

POPULAR INC
Form DEF 14A
March 15, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement**
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement**
- Definitive Additional Materials**
- Soliciting Material Pursuant to Rule 14a-12**

POPULAR, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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POPULAR, INC.
P.O. Box 362708
San Juan, Puerto Rico 00936-2708

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on Friday, April 28, 2006

To the Stockholders of Popular, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Meeting) of Popular, Inc. (the Corporation) for the year 2006 will be held at 10:00 a.m. local time on Friday, April 28, 2006, on the third floor of the Centro Europa Building, in San Juan, Puerto Rico, to consider and act upon the following matters:

- (1) To elect three directors assigned to Class 1 of the Board of Directors of the Corporation for a three-year term; and
- (2) To transact any and all other business as may be properly brought before the Meeting or any adjournments thereof.

At present, management knows of no other business to be brought before the Meeting.

Stockholders of record at the close of business on March 9, 2006, are entitled to notice of and to vote at the Meeting.

You are cordially invited to attend the Meeting, but even if you don't attend the meeting, it is important that your shares be represented and voted at the Meeting. Whether you plan to attend or not, please sign and return the enclosed proxy card so that the Corporation may be assured of the presence of a quorum at the Meeting. A postage-paid envelope is enclosed for your convenience. **Remember that you may also vote by telephone or over the Internet.**

For further details please refer to the enclosed proxy card.

San Juan, Puerto Rico, March 17, 2006.

By Order of the Board of Directors,

SAMUEL T. CÉSPEDES
Secretary

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ABOUT THE MEETING

Who is soliciting my vote?

The Board of Directors of the Corporation (the Board) is soliciting your vote at the Meeting.

What will I be voting on?

The Corporation's stockholders will be voting on the election of directors (see page 7).

How many votes do I have?

You will have one vote for every share of the Corporation's shares of common stock, par value \$6 per share (Common Stock) you owned as of the close of business on March 9, 2006, the record date for the Meeting (the Record Date).

How many votes can all stockholders cast?

One vote for each of the Corporation's 278,141,020 shares of Common Stock that were outstanding on the Record Date. The shares covered by any proxy that is properly executed and received before 10:00 a.m. local time on the day of the Meeting will be voted.

How many votes must be present to hold the Meeting?

A majority of the votes that can be cast. Votes cast by proxy or in person at the Meeting will be counted by ADP Financial Information Services, Inc., an independent third party. We urge you to vote by proxy even if you plan to attend the Meeting, so that we will know as soon as possible that enough votes will be present for us to hold the Meeting.

How do I vote?

You can vote either in person at the Meeting or by proxy without attending the Meeting.

To vote by proxy, you must either

Fill out the enclosed proxy card, date and sign it, and return it in the enclosed postage-paid envelope,

Vote by telephone (instructions are on the Proxy Card, as authorized by the General Corporation Law of Puerto Rico and the Bylaws of the Corporation), or

Vote over the Internet (instructions are on the proxy card, as authorized by the General Corporation Law of Puerto Rico and the Bylaws of the Corporation).

If you want to vote in person at the Meeting, and you hold your Common Stock through a securities broker or nominee (that is, in street name), you must obtain a proxy from your broker or nominee and bring that proxy to the Meeting.

In addition to solicitation by mail, management may participate in the solicitation of proxies by telephone, personal contacts or otherwise. The Board has engaged the firm of Georgeson & Company, Inc. to aid in the solicitation of proxies. The cost of solicitation will be borne by the Corporation and is estimated at \$7,000.

To avoid delays in ballot taking and counting, and in order to ensure that your proxy is voted in accordance with your wishes, compliance with the following instructions is respectfully requested: when signing a proxy as attorney, executor, administrator, trustee, guardian, authorized officer of a corporation, or on behalf of a minor, please give full title. If shares are in the name of more than one recordholder, all recordholders should sign.

Can I change my vote?

Yes. Just send in a new proxy card with a later date, or cast a new vote by telephone or over the Internet, or send a written notice of revocation to the President or Secretary of Popular, Inc., P.O. Box 362708, San Juan, Puerto Rico 00936-2708, delivered before the proxy is exercised. If you attend the Meeting and want to vote in person, you may request that your previously submitted proxy not be used.

What vote is required and how are abstentions and broker non-votes treated?

For purposes of determining a quorum, abstentions and broker non-votes will be counted as shares that are present and entitled to vote. A broker non-vote results when a broker or nominee has expressly indicated in the proxy card that it does not have discretionary authority to vote on a particular matter and has not received voting instructions from the beneficial owner. As to the election of directors, the proxy card being provided by the Board enables stockholders to vote for the election of the nominees proposed by the Board, or to withhold authority to vote for one or more of the nominees being proposed. The election of directors will be acted upon a majority of the votes cast. Therefore,

abstentions and broker non-votes will not have an effect on the election of directors of the Corporation.

Could other matters be decided at the Meeting?

The Board does not intend to present any business at the Meeting other than that described in the notice of meeting. The Board at this time knows of no other matters which may come before the Meeting. However, if any new matter requiring

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the vote of the stockholders is properly presented before the Meeting, proxies may be voted with respect thereto in accordance with the best judgment of proxyholders, under the discretionary power granted by stockholders to their proxies in connection with general matters.

What happens if the Meeting is postponed or adjourned?

Your proxy will still be good and may be voted at the postponed or adjourned Meeting. You will still be able to change or revoke your proxy until it is voted.

What should I receive?

The Proxy Statement, the Corporation's Annual Report, the Notice of Annual Meeting of Stockholders and the proxy card were sent to stockholders on or about March 17, 2006. The Corporation's Annual Report includes the audited financial statements for the year ended December 31, 2005, duly certified by PricewaterhouseCoopers LLP as independent registered public accountants.

PRINCIPAL STOCKHOLDERS

Following is the information, with respect to any person (including any group as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) who is known to the Corporation to beneficially own more than five percent (5%) of the Corporation's Common Stock.

Name and address of beneficial owner	Amount and nature of beneficial ownership(1)	Percent of Class (2)
State Farm Mutual Automobile Insurance Company One State Farm Plaza, Bloomington, IL 61701	18,265,553(3)	6.5670

(1) For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934.

(2) Based on 278,141,020 shares of Common Stock outstanding as of February 28, 2006.

(3) On February 2, 2006, State Farm Mutual Automobile Insurance

Company (State Farm) and affiliated entities filed Schedule 13G with the Securities and Exchange Commission (the SEC) reflecting their Common Stock holdings as of December 31, 2005. According to said statement, State Farm and its affiliates might be deemed to constitute a group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended. State Farm and its affiliates could also be deemed to be the beneficial owners of 18,265,553 shares of the Corporation. However, State Farm and each such affiliate disclaim beneficial ownership as to all shares as to which each such person has no right to receive the proceeds of sale of the shares, and also disclaim that

they constitute a
group .

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Effective January 1, 2005 the Corporation adopted an Executive Stock Ownership Requirements Policy which provides that, within three years, the Chief Executive Officer (CEO) and Chairman of the Board is required to attain an investment position in the Corporation's Common Stock equal to five times his annual salary. It also provides that, within three years, the rest of the executive officers employed by the Corporation, and who are listed in the Summary Compensation Table, are each required to attain an investment position in the Corporation's Common Stock equal to three times his or her annual salary. The executive officers listed in the Summary Compensation Table are hereinafter referred to as the Executive Officers .

Effective June 9, 2004 each director not employed by the Corporation must hold an investment position in the Corporation's Common Stock equal to five times the annual retainer. Such ownership level must be achieved within a three year period.

The following table sets forth information concerning the beneficial ownership of the Corporation's Common Stock and preferred stock as of February 28, 2006, for each director of the Corporation and each Executive Officer, and the number of shares beneficially owned by all directors and executive officers of the Corporation as a group:

COMMON STOCK

Name	Amount and Nature of Beneficial Ownership(1)	Percent of class
Juan J. Bermúdez	1,339,607(2)	.4816
José B. Carrión Jr.	2,094,412(3)	.7530
Richard L. Carrión	3,087,701(4)	1.1101
María Luisa Ferré	6,500,502(5)	2.3371
Manuel Morales Jr.	1,028,916(6)	.3699
Francisco M. Rexach Jr.	345,145(7)	.1241
Frederic V. Salerno	16,022	.0058
William J. Teuber Jr.	6,758	.0024
José R. Vizcarrondo	67,643(8)	.0243
David H. Chafey Jr.	399,310	.1436
Jorge A. Junquera	421,856(9)	.1517
Roberto R. Herencia	184,853	.0665
Amílcar L. Jordán	70,622	.0254
Tere Loubriel	118,580	.0426
Brunilda Santos de Álvarez	100,039	.0360
Félix M. Villamil	83,058	.0299
C.E. (Bill) Williams	22,162	.0080
All directors and executive officers of the Corporation as a group (19 persons)	15,931,015	5.7277

PREFERRED STOCK(10)

Name	Amount and Nature of Beneficial Ownership(1)	Percent of class
Richard L. Carrión	7,156(11)	.0957
	7,156	.0957

All directors and executive officers of the Corporation as a group (19 persons)

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- (1) For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, pursuant to which a person or group of persons is deemed to have beneficial ownership of a security if that person has the right to acquire beneficial ownership of such security within 60 days. Therefore, it includes the number of shares of Common Stock that could be purchased by exercising stock options that were exercisable at February 28, 2006 or within 60 days after that date, as follows: Mr. Bermúdez 9,146; Mr. Carrión Jr. 9,146; Mr. Carrión 0; Mrs. Ferré 9,146; Mr. Morales 9,146; Mr. Rexach 9,146; Mr. Salerno 2,167; Mr. Vizcarrondo 254; Mr. Chafey 118,321; Mr. Junquera 104,123; Mr. Herencia 94,660; Mr. Jordán 22,699; Mrs. Loubriel 53,244; Mrs. Santos 53,243; Mr. Villamil 43,987 and 543,337 shares for all directors and executive officers as a group. Also, it includes restricted stock awards granted under the Popular, Inc. 2004 Omnibus Incentive Plan as follows: Mr. Bermúdez 4,299; Mr. Carrión Jr. 4,459; Mr. Carrión 129,997; Mrs. Ferré 4,088; Mr. Morales 5,831; Mr. Rexach 2,601; Mr. Salerno 6,622; Mr. Teuber 4,758; Mr. Vizcarrondo 3,443; Mr. Chafey 63,850; Mr. Junquera 46,823; Mr. Herencia 42,566; Mr. Jordán 25,540; Mrs. Loubriel 27,668; Mrs. Santos 25,540; Mr. Villamil 25,540; Mr. Williams 20,455 and 447,719 shares for all directors and executive officers as a group. It also includes 38,450 shares of Common Stock to be acquired by Mr. Rexach as repayment of a loan. As of February 28, 2006, there were 278,141,020 shares of Common Stock outstanding and 7,475,000 shares of preferred stock outstanding.
- (2) Excludes 33,017 shares owned by his wife, as to which Mr. Bermúdez disclaims beneficial ownership.
- (3) Mr. Carrión Jr. owns 1,476,403 shares, has voting power over 1,143 shares owned by his daughter and has voting and investment power over 607,720 shares owned by Collosa Corporation which he owns. Excludes 31,616 shares owned by his wife, as to which he disclaims beneficial ownership. Junior Investment Corporation owns 9,805,882 shares of Common Stock, Mr. Carrión Jr. owns 0.29% of the shares of said corporation, and disclaims beneficial ownership in connection with any shares of the Corporation owned by Junior Investment Corporation.
- (4) Mr. Carrión owns 1,277,314 shares and also has indirect investment power over 54,038 shares owned by his children and 2,077 shares owned by his wife. Junior Investment Corporation owns 9,805,882 shares of the Corporation. Mr. Carrión owns 17.89% of the shares of said corporation.
- (5) Mrs. Ferré has direct or indirect investment and voting power over 6,491,356 shares of Common Stock. Mrs. Ferré owns 10,256 shares of Common Stock and has indirect investment and voting power over 3,081,082 shares owned by Ferré Investment Fund, Inc., 435,401 shares owned by The Luis A. Ferré Foundation, and 2,970 shares owned by RANFE, Inc. Ferré Investment Fund, Inc. in turn owns 90% of El Día, Inc., which owns 2,961,647 shares of Common Stock.
- (6) Mr. Morales owns 348,030 shares and has voting power over 671,740 shares owned by his parents, as their attorney-in-fact.
- (7) Mr. Rexach owns 290,207 shares and has indirect voting power over 45,792 shares held by Capital Assets, Inc., as President and shareholder.
- (8) Mr. Vizcarrondo owns 67,389 shares and disclaims beneficial ownership over 300,489 shares owned by DMI Pension Trust, where he serves as trustee and member of the investment committee.
- (9) Mr. Junquera owns 295,373 shares and has voting power over 22,360 shares owned by his son and daughter.
- (10) Mr. Morales disclaims beneficial ownership of 2,000 preferred shares of the Corporation owned by his wife. Mr. Vizcarrondo disclaims beneficial ownership over 8,000 preferred shares of the Corporation owned by DMI

Pension Trust, where he serves as a trustee and member of the investment committee.

- (11) Junior Investment Corporation owns 40,000 preferred shares of the Corporation. Mr. Carrión owns 17.89% of the shares of said corporation.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Corporation's directors and executive officers to file with the SEC reports of ownership and changes in ownership of Common Stock of the Corporation. Officers and directors are required by SEC regulation to furnish the Corporation with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such reports furnished to the Corporation or written representations that no other reports were required, the Corporation believes that, with respect to 2005, all filing requirements applicable to its officers and directors were satisfied except for two reports, covering one transaction each by Mr. Bill Williams and Mrs. Ileana González, Corporate Controller, which were filed late.

BOARD OF DIRECTORS AND COMMITTEES;

PROPOSAL: ELECTION OF DIRECTORS FOR A THREE-YEAR TERM

The Certificate of Incorporation and the Bylaws of the Corporation establish a classified Board pursuant to which the Board is divided into three classes as nearly equal in number as possible, with each class having at least three members and with the term of office of one class expiring each year. Each director serves for a term ending on the date of the third annual meeting of stockholders following the annual meeting at which such director was elected or until his successor has been elected and qualified.

At the Meeting, three directors assigned to Class 1 are to be elected to serve until the 2009 annual meeting of stockholders or until their respective successors shall have been elected and qualified. The remaining six directors of the Corporation will continue to serve as directors, as follows: until the 2007 Annual Meeting of Stockholders of the Corporation, in the case of those three directors assigned to Class 2, and until the 2008 Annual Meeting of Stockholders, in the case of those three directors assigned to Class 3, or in each case until their successors are elected and qualified.

The policy of the Board, as set forth in a resolution adopted on January 8, 1991, provides that no person shall be nominated for election or reelection as director of the Board if at the date of the annual meeting or during the term to be served such person attains 72 years of age.

The persons named as proxies in the accompanying proxy card have advised the Corporation that, unless otherwise instructed, they intend to vote at the Meeting the shares covered by the proxies **FOR** the election of the three nominees named below, and that if any one or more of such nominees should become unavailable for election they intend to vote such shares **FOR** the election of such substitute nominees as the Board may propose. The Corporation has no knowledge that any nominee will become unavailable for election.

The Board met 15 times during 2005. All directors attended 75% or more meetings of the Board and the committees of the Board on which such directors served.

The Corporation encourages directors to attend the Corporation's annual meeting of stockholders. All the Corporation's directors attended the last annual meeting of stockholders.

Information relating to principal occupation, business experience and directorship during the past five years (including positions held with the Corporation or Banco Popular de Puerto Rico (the Bank), age and the period during which each director has served is set forth below.

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Name and Age

**Principal Occupation, Business
Experience
and Directorships**

**NOMINEES FOR ELECTION AS
CLASS 1 DIRECTORS
(TERMS EXPIRING IN 2009)**

JUAN J. BERMÚDEZ: (68 years)

Partner of Bermúdez and Longo, S.E., electromechanical contractors, and Decemcor, S.E., Unicenter, S.E., and PCME Commercial, S.E., entities engaged in real estate leasing.

Principal Stockholder and Director of BL Management, Corp., PCME Development Corp., G.S.P. Corp., Unimanagement Corp., LBB Properties, Inc., Homes Unlimited Corp. and PS4 Corp.

Chairman of the Corporate Governance and Nominating Committee of the Corporation since 2005.

Chairman of the Trust Committee of the Bank since 1996.

Director of the Bank since 1985.

Director of the Corporation since 1990.

RICHARD L. CARRIÓN: (53 years)

Chairman, President and CEO of the Corporation.

Chairman and CEO of the Bank.

President of the Bank until March 2004.

Chairman and CEO of Popular International Bank, Inc., Popular North America, Inc., Banco Popular North America, Popular Financial Holdings, Inc., Banco Popular, National Association, Popular FS, LLC., Popular Cash Express, Inc., Popular Finance, Inc., Popular Auto, Inc., Popular Mortgage, Inc., Popular Securities, Inc., Popular Insurance, Inc. and EVERTEC, Inc., all either directly or indirectly wholly-owned subsidiaries of the Corporation.

Chairman of the Board of Trustees of Fundación Banco Popular, Inc.

Chairman and Director of Banco Popular Foundation, Inc.

Member of the International Olympic Committee since 1990. Member of the Executive Board since 2004 and Chairman of the International Olympic Committee's Finance Commission. Also, member of the TV & Internet Rights Commission since January 2002 and of the Marketing Commission since January 2002.

President of the Puerto Rico Olympic Trust and Member of the Puerto Rico Olympic Committee.

Member of the Board of Directors, the Benefits & Human Resources Committee and the Public Policy Committee of Verizon Communications, Inc. (a registered public company).

Member of the Board of Directors of Telecomunicaciones de Puerto Rico, Inc. (TELPRI)

Member of the Board of Directors, the Audit Committee and of the Compensation and Benefits Committee of Wyeth (a registered public company).

Member of the Board of Trustees of the P.R. Committee for Economic Development.

Director of the Corporation since 1990.

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Name and Age	Principal Occupation, Business Experience and Directorships
NOMINEES FOR ELECTION AS CLASS 1 DIRECTORS (TERMS EXPIRING IN 2009)	
FRANCISCO M. REXACH JR.: (68 years) (cont.)	<p>President of Capital Assets, Inc. and Rexach Consulting Group, entities engaged in investment and consulting activities.</p> <p>Chairman of the Compensation Committee of the Corporation.</p> <p>Director of the Bank, Popular International Bank, Inc., Popular North America, Inc., Banco Popular North America, Popular Cash Express, Inc. and Popular Financial Holdings, Inc., all either directly or indirectly wholly-owned subsidiaries of the Corporation.</p> <p>Director of the Corporation since 1990.</p>
CLASS 3 DIRECTORS (TERMS EXPIRING IN 2008)	
MARIA LUISA FERRÉ: (42 years)	<p>President and CEO of Grupo Ferré Rangel and Ferré Investment Fund Inc., holding companies for El Nuevo Día and Primera Hora (Puerto Rico newspapers), Advanced Graphic Printing, Inc., City View Plaza, S.E., Virtual, Inc., El Día Directo, Inc., Pronatura, Inc. and Asset Growth Fund (a venture capital fund).</p> <p>Member of the Board of Directors of El Día, Inc. and Editorial Primera Hora, Inc. (Puerto Rico newspapers), El Nuevo Día Orlando, Inc. and VIU Media (an outdoor media company).</p> <p>President and Trustee of The Luis A. Ferré Foundation, Inc. (a not-for-profit organization).</p> <p>Director and Vice President of the Ferré Rangel Foundation (a philanthropic entity).</p> <p>Trustee of the Editorial of the University of Puerto Rico until 2005.</p> <p>Director of the Bank since April 2000.</p>
FREDERIC V. SALERNO: (62 years)	<p>Director of the Corporation since April 2004.</p> <p>Vice Chairman and Chief Financial Officer of Verizon Communications, Inc. (registered public company) until September 2002, when he retired.</p>

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Director of Avnet, Inc., Dun & Bradstreet Corporation and Lynch Interactive Corporation (registered public companies) until February 2004.

Director of Akamai Technologies, Inc., Bear Stearns & Co., Inc., Consolidated Edison, Inc. and Viacom, Inc. (registered public companies).

Director of Gabelli Asset Management, Inc. (registered public company) until January 2006.

Director of Intercontinental Exchange, Inc. (registered public company) since December 2005.

Chairman of the Audit Committee of the Corporation since May 2003.

Director of the Corporation since April 2003.

WILLIAM J. TEUBER JR.: (54 years)

Executive Vice President of EMC Corporation since 2001 and Chief Financial Officer since 1997.

Member of the Board of Trustees of Babson College in Wellesley, MA.

Director of the Corporation since November 2004.

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Name and Age	Principal Occupation, Business Experience and Directorships
CLASS 2 DIRECTORS (TERMS EXPIRING IN 2007)	
JOSÉ B. CARRIÓN JR.: (69 years)	President of Collosa Corporation, entity engaged in investment activities. Chairman of the Risk Management Committee since 2004. Director of the Bank since April 2000. Director of the Corporation since 2001.
MANUEL MORALES JR.: (60 years)	President of Parkview Realty, Inc., the Atrium Office Center, Inc., HQ Business Center P.R., Inc., entities engaged in real estate leasing, and ExecuTrain of Puerto Rico. Honorary General Consul of Japan in San Juan, Puerto Rico. Member of the Board of Trustees of the Caribbean Environmental Development Institute and of Fundación Angel Ramos, Inc. Member of the Board of Directors of Consular Corps College of the USA. Member of the Board of Trustees of Fundación Banco Popular, Inc. Chairman of the Audit Committee of the Corporation until May 2003. Director of the Bank since 1978.
JOSÉ R. VIZCARRONDO: (44 years)	Director of the Corporation since 1990. President, CEO and partner of Desarrollos Metropolitanos, S.E., VMV Enterprises Corporation, Resort Builders, S.E. and Metropolitan Builders, S.E. All these firms are dedicated to the development and construction of residential, commercial, industrial and institutional projects in Puerto Rico. Member of the Board of Directors of the Puerto Rico Chapter of the Associated General Contractors of America from 1997 to 2005. President of the Puerto Rico Chapter of the Associated General Contractors of America until 2001. Member of the Construction Industry Advisory Council to the Governor of Puerto Rico until 2002.

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Member of the Private Industry Advisory Council to the President of the Government Development Bank for Puerto Rico until 2001.

Member of the Board of Directors of the not-for-profit organization Hogar Cuna San Cristóbal Foundation since 2002.

Member of the Board of Directors of Puerto Rico Home Builders Association since 2002.

Director of the Corporation and the Bank since 2004.

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BOARD OF DIRECTORS INDEPENDENCE

The Board has determined that Messrs. Juan J. Bermúdez, Francisco M. Rexach Jr., Frederic V. Salerno, William J. Teuber Jr. and Mrs. María Luisa Ferré have no material relationship with the Corporation and are independent under the director independence standards of The Nasdaq Stock Market, Inc. (Nasdaq). The Corporation has a majority of independent directors.

During 2005, the independent directors met in executive or private sessions without the Corporation s management after every Board meeting. Currently, the independent directors have not appointed a lead director. Instead, the independent directors designate, on a rotational basis, who will preside at each executive session.

STOCKHOLDERS COMMUNICATION WITH THE BOARD OF DIRECTORS

Any stockholder who desires to contact the Board or any of its members may do so by writing to: Popular, Inc., Board of Directors (751), P.O. Box 362708, San Juan, PR 00936-2708. Alternatively, a stockholder may contact the Corporation s Audit Committee or any of its members telephonically by calling the toll-free number (866) 737-6813 or electronically through *www.ethicspoint.com*. Communications received by the Audit Committee that are not related to accounting or auditing matters, may be discretionally forwarded by the Audit Committee or any of its members to other committees of the Board or the Corporation s management for review.

STANDING COMMITTEES

The Board has standing Audit, Risk Management, Corporate Governance and Nominating, and Compensation Committees.

Compensation Committee

The Compensation Committee consists of three or more members of the Board, each of whom the Board has determined has no material relationship with the Corporation and each of whom is otherwise independent under Nasdaq s director independence rules. The Compensation Committee held six meetings during the fiscal year ended December 31, 2005. The purpose of the Compensation Committee is to discharge the Board s responsibilities (subject to review by the full Board) relating to compensation of the Corporation s senior executives and to produce an annual report on executive compensation for inclusion in the Corporation s proxy statement, in accordance with the rules and regulations of the SEC.

The duties and responsibilities of the Compensation Committee include, among others, the following:

- consult with senior management to establish the Corporation s general compensation philosophy and oversee the development and implementation of compensation programs;
- review and approve the corporate goals and objectives relevant to the compensation of the CEO;
- evaluate the performance of the CEO in light of those goals and objectives;
- set the CEO s compensation level based on this evaluation;
- review and approve compensation programs applicable to executive officers of the Corporation; and
- make recommendations to the Board with respect to the Corporation s incentive compensation plans and equity-based plans, oversee the activities of the individuals and committees responsible for administering these plans and discharge any responsibilities imposed on the Compensation Committee by any of these plans.

The Compensation Committee is composed of Francisco M. Rexach Jr. (Chairman), Juan J. Bermúdez, María Luisa Ferré and William J. Teuber Jr. None of the members of the Committee are officers or employees of the Corporation or any of its subsidiaries.

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Corporate Governance and Nominating Committee and other Corporate Governance Matters

The Corporate Governance and Nominating Committee consists of three or more members of the Board, each of whom the Board has determined has no material relationship with the Corporation and each of whom is otherwise independent under Nasdaq's director independence rules. The Corporate Governance and Nominating Committee held four meetings during the fiscal year ended December 31, 2005.

The purpose of the Corporate Governance and Nominating Committee is as follows:

identify and recommend individuals to the Board for nomination as members of the Board and its committees;

identify and recommend individuals to the Board for nomination as CEO and Chairman of the Corporation;

promote the effective functioning of the Board and its committees; and

develop and recommend to the Board a set of corporate governance principles applicable to the Corporation, and review these principles at least once a year.

Under the Corporation's Corporate Governance Guidelines, the Board should, based on the recommendations of the Corporate Governance and Nominating Committee, select new nominees for the position of independent director considering the following criteria:

personal qualities and characteristics, accomplishments and reputation in the business community;

current knowledge and contacts in the communities in which the Corporation does business and in the Corporation's industry or other industries relevant to the Corporation's business;

ability and willingness to commit adequate time to Board and committee matters;

the fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective, collegial and responsive to the needs of the Corporation; and

diversity of viewpoints, background, experience and other demographics.

The Corporate Governance and Nominating Committee will consider nominees recommended by stockholders. There are no differences in the manner in which the Corporate Governance and Nominating Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder. The Corporate Governance and Nominating Committee did not receive any recommendation from stockholders for the Meeting.

Stockholders who wish to submit nominees for director for consideration by the Corporate Governance and Nominating Committee for election at the Corporation's 2007 annual meeting of stockholders may do so by submitting in writing such nominees' names and a brief description of the nominees' judgment, skills, diversity, and experience with businesses and other organizations, to the Secretary of the Board of Directors (751) at Popular, Inc., 209 Muñoz Rivera Avenue, Hato Rey, Puerto Rico, 00918, prior to November 17, 2006.

At its February 15, 2006 meeting, the Corporate Governance and Nominating Committee approved the nominations of Juan J. Bermúdez, Richard L. Carrión and Francisco M. Rexach Jr. as Class 1 directors, in the Corporation's 2006 proxy card.

The Board has adopted a Code of Ethics (the Code) to be followed by the Corporation's employees, officers (including the CEO, Chief Financial Officer and Corporate Comptroller) and directors to achieve conduct that reflects the Corporation's ethical principles. Certain portions of the Code deal with activities of directors, particularly with respect to transactions in the securities of the Corporation and potential conflicts of interest. Directors, executive officers and employees are required to be familiar with and comply with the Code. The Code provides that any waivers for executive officers or directors may be made only by the independent members of the Board and must promptly be disclosed to the stockholders. During 2005, the Corporation did not receive nor grant any request from directors or executive officers for waivers under the provisions of the Code. The Code is available at the Corporation's website, www.popular.com.

The Corporation's Corporate Governance and Nominating Committee Charter and the Corporate Governance Guidelines are available on the Corporation's website, www.popular.com.

The Corporate Governance and Nominating Committee is comprised of Juan J. Bermúdez (Chairman), Francisco M. Rexach Jr., Frederic V. Salerno and María Luisa Ferré.

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AUDIT COMMITTEE REPORT

Audit Committee

The Audit Committee consists of three or more members of the Board. The members of the Audit Committee each have been determined by the Board to be independent as required by Nasdaq's director independence rules. Currently, the Audit Committee is comprised of four outside directors all whom are independent. The Audit Committee held 14 meetings during the fiscal year ended December 31, 2005. Earnings releases, Form 10-K and Form 10-Q filings were discussed in eight of such meetings.

The Audit Committee's primary purpose is to assist the Board in its oversight of the accounting and financial reporting processes of the Corporation. The Audit Committee operates pursuant to a charter that was last amended and restated by the Board on October 13, 2004.

In the performance of its oversight function, the Audit Committee has considered and discussed the audited financial statements of the Corporation for the fiscal year ended December 31, 2005 with management and PricewaterhouseCoopers LLP, the Corporation's independent registered public accountants. The Audit Committee has also discussed with the independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees". Finally, the Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1, as amended, "Independence Discussion with Audit Committees", has considered whether the provision of non-audit services by the independent registered public accounting firm to the Corporation is compatible with maintaining the auditors' independence, and has discussed with the independent registered public accountants the auditors' independence from the Corporation and its management. These considerations and discussions, however, do not assure that the audit of the Corporation's financial statements has been carried out in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), that the financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP) or that the Company's registered public accountants are in fact independent.

As set forth in the Audit Committee Charter, the management of the Corporation is responsible for the preparation, presentation and integrity of the Corporation's financial statements. Furthermore, management and the Internal Audit Division are responsible for maintaining appropriate accounting and financial reporting principles and policies, and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. PricewaterhouseCoopers LLP is responsible for auditing the Corporation's financial statements and expressing an opinion as to their conformity with GAAP in the United States of America.

The members of the Audit Committee are not engaged professionally in the practice of auditing or accounting and are not employees of the Corporation. The Corporation's management is responsible for its accounting, financial management and internal controls. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures to set auditor independence standards.

Based on the Audit Committee's consideration of the audited financial statements and the discussions referred to above with management and the independent registered public accountants, and subject to the limitations on the role and responsibilities of the Audit Committee set forth in the Charter and those discussed above, the Committee recommended to the Board that the Corporation's audited financial statements be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the SEC.

Submitted by:

Frederic V. Salerno (Chairman)

Juan J. Bermúdez

Francisco M. Rexach Jr.

William J. Teuber Jr.

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AUDIT COMMITTEE FINANCIAL EXPERTS

The Board has determined that Frederic V. Salerno and William J. Teuber Jr. are financial experts as defined by Item 401(h) of Regulation S-K under the Securities Exchange Act of 1934, as amended, and are independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act of 1934. For a brief listing of Messrs. Salerno's and Teuber's relevant experience, please refer to the Board of Directors and Committees section.

COMPENSATION OF DIRECTORS

Prior to May 2004 outside directors of the Corporation were granted options to purchase Common Stock pursuant to the 2001 Stock Option Plan (the "2001 Option Plan"). In May 2004 they were granted options under the Popular, Inc. 2004 Omnibus Incentive Plan (the "2004 Omnibus Plan"). The amount of stock options granted each month was equal to the quotient (rounded to the nearest whole share) of (x) 6,250 and (y) the value of the option based on the closing price of the Common Stock on the date granted. Option values on the grant dates were determined by using the Black-Scholes Option Valuation Model. The options granted shall become exercisable with respect to 20% of the shares on each anniversary of the date of grant and remain exercisable until the 10th anniversary of the grant.

On July 14, 2004, the Board approved a new compensation package for the non-employee directors of the Corporation based on recommendations from Watson Wyatt, outside consultants. Under the terms of such package each director receives an annual retainer of \$20,000, while directors that are elected as chairman of any Board committee receive an annual retainer of \$25,000. The retainer is paid in either cash or restricted stock under the 2004 Omnibus Plan, at the director's election. The directors also receive an annual grant of \$35,000 payable in restricted stock under the 2004 Omnibus Plan.

In addition, during 2005 non-employee directors received \$1,000 for each Board or committee meeting paid in either cash or restricted stock at the director's election. All restricted stock awards are subject to risk of forfeiture and restrictions on transferability until retirement, when they become vested. Dividends are paid on the restricted stock during the vesting period with reinvestment into shares of Common Stock.

The Corporation reimburses directors for travel expenses incurred in connection with attending Board, committee and stockholder meetings and for other Corporation-related business expenses (including the travel expenses of spouses if they are specifically invited to attend the event for appropriate business purposes), which may include use of private aircraft, if available and approved in advance by the CEO.

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EXECUTIVE OFFICERS

The following information sets forth the names of the Executive Officers of the Corporation including their age, business experience and directorships during the past five years and the period during which each such person has served as an Executive Officer of the Corporation.