the underlying asset or the components of the underlying asset, reduce the leverage. If necessary, the leverage can be reduced up to 1.
Initial Value of the Investment Account	A value determined with the following formula; CHF 0.01; 0.13 % of Denomination: $IA_0 = \text{Denomination} \times (1 - (\text{Capital Protection Level} + \text{Guaranteed Interest Income}) \times \text{Discount Factor}_{\text{Initial_Fixing_Date, Final_Fixing_Date}}) - \text{Fixing Fee}$ where: $\text{Discount Factor}_{\text{Initial_Fixing_Date, Final_Fixing_Date}} = \text{The value of CHF 1 on Final Fixing Date determined by the Calculation Agent at Initial Fixing Date.}$
Initial Investment in the Underlying	$\text{Leverage} \times \text{Initial Value of the Investment Account}$; CHF 0.05 on Initial Fixing Date
Funding Limit	240.00 % of Denomination
Financing Spread	0.45 % p.a. calculated on the Financing Level . Depending on market situation, the Calculation Agent can adapt the Funding Spread, up to a maximum amount of 300 basis points p.a. (Funding Spread at issuance: 0.00 % p.a. of Denomination)
Management Fee	0.80 % p.a. calculated on Denomination . The fee is charged daily in favor of the Calculation Agent for the active management of the product (i.e. daily management of the Investment Account). The Management Fee is charged during the period starting with Initial Fixing Date and ending with Final Fixing Date.
Gap Risk Fee	0.50 % p.a. calculated on the sum of the Financing Level and Investment Account . The Gap Risk Fee is charged daily in favor of the Issuer for the risk of losses incurred by the Issuer in case of erratic price jumps of the Underlying (Gap Risk Fee at issuance: 0.00 % of Denomination).
Financing Target Level (FTL)	$FTL_{t+1} = \text{Min}[(\text{Leverage} - 1) \times IA_t; \text{FundingLimit}]$
Financing Level	The Financing Level (FL) will be adjusted in order to correspond to the Financing Target Level on Initial Fixing Date and on a regular basis thereafter. The Calculation Agent determines in its sole discretion the occurrence of an adjustment. In case the Calculation Agent determines, that the Financing Level deviates by more than 10 % of the Financing Target Level, a mandatory adjustment takes place within 2 business days.

Investment Account

At the end of each trading day t an adjustment of the Investment Account takes place. The Level of the Investment Account is determined by the Calculation Agent with the following formula:

$$IA_t = IA_{t-1} + (IA_{t-1} + FL_t) \times \left(RET_t - G \times \frac{N}{360} \right) - D \times MF \times \frac{N}{360} - FL_t \times (i_t + FS_t) \times \frac{N}{360}$$

where:

IA_{t-1} : Level of Investment Account per previous adjustment

IA_t : Level of Investment Account per end of trading day t

RET_t : Performance of the Underlying between the end of trading day $t-1$ until the end of trading day t

G : Gap Risk Fee

FL_t : Financing Level per trading day t

MF : Management Fee

D : Denomination

i_t : 1-month CHF LIBOR

FS_t : Financing Spread per trading day t

N : Number of calendar days between trading day $t+1$ (exclusive) and trading day t (inclusive)

Lock-in Level

40.00 % of Denomination

Lock-in Amount

5.00 % of Denomination

Discount Factor

The value of CHF 1 at maturity of the structured product determined if required by the Calculation Agent.

Lock-in Adjustment

If the Calculation Agent observes that the value of the Investment Account is above the Lock-in Level during the lifespan of the product, a Lock-in Adjustment will take place within two business days. The adjustments are the following:

1. The Capital Protection Level will be increased by the Lock-in Amount.
2. The Investment Account will be reduced by the Lock-In Amount which is multiplied by the Discount Factor.

Lock-in Adjustments can occur several times during the lifespan of the product.

Stop Loss Event

If the Calculation Agent observes that the value of the Investment Account falls under 0.02 % of Denomination during the lifespan of the product, a Stop Loss Event is triggered. The Stop Loss Event implies following modifications:

1. The value of the Investment Account and the Financing Level will have a value of zero. No upside participation will be given and no Funding Spread, Management Fee or Gap Risk Spread will be levied.
2. Should the value of the Investment Account have a positive value when the Stop Loss Event occurs, its value divided by the Discount Factor will be added to the Minimum Redemption Amount.

Fees of the Underlying / Retrocessions

For hedging purposes, the buying and selling of the Underlying will be conducted on NAV prices. Any reimbursements of Management Fees of the Underlying will be wholly and directly credited to the Investment Account.

Redemption amount at Maturity

Capital Protection Level + Investment Account_{Final_Fixing} + Guaranteed Interest Income

Adjustment of the Underlying

If for any reason, the Issuer finds himself unable to hold the Underlying as investment or if the Calculation Agent comes to the conclusion, that holding the Underlying is no longer in the best interest of the investor, both the Issuer as well as the Calculation Agent reserve the right in their sole discretion to substitute the Underlying. Such a substitution has to be immediately announced to the investors of the structured product.

Adjustment of the Investment Account

In case the Calculation Agent incurs losses in its hedging activity directly resulting from the illiquidity of the Underlying, the Calculation Agent reserves the right to charge the Investment Account such losses. However, the value of the Investment Account may never fall below zero.

Listing and secondary market	<p>The product will not be listed on an official exchange. The Issuer will aim to provide a daily secondary market via phone. The structured products will be redeemed by Zürcher Kantonalbank at current market value minus 1 %. Zürcher Kantonalbank charges a spread of 1 % in case of premature exit of the structured product.</p> <p>The value of the structured product at all times equals the sum of the following constituents: Capital Protection Level, Guaranteed Interest Income, Lock-in and Investment Account. The present value at any given time is based on the current Zürcher Kantonalbank interest rate term structure. At the time of writing, the Zürcher Kantonalbank interest rate term structure was based on public medium term bonds issued by Zürcher Kantonalbank as shown on http://www.zkb.ch/de/startseite/privatkunden/anlagen_und_boerse/weitere_anlageformen/kas_senobligationen/zinsen_preise.html. Depending on the current market situation, Zürcher Kantonalbank reserves the right to include appropriate markups or markdowns.</p>				
Clearing House	SIX SIS AG / Euroclear / Clearstream				
Sales: +41 44 293 66 65	<table border="0"> <tr> <td>SIX Telekurs: 85,ZKB</td> <td>Reuters: ZKBSTRUCT</td> </tr> <tr> <td>Internet: www.zkb.ch/strukturierteprodukte</td> <td>Bloomberg: ZKBY <go></td> </tr> </table>	SIX Telekurs: 85,ZKB	Reuters: ZKBSTRUCT	Internet: www.zkb.ch/strukturierteprodukte	Bloomberg: ZKBY <go>
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Key Elements of the Product	<p>ZKB Capital Protection Certificate with Leverage is a structured product with a guaranteed redemption of 100.00 % of Denomination at maturity in addition to the Guaranteed Interest Income. The payoff profile of the present structured product is composed of the performance of a zero coupon bond and the performance of an Investment Account. The investor participates with a constant leverage on the performance of the Investment Account. If the value of the Investment Account exceeds the Lock-In Level, a part of the gains will be secured by a Lock-In Adjustment.</p> <p>The structured product is part of a life insurance policy marketed by PAX Versicherung. The investor should apply an integral view covering his financial situation, long-term financial planning, the present structured product as well as the life insurance policy.</p> <p>The minimum redemption is only valid at maturity. During its lifetime the structured product may trade below the minimum redemption. A complex procedure is applied in securing capital. The performance of the Underlying may differ from the performance of the product and be contrainuitive at times. The minimum redemption generates interest rate risk for the investor.</p>				
Taxes	<p>Any income derived from the present product is subject to the common taxation principles according to the book value principle. The product is not subject to Swiss withholding tax. The Federal securities transfer stamp tax is levied on secondary market transactions for securities with initial duration of less than one year.</p> <p>The information above is a summary only of the Issuer's understanding of current law and practice in Switzerland relating to the taxation of Structured Products. The relevant tax law and practice may change. The Issuer does not assume any liability in connection with the above information. The tax information only provides a general overview and can not substitute the personal tax advice to the investor.</p>				
Documentation	<p>This document constitutes a Simplified Prospectus in accordance with article 5 of the Federal Collective Investment Schemes Act (the "CISA"). The Issuance Programme of the Issuer dated 12 April 2011, published in German and approved as "SIX Swiss Exchange registered Issuance Programme", complements this Simplified Prospectus. Structured Products will be issued as uncertified rights (Wertrechte) and registered as book entry securities (Bucheffekten) with SIX SIS AG. Investors have no right to request the issuance of any certificates or proves of evidence for the Structured Products. This Simplified Prospectus and the Issuance Programme can be ordered free of charge at Zürcher Kantonalbank, Bahnhofstrasse 9, 8001 Zurich or by e-mail at documentation@zkb.ch. This document is not a prospectus in accordance with articles 652a or 1156 of the Swiss Code of Obligations.</p>				
Information on the Underlying	<p>The fund's strategy focuses more on risk control than on expected return. The risk of the investments follows closely the allowances defined by the risk budget. Earning risk premiums on volatile assets, such as bonds and stocks, allows the fund during favorable market conditions to yield above risk free returns (LIBOR). During unstable market conditions, the fund's objective is to avoid negative returns.</p>				

Notices

Any notice by the Issuer in connection with these Structured Products, in particular any notice in connection with modifications of the terms and conditions will be validly published on the website <http://zkb.is-teledata.ch/html/boersenMaerkte/marktUebersicht/schweiz/index.html> under the relevant Structured Product. The Swiss security code search button will lead you directly to the relevant Structured Product. If the product is listed on SIX Swiss Exchange, the notices will also be published in accordance with the rules issued by SIX Swiss Exchange for IBL (Internet Based Listing) on the website http://www.six-exchange-regulation.com/publications/published_notifications/official_notices_de.html

Governing Law / Jurisdiction

Swiss Law / Zurich 1

2. Profit and Loss Expectations at Maturity

Profit and Loss Expectations at Maturity

ZKB Capital Protection Certificate with Leverage

Quam Fund		Redemption at maturity	
Price	Percent	ZKB Capital Protection Certificate with Leverage	Performance % less any fees (Financing Spread, Management Fee, Gap Risk Fee)
CHF 46.43	-60 %	CHF 10.00	0.00 %
CHF 69.64	-40 %	CHF 10.00	0.00 %
CHF 92.86	-20 %	CHF 10.00	0.00 %
CHF 116.07	0 %	CHF 10.00 + IA	> 0.0 %
CHF 139.28	+20 %	CHF 10.00 + IA	> 0.0 %
CHF 162.50	+40 %	CHF 10.00 + IA	> 0.0 %
CHF 185.71	+60 %	CHF 10.00 + IA	> 0.0 %

Source: Zürcher Kantonalbank

* IA = Investment Account

The performance of the ZKB Capital Protection Certificate with Leverage follows in principle the performance of the Underlying. Because of the path-dependent participation, despite assuming a performance of the Underlying, no redemption value can be calculated in advance. Besides, depending on the value of the Investment Account, participation in the Underlying may be considerably higher or lower than 100 %. The minimum participation is 0 %.

The performance may further deviate because of the Fees contained in the structured product. The table above is valid at maturity only and is by no means meant as a price indication for this Structured Product throughout its lifetime. The price of this Structured Product depends on additional risk factors between the Initial Fixing Date and the Final Fixing Date. The price quoted on the secondary market can therefore deviate substantially from the above table.

3. Material Risks for Investors

Credit Risk Relating to Issuer

Obligations under this Structured Product constitute direct, unconditional and unsecured obligations of the Issuer and rank pari passu with other direct, unconditional and unsecured obligations of the Issuer. The value of the Structured Products does not only depend on the performance of the Underlying and other developments in the financial markets, but also on the solvency of the Issuer, which may change during the term of this Structured Product. Zürcher Kantonalbank Finance (Guernsey) Limited does not have any rating.

Specific Product Risks

Structured Products are complex financial instruments, which entail considerable risks and, accordingly, are only suitable for investors who have the requisite knowledge and experience and understand thoroughly the risks connected with an investment in these Structured Products and are capable of bearing the economic risks.

The loss potential of an investment in ZKB Capital Protection Certificate with Leverage is at Maturity limited to the difference between the paid price and the Minimum Redemption. Nevertheless, during the lifetime of the product, the ZKB Capital Protection Certificate with Leverage may trade at a lower value than the Minimum Redemption. The product is denominated in CHF. If the investor's reference currency differs from the CHF, the investor bears the risk between the CHF and his reference currency.

4. Additional Terms

Modifications

If an extraordinary event occurs in relation to the Underlying / a component of the Underlying, which makes it impossible or particularly cumbersome for the Issuer, to fulfil its obligations under the Structured Products or to calculate the value of the Structured Products, the Issuer shall at its own discretion take all the necessary actions and, if necessary may modify the terms and conditions of these Structured Products at its own discretion in such way, that the economic value of the Structured Products after occurrence of the extraordinary event corresponds, to the extent possible, to the economic value of the Structured Products prior to the occurrence of the extraordinary event. If the Issuer determines, for whatever reason, that an adequate modification is not possible, the Issuer has the right to redeem the Structured Products early.

Change of Issuer

The Issuer is entitled at any time and without the approval of the investors to transfer the rights and claims from collective or individual Structured Products in their entirety (but not partially) to a Swiss or foreign subsidiary, branch or holding company of Zürcher Kantonalbank (the "New Issuer"), provided (i) the New Issuer fully assumes all liabilities from the transferred Structured Products owed by the previous Issuer to the investors through these Structured Products, (ii) Zürcher Kantonalbank concludes a Keep-Well Agreement with the New Issuer, with identical content to the one between Zürcher Kantonalbank and Zürcher Kantonalbank Finance (Guernsey) Limited, and (iii) the New Issuer has received all the requisite approvals to issue Structured Products and assume obligations connected to the transferred Structured Products from the national authorities of country in which said New Issuer is based.

Market Disruptions

If, due to the occurrence of a Market Disruption in relation to the Underlying / a component of the Underlying no market price can be determined, the Issuer or the Calculation Agent shall determine the market price of the Underlying / the component of the Underlying at its free discretion, considering the general market conditions and the last market price of relevant Underlying / component of the Underlying affected by the Market Disruption and has the right, if the Market Disruption persists on the Redemption Date, to postpone the Redemption Date to the first Banking Day on which the Market Disruption has terminated. This provision shall apply accordingly for the determination of the value of the Structured Products, if the Underlying / a component of the Underlying is affected by a Market Disruption.

Selling Restrictions

The selling restrictions contained in the Issuance Programme are applicable (EEA, U.S.A. / U.S. persons, Guernsey). The Issuer has not undertaken any actions to permit the public offering of the Structured Products or the possession or the distribution of any document produced in connection with the issuance of the Structured Products in any jurisdiction other than Switzerland. The distribution of these Final Terms or other documents produced in connection with the issuance of the Structured Products and the offering, sale and delivery of the Structured Products in certain jurisdictions may be restricted by law. Persons, which have received these Final Terms or any other documents produced in connection with the issuance of the Structured Products, such as the Issuance Programme, Termsheets, marketing or other selling material, are required by the Issuer to inform themselves about and to observe any such restrictions.

Prudential Supervision

Zürcher Kantonalbank is a bank according to the Swiss Federal Act on Banks and Saving Institutions (BankG; SR 952.0) and a securities dealer according to the Swiss Federal Act on Securities Exchanges and Securities Trading (BEHG; SR 954.1) and subject to the prudential supervision of the FINMA, Einsteinstrasse 2, CH-3003 Bern, <http://www.finma.ch>. Zürcher Kantonalbank Finance (Guernsey) Limited is not subject to any direct prudential supervision neither in Guernsey nor in Switzerland, but is a fully owned and fully consolidated subsidiary of Zürcher Kantonalbank.

Recording of Telephone Conversations

Investors are reminded, that telephone conversations with trading or sales units of the Zürcher Kantonalbank are recorded. Investors, who have telephone conversations with these units consent tacitly to the recording.

Zurich, 22 March 2012