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EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

January 31, 1990

44-1844(6)

Mr. Edmund H. Carroll, Jr.
Lane & Waterman
600 Davenport Bank Building
Davenport, Iowa 52801

RE: State Blue Sky Registration of Bank Holding Company
Stock Pursuant to Statutory Consolidation and Exchange
Request for Exemption under A.R.S. § 44-1844(6) of the
Arizona Securities Act.

Dear Mr. Carroll:

We have reviewed your letter dated January 9, 1990 regarding the consolidation transaction involving Peoples Financial Corporation of Illinois, Inc., Peoples Interim National Bank of Kewanee and Peoples National Bank of Kewanee. On the basis of the facts set forth in your letter and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the securities and dealer registration requirements of the Arizona Securities Act should the Consolidation be consummated in accordance with the facts set forth in your letter.

Since this position is based upon the facts set forth in your letter, it should not be relied upon for any other set of facts or by any other person. Also, the exemption relied upon applies only to the registration requirements of the Act. The fraud provisions of the Act continue to be applicable.

We have attached a photocopy of your letter. By doing this, we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

DEE RIDDELL HARRIS
Director of Securities

DRH:mga

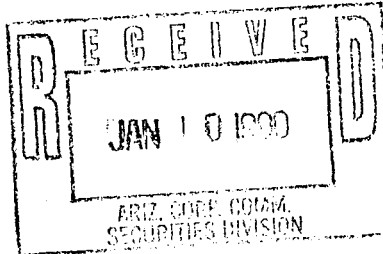
Enclosure

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January 9, 1990

VIA FEDERAL EXPRESS



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Ms. Dee R. Harris
Director
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1200 West Washington Street
Phoenix, AZ 85007

Re: State Blue Sky Registration of Bank Holding
Company Common Stock Pursuant to Statutory
Consolidation and Exchange Request for Exemption
under § 44-1844(6) of the Securities
Act of Arizona

Dear Sir or Madam:

The purpose of this letter is to advise you of a proposed phantom bank consolidation ("Consolidation Proposal") between Peoples Financial Corp. of Illinois, Inc., a Delaware corporation (Holding Company), Peoples Interim National Bank of Kewanee, a national banking corporation in organization ("Interim Bank"), and Peoples National Bank of Kewanee, a national banking corporation ("Bank"). We request your assistance in determining whether registration is required under the securities laws of the state of Arizona.

Holding Company is the owner of all outstanding common shares of its subsidiary, Interim Bank. Neither of these entities presently has any substantial assets, nor is either engaged in any active business. As of September 30, 1989, the Bank had total consolidated assets of approximately \$106,589,000 and total shareholders' equity of approximately \$17,052,000.

The Special Meeting of Bank Shareholders will be held February 5, 1990 at 11:00 A.M. at the offices of the Bank. All Shareholders of record of the Bank on November 1, 1989 will be entitled to vote at this Special Meeting (the "Record Date"). The affirmative vote of the holders of at least 2/3 of the Bank Common Stock outstanding on the Record Date is required to

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approve the Consolidation Proposal, pursuant to the National Bank Act.

The Consolidation Proposal is subject to the approval of necessary regulatory bodies. In particular, the Consolidation Proposal must be approved by the Federal Reserve Board ("FRB") and the Office of the Comptroller of the Currency ("OCC") and was subject to review by the U.S. Department of Justice.

Approval of the formation of the one-bank holding company to acquire all of the Bank Common Stock was granted by the FRB on September 15, 1989. Approval of the Consolidation Proposal and the Consolidation Agreement was granted by the OCC on October 5, 1989, subject to a letter from the OCC authorizing consummation of the Consolidation.

The purpose of the Special Meeting is to consider and vote upon the Reorganization Agreement and the Consolidation Agreement, both dated as of August 11, 1989, by and among the Holding Company, the Bank and Interim Bank and the transactions contemplated thereby.

Pursuant to the Consolidation Agreement and the Reorganization Agreement, and subject to the terms and conditions thereof, the Interim Bank will be consolidated with and into the Bank. The corporate identities and businesses of both the Bank and the Interim Bank will be consolidated, and will continue after the Consolidation in the combined institution ("Consolidated Bank").

The Consolidated Bank will be operated under the charter of Peoples National Bank of Kewanee. The Bank will become the wholly owned subsidiary of the Holding Company.

Each share of the Bank's Common Stock then outstanding immediately prior to the consummation of the Consolidation, other than shares held by Bank Shareholders who file written objections to the Consolidation in accordance with the procedures set forth in Section 215 of the National Bank Act ("Dissenting Bank Common Stock"), will be converted into a right to receive one share of Holding Company Common Stock ("Exchanging Shares of Bank") or \$350 cash per share (the "Cash Consideration"). Under the terms of the Consolidation Proposal, Bank Shareholders may not elect a combination of Cash Consideration and Holding Company Common Stock.

The Cash Consideration was determined through negotiations between the Bank and Holding Company Boards of Directors and The Chicago Corporation, (TCC), who represented

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certain holders of Bank Common Stock (the "TCC Bank Common Stock") in an arm's length transaction. As of November 1, 1989, there were 18 shareholders of TCC Bank Common Stock who owned 15,916 shares, which constituted 31.83% of the Bank's Common Stock then outstanding, including TCC's ownership interest. As of the Record Date, TCC beneficially owned a total of 438 shares of the TCC Bank Common Stock, or 0.88%.

The Holding Company agreed to purchase certain TCC Bank Common Stock for \$350 per share, the Cash Consideration, plus a \$5 per share fee to be paid by the Holding Company to TCC on behalf of the holders of TCC Bank Common Stock as a fee payable in connection with the negotiation and consummation of the TCC Stock Purchase Agreement. The \$5 per share fee will be paid to TCC and not certain holders of TCC Bank Common Stock. The total amount to be paid to TCC will be approximately \$79,580. The holders of TCC Bank Common Stock agreed to vote FOR the Consolidation Proposal.

The foregoing terms and conditions are part of a Stock Purchase Agreement ("TCC Stock Purchase Agreement") between the Holding Company and the 18 holders of TCC Bank Common Stock. The TCC Stock Purchase Agreement refers to this "fee" as a "commission."

The TCC Agreement provides that if the Effective Date does not occur before January 1, 1990, the purchase price shall be increased by \$0.11 per share for each day after January 1, 1990. The \$0.11 per share for each day after January 1, 1990 will be paid to the holders of TCC Bank Common Stock only. Under the terms of the TCC Agreement, the obligations of the Holding Company to consummate the transactions contemplated by the Consolidation are subject to the fulfillment at or prior to the Effective Date of all of the conditions in the TCC Agreement by holders of TCC Bank Common Stock holding at least 14,288 shares of Bank common Stock.

As part of the TCC Agreement, the Holding Company has delivered a letter of credit in the amount of \$300,000 to serve as security for its obligations under the TCC Agreement. The TCC Agreement is contingent upon the Holding Company receiving all required regulatory approvals.

The Cash Consideration was based on the Bank and Holding Company's Board of Directors' estimate of the approximate book value of the Bank Common Stock on December 31, 1989, the projected closing date of the Consolidation (the "Effective Date").

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Blunt Ellis & Loewi, an investment banking firm, has rendered its opinion to the Bank's Board of Directors and that the Consolidation Proposal is fair to the Bank's Shareholders from a financial viewpoint.

As of September 30, 1989 the book value of the Bank Common Stock was \$341.04 per share. The Consideration Price is 102.63% of the book value of the Bank's Common Stock as of that date. The Consideration Price was also based on the large percentage of TCC Bank Common Stock which would be converted into Cash Consideration under the Consolidation Proposal.

On behalf of the Holding Company, Interim Bank and Bank, the undersigned has filed a registration statement on Form S-4 with the Securities and Exchange Commission. The SEC has given the S-4 limited review and provided us with its comments, all of which have been satisfactorily answered. The Effective Date of the Registration Statement is January 9, 1990. The Prospectus/Proxy Statement will be distributed prior to January 15, 1990. In addition, the OCC's Securities and Corporate Practices Division reviewed the S-4 in its entirety and on December 5, 1989 released the Holding Company to distribute the Prospectus/Proxy Statement to Bank Shareholders.

Shareholders will be provided with a Prospectus/Proxy Statement more than 10 days prior to the Special Meeting, as required by the OCC. No advertisement, article, notice or other communication published in any newspaper, magazine or similar medium, or broadcast over television or radio, or any other general solicitation will be used in connection with the exchange offer.

The total number of authorized, issued and outstanding shares of Bank Common Stock is 50,000 held by 218 shareholders. 5 of these shareholders reside in the State of Arizona.

The Securities Act of Arizona, § 44-1844(6), provides an exemption for any transaction incident to a statutory consolidation.

The undersigned believes the above described transaction is exempt from registration, because Holding Company's exchange offer to the shareholders of Bank Common Stock is incident to a vote by such shareholders in a consolidation in consideration of or in exchange for securities of Holding Company pursuant to the National Bank Act. Thus, it would appear that the Section 44-1844(6) exemption is available for the proposed offering of securities.

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We respectfully request that your office advise in writing as to whether the transaction described above, and the exchange of shares between Holding Company and the shareholders of Bank Common Stock residing in the State of Arizona, is exempt from registration. If the above-described transaction is not exempt, please send us the form or description of information needed to register the transaction with your office. Your cooperation is greatly appreciated.

Very truly yours,

LANE & WATERMAN



By Edmund H. Carroll, Jr.

EHC/kb