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POPULAR INC
Form PRE 14A
February 26, 2004

SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
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))
- 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:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials:
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

POPULAR, INC.
P.O. BOX 362708
SAN JUAN, PUERTO RICO 00936-2708

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON FRIDAY, APRIL 30, 2004

To the Stockholders of Popular, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Popular, Inc. (the "Meeting") for the year 2004 will be held at 9:00 a.m. on Friday, April 30, 2004, on the third floor of the Centro Europa Building, in Santurce, Puerto Rico, to consider and act upon the following matters:

- (1) To elect three (3) directors assigned to "Class 2" of Popular, Inc. (the "Corporation") for a three-year term,
- (2) To elect a director to fill a vacancy as a "Class 3" director and reassign a director from "Class 1" to "Class 3," and thereby cause "Class 3" to have the same number of directors as the other two classes,
- (3) To ratify the selection of the Corporation's independent auditors for 2004,
- (4) To amend Article Fifth of the Restated Articles of Incorporation to increase the authorized number of shares of common stock, par value \$6, from 180,000,000 to 470,000,000,
- (5) To amend Article Fifth of the Restated Articles of Incorporation to increase the authorized number of shares of preferred stock without par value from 10,000,000 to 30,000,000,
- (6) To amend Article Eighth of the Restated Articles of Incorporation to eliminate the requirement that the total number of directors shall always be an odd number;
- (7) To approve the Corporation's 2004 Omnibus Incentive Plan; and
- (8) To transact any and all other business as may be properly brought before the Meeting or any adjournments thereof. Management at present knows of no other business to be brought before the Meeting.

Stockholders of record at the close of business on March 11, 2004, are entitled to notice of and to vote at the Meeting.

You are cordially invited to attend the Meeting. Whether you plan to attend or not, please sign and return the enclosed proxy so that the Corporation may be assured of the presence of a quorum at the Meeting. A postage-paid

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envelope is enclosed for your convenience. REMEMBER THAT YOU CAN VOTE BY TELEPHONE OR BY INTERNET; FOR FURTHER DETAILS PLEASE REFER TO THE ENCLOSED PROXY CARD.

San Juan, Puerto Rico, March 17, 2004.

By Order of the Board of Directors,

SAMUEL T. CESPEDES
Secretary

CONTENTS

About the Meeting

Principal Stockholders

Shares Beneficially Owned by Directors and Executive Officers of the Corporation

Section 16 (a) Beneficial Ownership Reporting Compliance

Board of Directors and Committees

Proposal 1: Election of Directors for a three-year term

Proposal 2: Election of Directors for a one-year term

Nominees for Election as Directors

Board of Directors Independence

Shareholders Communication with the Board

Standing Committees

Audit Committee Report

Audit Committee Financial Expert

Compensation of Directors

Executive Officers

Family Relationships

Proposal 3: Ratification of Selection of Auditors

Proposal 4 & 5: Amendment to the Article Fifth of the Restated Articles of Incorporation

Proposal 6: Amendment to the Article Eighth of the Restated Articles of Incorporation

Proposal 7: Approval of the Corporation's 2004 Omnibus Incentive Plan

Executive Compensation Program- Report of the Compensation
Committee on Executive Compensation

Executive Compensation

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Summary Compensation Table	3
Stock Option Plan	3
Profit Sharing, Benefit Restoration, Retirement Plans and Savings and Stock Plans	3
Popular, Inc. Performance Graph	3
Incorporation by Reference	3
Proposal of Security Holders to be Presented at the 2005 Annual Meeting of Stockholders	3
Annex A	3
Annex B	4
Annex C	4
Annex D	4
Annex E	5
Annex F	5
Annex G	5

2

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?

During 2004, the Board will be subject to several modifications in response to corporate policy and strengthened corporate governance.

First, as a result of the Board's existing policy, which provides that no person shall be nominated for reelection as director if during the term to be served such person would attain 72 years of age, two directors will not be nominated for reelection at the Meeting. In addition, one director has requested an early retirement from the Board, and will retire one year before his term as director expires. This director would not have been nominated for reelection in 2005 under the Board policy regarding attainment of 72 years of age during the term to be served.

Second, following the Corporation's desire to strengthen its corporate governance, two directors who are also employees of the Corporation will resign from the Board effective the date of the Meeting.

As a result of the changes described above, the Board of Directors' three classes will not be as nearly equal in number as possible, as provided in the Corporation's Articles of Incorporation. Therefore, the Board is proposing the nomination of two directors for election for a one-year term. One of these nominees is a director who will be reclassified from a "Class 1" to a "Class 3" director. If the stockholders approve the proposals regarding the election of directors, the Board of Directors will be divided in three classes of equal

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number of directors.

The Corporation's stockholders will be voting on:

- Election of directors (see pages 7 and 8).
- Ratification of PricewaterhouseCoopers LLP as the Corporation's auditors for 2004 (see page 20).
- Amendment to Article Fifth of Restated Articles of Incorporation to increase the authorized number of shares of common and preferred stock (see page 21).
- Amendment to Article Eighth of Restated Articles of Incorporation to eliminate the requirement that the total number of directors shall always be an odd number (see page 23).
- Approval of the Corporation's 2004 Omnibus Incentive Plan (see page 24).

HOW MANY VOTES DO I HAVE?

You will have one vote for every share of the Corporation common stock (the "Common Stock") you owned on March 11, 2004 (the record date).

HOW MANY VOTES CAN ALL STOCKHOLDERS CAST?

One vote for each of Popular, Inc.'s 132,999,351 shares of Common Stock that were outstanding on the record date. The shares covered by any proxy that is properly executed and received by management before 9:00 a.m. 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 the persons appointed by the Corporation as members of the vote-counting committee for the Meeting. 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 Puerto Rico Corporation Law and the Bylaws of the Corporation), or
- Vote by Internet (instructions are on the Proxy Card, as authorized by the Puerto Rico Corporation Law 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 (that is, in street name), you must obtain a proxy from your broker and bring that proxy to the Meeting.

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In addition to solicitation by mail, management may participate in the solicitation of proxies by telephone, personal interviews or otherwise. The Board of Directors 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 \$6,500.

3

To avoid delays in ballot taking and counting, and in order to assure that your proxy is voted in accordance with your wishes, compliance with the following instructions is respectfully requested: upon 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 names 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 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 can request that your previously submitted proxy not be used.

HOW WILL ABSTENTIONS AND BROKER NON-VOTES BE TREATED?

For purposes of determining a quorum, the members of the vote-counting committee will treat abstentions and brokers non-votes 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 that it does not have discretionary authority to vote on a particular matter. 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, approval of the Corporation's 2004 Omnibus Incentive Plan and the ratification of independent auditors will be acted upon a majority of the votes cast. Therefore, abstentions and brokers non-votes will not have an effect on the election of directors of the Corporation, and the approval of the Corporation's 2004 Omnibus Incentive Plan or the ratification of independent auditors. As to the proposals to amend Article Fifth of the Restated Articles of Incorporation, the affirmative vote of the holders of a majority of the outstanding shares is required. As to the proposal to amend Article Eighth of the Restated Articles of Incorporation, a vote of two-thirds of the outstanding shares is required. Therefore, abstentions and broker non-votes will have the same effect as a vote against the proposals to amend the Restated Articles of Incorporation.

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 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

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voted.

WHAT SHOULD I RECEIVE?

By now you should have received the Corporation's Annual Report, including the financial statements for the year ended December 31, 2003, duly certified by PricewaterhouseCoopers LLP as independent public accountants. The Proxy Statement, the enclosed Annual Report, the Notice of Annual Meeting of Stockholders and the form of proxy are being sent to stockholders on or about March 17, 2004.

4

PRINCIPAL STOCKHOLDERS

Following is the information, to the extent known by the persons on whose behalf this solicitation is made, 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 be the beneficial owner of more than five percent (5%) of the Corporation's voting securities.

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENTAGE OF CLASS
Common	State Farm Mutual Automobile Insurance Company-One State Farm Plaza, Bloomington, IL 61701	8,790,024 (2)	6.60

- (1) Based on 132,999,351 shares of Common Stock outstanding as of February 24, 2004.
- (2) On February 2, 2004 State Farm Mutual Automobile Insurance Company ("State Farm") and affiliated entities filed a joint statement on Schedule 13-G with the Securities and Exchange Commission reflecting their holdings as of December 31, 2003. 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. State Farm and its affiliates could also be deemed to be the beneficial owners of 8,790,024 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".

5

SHARES BENEFICIALLY OWNED BY DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

The Corporation encourages its executive officers to attain an investment position in the Corporation's stock equal to their annual salary. The following table sets forth information concerning the beneficial ownership of the Corporation's Common Stock as of February 24, 2004 for each director of the Corporation and each named executive officer listed in the Summary Compensation Table and the number of shares beneficially owned by all directors and executive

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officers of the Corporation as a group:

COMMON STOCK

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS (1)
Juan J. Bermudez	588,526 (2)	*
Jose B. Carrion Jr.	1,014,549 (3)	*
Richard L. Carrion	1,124,413 (4)	*
David H. Chafey Jr.	102,060	*
Antonio Luis Ferre	2,917,556 (5)	2.1937
Maria Luisa Ferre	3,124,267 (6)	2.3491
Hector R. Gonzalez	967,306	*
Jorge A. Junquera	120,525 (7)	*
Manuel Morales Jr.	550,795 (8)	*
Francisco M. Rexach Jr.	218,729 (9)	*
Frederic V. Salerno.	1,000	*
Felix J. Serralles Jr.	429,660 (10)	*
Jose R. Vizcarrondo	26,720 (11)	*
Julio E. Vizcarrondo Jr.	1,309,958 (12)	*
Maria I. Burckhart	68,028	*
Carlos Colino	2,883	*
Roberto R. Herencia	20,000	*
Tere Loubriel	14,642	*
Emilio Pinero	40,488	*
Brunilda Santos	8,362	*
Carlos J. Vazquez	108,535 (13)	*
Felix M. Villamil	5,324	*
All Directors and Executive Officers of the Corporation and its subsidiaries as a group (21 persons)	9,621,930	7.2346

* Less than 1.0%

- (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. As of February 24, 2004, there were 132,999,351 shares of Common Stock outstanding.
- (2) Excludes 15,897 shares owned by his wife, as to which Mr. Bermudez disclaims beneficial ownership.
- (3) Mr. Carrion Jr. owns 708,558 shares, has voting power over 524 shares owned by his daughter and has voting and investment power over 292,606 shares owned by Collosa Corporation which he owns. Excludes 15,808 shares owned by his wife to which he disclaims beneficial ownership. Junior Investment Corporation owns 4,434,846 shares of the Corporation. Mr. Carrion Jr. owns .29% of the shares of said corporation.
- (4) Mr. Carrion owns 304,725 shares and also has indirect investment power over 25,294 shares owned by his children and 1,000 shares owned by his wife. Junior Investment Corporation owns 4,434,846 shares of the Corporation. Mr. Carrion owns 17.89% of the shares of said corporation.
- (5) Mr. Ferre has direct or indirect investment and voting power over

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2,917,556 shares of the Corporation. Mr. Ferre owns 4,473 shares and has indirect investment and voting power over 3,200 shares owned by South Management, Inc. and 400 shares owned by his wife. Mr. Ferre owns 51% of Ferre Investment Fund, Inc., which owns 1,483,484 shares of the Corporation. Ferre Investment Fund, Inc. in turn owns 90% of El Dia, Inc., which owns 1,425,978 shares of the Corporation.

6

- (6) Mrs. Ferre has direct or indirect investment and voting power over 3,124,267 shares of the Corporation. Mrs. Ferre owns 2,775 shares of the Corporation and has indirect investment and voting power over 1,483,484 shares owned by Ferre Investment Fund, Inc., 210,600 shares owned by The Luis A. Ferre Foundation, and 1,430 shares owned by RANFE, Inc. Ferre Investment Fund, Inc., in turn owns 90% of El Dia, Inc., which owns 1,425,978 shares of the Corporation.
- (7) Mr. Junquera owns 110,525 shares and has indirect investment power over 10,000 shares owned by his son and daughter.
- (8) Mr. Morales owns 125,795 shares and has voting power over 425,000 shares owned by his parents, as their attorney-in-fact.
- (9) Mr. Rexach owns 103,929 shares and has indirect voting power over 95,800 shares owned by his mother, as her attorney-in-fact, and over 19,000 shares held by Capital Assets, Inc. as President and shareholder.
- (10) Mr. Serralles owns 226,752 shares, and has indirect voting power over 10,292 shares owned by his wife. Mr. Serralles owns 100% of the shares of Capitanejo, Inc. and Fao Investments, Inc., which own 117,020 and 5,596 shares, respectively, of the Corporation and has indirect ownership of 70,000 shares owned by Destileria Serralles, Inc.
- (11) Mr. Vizcarrondo owns 26,720 shares and disclaims beneficial ownership over 146,507 shares owned by DMI Pension Trust, where he serves as trustee and member of the investment committee.
- (12) Mr. Vizcarrondo owns 211,658 shares and has indirect voting power over 212,045 shares owned by his wife. Mr. Vizcarrondo's wife owns 18.18% of the shares of Junior Investment Corporation, which owns 4,434,846 shares of the Corporation. Mr. Vizcarrondo has indirect voting and investment power over 1,471 shares held in trust by Vicar Enterprises, Inc. for the benefit of his children, for which he disclaims beneficial ownership. Mr. Vizcarrondo also disclaims beneficial ownership over 146,507 shares owned by DMI Pension Trust, where he serves as trustee and member of the investment committee. There are 120,000 shares belonging to the estate of Mr. Julio Vizcarrondo, Sr., over which Mr. Vizcarrondo Jr. has investment power, but disclaims beneficial ownership, except for 80,000 shares which Mr. Vizcarrondo Jr. will inherit once the estate is divided and distributed.
- (13) Mr. Vazquez owns 14,736 shares and has investment authority over 93,799 shares held by various family members.

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 Securities and Exchange Commission (SEC) reports of ownership and changes in

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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 2003, all filing requirements applicable to its officers and directors were satisfied.

BOARD OF DIRECTORS AND COMMITTEES;

PROPOSAL 1: ELECTION OF DIRECTORS FOR A THREE-YEAR TERM

The Certificate of Incorporation and the Bylaws of the Corporation establish a classified Board of Directors pursuant to which the Board of Directors 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 Meeting of stockholders following the Meeting at which such director was elected or until his successor has been elected and qualified.

At the Meeting, three (3) directors assigned to "Class 2" are to be elected to serve until the 2007 Annual Meeting of Stockholders or until their respective successors shall have been elected and qualified. Except as provided in the second proposal, the remaining eight directors of the Corporation will serve as directors, as follows: until the 2005 Annual Meeting of Stockholders of the Corporation, in the case of those three directors assigned to "Class 3", and until the 2006 Annual Meeting of Stockholders, in the case of those five directors assigned to "Class 1", or in each case until their successors are elected and qualified.

The policy of the Board of Directors, as set forth in a resolution adopted on January 8, 1991, provides that no person shall be nominated for election or reelection as director

7

of the Board if at the date of the Meeting or during the term to be served such person attains 72 years of age. Messrs. Hector R. Gonzalez and Julio E. Vizcarrondo Jr. would attain 72 years of age during the term to be served. In accordance with Board policy, Messrs. Gonzalez and Vizcarrondo will not be nominated for reelection as directors.

The persons named as proxies in the accompanying Form of Proxy 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 five 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.

Information relating to principal occupation, business experience and directorship during the past five (5) 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.

The Board met on a monthly basis during 2003. All directors attended 75% or more to the meetings of the Board and the committees of the Board on which such directors served.

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

PROPOSAL 2: ELECTION OF DIRECTORS FOR A ONE-YEAR TERM

Effective April 30, 2004, two inside directors, Messrs. David H. Chafey Jr. and Jorge A. Junquera, have elected to resign from the Board. In addition, Mr. Antonio Luis Ferre, Vice Chairman of the Board, has elected to retire from the Board and will resign effective April 30, 2004, after 20 years of service. Mr. Ferre's term was due to expire in 2005, and he would not have been nominated for reelection due to the Corporation's director retirement policy regarding attainment of 72 years of age during the term to be served. As a result of the resignations described above, the Board's three classes will not be as nearly equal in number as possible, as provided in the Corporation's Articles of Incorporation.

In order to have a Board divided in three classes as nearly equal in number as possible, the Board of Directors proposes the election of two directors, Frederic V. Salerno and Maria Luisa Ferre, as directors assigned to "Class 3" for a one-year term. If Proposal 2 is approved, Mr. Salerno, who has been a director of the Corporation since April 2003, will be re-assigned from a "Class 1" director to a "Class 3" director, and each of the Board's classes will be composed of three directors. Ms. Ferre who has been director of the Bank since April 2000 will also become a director of the Corporation.

NAME AND AGE	PRINCIPAL OCCUPATION, BUSINESS EXPERIENCE AND DIRECTORSHIPS
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NOMINEES FOR ELECTION AS
CLASS 2 DIRECTORS
(TERMS EXPIRING IN 2007)

JOSE B. CARRION JR.: (67 YEARS)

- President of Collosa Corporation.
- Former President and Chief Executive Officer ("CEO") of Barros & Carrion from 1992 to 1999.
- Director of the Bank since April 2000.
- Director of the Corporation since 2001.

MANUEL MORALES JR.: (58 YEARS)

- President of Parkview Realty, Inc., the

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Atrium Office Center, Inc., HQ Business Center P.R., Inc. 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 Fundacion Angel Ramos, Inc.
- Member of the Board of Directors of Consular Corps College of the USA.
- Member of the Board of Trustees of Fundacion Banco Popular, Inc.
- Chairman of the Audit Committee of the Corporation and the Bank until May 2003.
- Director of the Bank.
- Director of the Corporation since 1990.

JOSE R. VIZCARRONDO: (42 YEARS)

- Civil Engineer.
- Vice president 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 institucional 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 present.
- 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.
- Member of the Private Industry Advisory Council to the President of the Government Development Bank until 2001.
- Member of the Board of Directors of the not-for-profit organization Hogar Cuna San Cristobal Foundation since 2002.
- Member of the Board of Directors of Puerto Rico Home Builders Association since 2002.

NAME AND AGE	PRINCIPAL OCCUPATION, BUSINESS EXPERIENCE AND DIRECTORSHIPS
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NOMINEES FOR ELECTION AS
CLASS 3 DIRECTORS
(TERMS EXPIRING IN 2005)

MARIA LUISA FERRE: (40 YEARS)

- President of Grupo Ferre Rangel, Ferre Investment Fund and Asset Growth Fund (a venture capital fund).
- Member of the Board of Directors of El Nuevo Dia Inc. and Editorial Primera Hora Inc. (Puerto Rico newspapers), El Nuevo Dia Orlando, and VIU Media (an outdoor media company).
- President and Trustee of The Luis A. Ferre Foundation (a non-profit organization).
- Vice President of the Ferre Rangel Foundation (a philanthropic entity).
- Director of the Bank since April 2000.

FREDERIC V. SALERNO: (60 YEARS)

- Vice Chairman and Chief Financial Officer of Verizon Communications, Inc. until September 2002.
- Director of Avnet, Inc., Dun & Bradstreet Corporation, Lynch Interactive Corporation, and Heidrick & Struggles International, Inc. (registered public companies) until February 2004.
- Director of Akamai Technologies, Inc., Bear Stearns & Co., Inc., Consolidated Edison, Inc., Viacom, Inc. and Gabelli Asset Management, Inc. (registered public companies).
- Chairman of the Audit Committee of the Corporation since May 2003.

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NAME AND AGE

AND DIRECTORSHIPS

CLASS 1 DIRECTORS
(TERMS EXPIRING IN 2006)

JUAN J. BERMUDEZ: (66 YEARS)

- Electrical Engineer.
- Partner of Bermudez and Longo, S.E., Decemcor, S and PCME Commercial, S.E.
- Principal Stockholder and Director of BL Management, Corp., G.S.P. Corp., Unimanagement Corp., Unlimited Corp. and PS4 Corp.
- Chairman of the Trust Committee of the Bank.
- Director of the Bank.
- Director of the Corporation since 1990.

RICHARD L. CARRION: (51 YEARS)

- Chairman, President and Chief Executive Officer Bank.
- Chairman of Popular International Bank, Inc., Popular North America, Popular Cash Express, Inc Association and Popular FS, LLC.
- Chairman of the Board of Trustees of Fundacion B
- Member of the International Olympic Committee since International Olympic Committee's Finance Commission since January 2002.
- President of the Puerto Rico Olympic Trust and M Committee.
- Member of the Board of Trustees of the Puerto Ri Development.
- Member of the Board of Directors, the Benefits & Public Policy Committee of Verizon Communication company).
- Member of the Board of Directors of Telecommunica
- Member of the Board of Directors, the Audit Comm Benefits Committee of Wyeth (a registered public
- Director of Equity One, Inc., Popular Finance, I Mortgage, Inc., Popular Securities, Inc., Popula Inc.
- Director of the Corporation since 1990.

FRANCISCO M. REXACH JR.: (66 YEARS)

- President of Capital Assets, Inc. and Rexach Con

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- Chairman of Chamaleon Fitness Systems, Inc.
- Chairman of the Compensation Committee of the Co
- Director of the Bank, Popular International Bank Inc., Banco Popular North America, Popular Cash
- Director of the Corporation since 1990.

CLASS 3 DIRECTORS
(TERMS EXPIRING IN 2005)

FELIX J. SERRALLES JR.: (69 YEARS)

- President and Chief Executive Officer of Destile manufacturers and distributors of distilled spirit Mercedita Leasing, Inc.
- Director of the Bank.
- Director of the Corporation since 1984.

11

BOARD OF DIRECTORS INDEPENDENCE

The Board has determined that Messrs. Manuel Morales, Jr., Juan J. Bermudez, Francisco M. Rexach, Jr., Frederic V. Salerno, Antonio Luis Ferre, Hector R. Gonzalez and Felix J. Serralles Jr. have no material relationship with the Corporation and are independent under the standards of the NASDAQ Stock Market, Inc. ("NASDAQ"). Effective April 30, 2004, two non-independent directors, Messrs. David H. Chafey Jr. and Jorge A. Junquera, will resign from the Board. Maria Luisa Ferre is expected to satisfy NASDAQ's independence standards if elected as "Class 3" director.

The Corporation has a majority of independent directors. During 2003, the independent directors met in executive sessions three times. After conducting a self-assessment in December 2003, the Board agreed that the "independent directors" would meet in executive sessions after each Board meeting. The independent directors have met after every Board meeting held in 2004. Currently, there is no lead director and the independent directors designate, on a rotational basis, who will preside at each executive session.

SHAREHOLDER COMMUNICATIONS WITH THE BOARD

Any shareholder 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 shareholder 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.

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STANDING COMMITTEES

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

COMPENSATION COMMITTEE

The Compensation Committee shall consist 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 rules. The Compensation Committee held three meetings during the fiscal year ended December 31, 2003 and two meetings in the first quarter of 2004. 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 Committee by any of these plans.

The Charter of the Compensation Committee is included in this document as Annex A.

The Compensation Committee is composed of Francisco M. Rexach Jr., Juan J. Bermudez, Hector R. Gonzalez and Felix J. Serralles Jr. None of the members of the Committee are officers or employees of the Corporation or any of its subsidiaries.

12

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee consists of three or more members of the Board, each of whom the Board will determine has no material relationship with the Corporation and each of whom is otherwise "independent" under NASDAQ's rules. The Corporate Governance and Nominating Committee held four meetings during the fiscal year ended December 31, 2003 and two meetings in

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the first quarter of 2004. Mr. Jose B. Carrion Jr. resigned from the Committee in February 11, 2004 after it was determined that, in accordance with the NASDAQ rules, he did not qualify as an "independent director."

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 to review these principles at least once a year.

Under the 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 shareholders. 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 shareholder. The Corporate Governance and Nominating Committee did not receive any recommendation from shareholders for the Meeting.

Shareholders who wish to submit nominees for director for consideration by the Corporate Governance and Nominating Committee for election at the Corporation's 2005 annual meeting of shareholders may do so by submitting in writing such nominees' names and a brief description of the nominees' judgment, skills, diversity, and experiences with businesses and other organizations to the Secretary of the Board of Directors at Popular, Inc., 209 Munoz Rivera Avenue, Hato Rey, Puerto Rico, 00918, prior to November 1, 2004.

At its December 10, 2003 and February 11, 2004 meetings, the Corporate Governance and Nominating Committee approved the nominations of Jose R. Vizcarrondo and Maria Luisa Ferre for inclusion as Class 2 and Class 3 directors, respectively, in the Corporation's 2004 Proxy Card. Both nominees approved for inclusion in the Proxy Card were recommended by the Corporation's

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CEO.

On December 11, 2002, the Corporation adopted a Code of Business Conduct and Ethics (the "Code") with rules to be followed by the Corporation's employees, officers (including the Chief Executive Officer, Chief Financial Officer and Comptroller) and directors in order to achieve a 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 should be familiar with the Code and consult with the Corporation's General Counsel or the appropriate Human Resources Division in the event of any issues. During 2003, the Corporation's General Counsel did not receive any request from directors or executive officers for waivers under the provisions of the Code. The Code is included as an exhibit on the Corporation's Annual Report on Form 10-K and is available at the Corporation's website, www.popularinc.com.

The Corporate Governance and Nominating Committee Charter and the Corporate Governance Guidelines are included in this document as Annex B and C, respectively, and are also available on the Corporation's website, www.popularinc.com.

The Corporate Governance and Nominating Committee is composed of Juan J. Bermudez, Francisco M. Rexach Jr., Felix J. Serralles Jr. and Frederic V. Salerno.

13

AUDIT COMMITTEE REPORT

AUDIT COMMITTEE

The Audit Committee shall consist of at least three members of the Board. The members of the Audit Committee shall each have been determined by the Board to be "independent" as required by NASDAQ's listing standards. Currently, the Audit Committee is comprised of four outside directors. The Audit Committee held nine meetings during the fiscal year ended December 31, 2003.

The Audit Committee's primary purpose is to assist the Board in its oversight of the accounting and financial reporting processes of the Corporation, as well as the oversight of the audits of the financial statements of the Corporation. The Committee operates pursuant to a Charter that was last amended and restated by the Board on January 16, 2004 and is included in this document as Annex D.

In the performance of its oversight function, the Committee has considered and discussed the audited financial statements of the Corporation for the fiscal year ended December 31, 2003 with management and PricewaterhouseCoopers LLP, the Corporation's independent 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 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 accountants to the Corporation is compatible with maintaining the accountants' independence, and has discussed with the independent accountants the accountants' 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

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accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company's auditors are in fact "independent."

As set forth in the 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, the Corporation's independent public accountants, are responsible for auditing the Corporation's financial statements and expressing an opinion as to their conformity with generally accepted accounting principles 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 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, 2003 for filing with the SEC.

Submitted by:

Frederic V. Salerno (Chairman)
Hector R. Gonzalez
Francisco M. Rexach Jr.
Felix J. Serralles Jr.

14

AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Frederic V. Salerno is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended, and is 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 Mr. Salerno's relevant experience, please refer to the Board of Directors and Committees Section.

COMPENSATION OF DIRECTORS

Since March 7, 2001, outside directors of the Corporation and the Bank became eligible to receive stock options pursuant to the 2001 Stock Option Plan (the "2001 Option Plan"). The 2001 Option Plan award is made quarterly on February, May, August and November of each year. The amount of stock options granted is 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 of the Corporation on the date granted. Option values on the grant dates were determined by using the Black-Scholes Option Valuation Model. Each director has been granted options to purchase the shares of stock of the Corporation. The options granted shall, subject to early vesting provision of the Plan,

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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.

In addition, directors receive \$1,000 for attending each Board meeting and \$500 for attending each committee meeting. Directors who are employees of the Corporation do not receive fees for attending Board and committee meetings.

15

EXECUTIVE OFFICERS

The following information sets forth the names of the executive officers (the "Executive Officers") of the Corporation including their age, business experience and directorships during the past five (5) years and the period during which each such person has served as an Executive Officer of the Corporation or the Bank.

NAME AND AGE -----	BUSINESS EXPERIENCE AND DIRECTORSHIPS -----
RICHARD L. CARRION: (51 YEARS)	<ul style="list-style-type: none"> - Chairman of the Board since 1993. - President and CEO of the Corporation since 1990. - For information about principal occupation, business and directorships during the past five years please see the Board of Directors and Committees section.
JORGE A. JUNQUERA: (55 YEARS)	<ul style="list-style-type: none"> - Senior Executive Vice President of the Corporation - Chief Financial Officer of the Corporation and the - Supervisor of the Financial Management Group. - Supervisor of the U.S. Operations from January 1996 to 2001. - Supervisor of the Caribbean and Latin America Expansion since January 1996. - President and Director of Popular International Bank of Popular North America, Inc. since January 1996. - Chairman of the Board of Popular Securities, Inc. - Director of the Bank until April 2000 and from 2001 to 2002. - President of Banco Popular North America until December 2000. - Director of Puerto Rico Tourism Company until April 2000. - President of Hotel Development Co. until April 2000. - Director of PRISMA: El Exploratorio Inc. until April 2000.

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- Director of YMCA since 1988.
- President of Banco Popular, National Association.
- Director of Equity One, Inc., Popular Cash Express Popular FS, LLC, Popular Leasing USA, Inc. and of North America.
- Director of Banco Hipotecario Dominicano and Contaplus.
- Director of New America Alliance (a registered public company) and Virtual, Inc. (an Internet company).
- Director of La Familia Catolica por la Familia en Puerto Rico since 2001.
- Director of King's College since 2003.
- Director of the Corporation until April 2004.

DAVID H. CHAFEY JR.: (50 YEARS)

- Senior Executive Vice President of the Corporation until 1996.
- Supervisor of the Bank's Retail Banking Group since 1996.
- Senior Executive Vice President of Popular International Inc. and Popular North America, Inc.
- Chairman of the Board of Popular Finance, Inc.
- Chairman and President of Puerto Rico Investors Tax-Free Maturity Fund, Inc. I and II and of Puerto Rico Investors Flexible Allocation Fund since January 1999.

16

(CONT.) NAME AND AGE

DAVID H. CHAFEY JR.: (50 YEARS)

BUSINESS EXPERIENCE
AND DIRECTORSHIPS

- Member of the San Jorge Children's Research Foundation.
- President of the Puerto Rico Bankers Association until 2002.
- Director of Visa International for the Caribbean and Latin America.
- Director of Equity One, Inc. and Banco Popular North America until December 1999.
- Director of Grupo Guayacan, Inc.

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- Director of the Bank, Popular Mortgage, Inc., Popular Inc., GM Group, Inc., Banco Popular, National Association of Popular Insurance, Inc. and Popular Securities, Inc.
- Director of the Corporation until April 2004.

MARIA I. BURCKHART: (55 YEARS)

- Executive Vice President of the Corporation since 2004.
- Supervisor of the Administration Group.
- Executive Vice President of Popular International and Popular North America, Inc.
- Member of the Board of Trustees of Fundacion Banco Popular Inc. since 1990.
- Member of the Board of Directors of Fundacion Ana de la Haza since 1992.
- Member of the Board of Directors of the Puerto Rico Foundation from 1993 through 2002.
- Member of the Board of Directors of the Bankers Club since 1998.
- Member of the Board of Trustees of the Puerto Rico Art since 2000.
- Member of the Board of Trustees of the University of Puerto Rico School of Architecture since 2003.

CARLOS COLINO: (57 YEARS)

- Executive Vice President of the Corporation since 2004.
- Chairman and Chief Executive Officer of GM Group, subsidiary of the Corporation, since August 2002.
- Chief Executive Officer of E-Global, provider of payment and electronic banking, from February 1998 through 2004.

ROBERTO R. HERENCIA: (44 YEARS)

- Executive Vice President of the Corporation since 2004.
- President and Director of Banco Popular North America since December 2001.
- Head of the Corporation's U.S. business expansion.
- Director of Popular International Bank, Inc., Popular America, Inc., Popular Cash Express, Inc., Banco Popular, National Association, Equity One, Inc., Popular Leasing, Inc. and Popular FS, LLC.
- Chairman of the Board of Directors of Popular Insurance USA, Inc.
- Member of the Board of Directors of The ServiceMaster

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(a registered public company).

17

NAME AND AGE -----	BUSINESS EXPERIENCE AND DIRECTORSHIPS -----
TERE LOUBRIEL: (51 YEARS)	<ul style="list-style-type: none">- Executive Vice President of the Corporation since- Director of Human Resources since April 2000.- Year 2000 Office Manager of the Corporation from D to 2000.- Director of the Puerto Rico Society of Certified P Accountants since February 2004.
EMILIO E. PINERO: (55 YEARS)	<ul style="list-style-type: none">- Executive Vice President of the Corporation since- Supervisor of the Commercial Banking Group.- Director of Popular Mortgage, Inc. and Popular Aut- Executive Vice President of Popular International and Popular North America, Inc.- Member of the Board of Trustees of Fundacion Luis and of the Puerto Rico Society of Certified Public Foundation.- Director of Sapientis, Inc.
BRUNILDA SANTOS DE ALVAREZ: (45 YEARS)	<ul style="list-style-type: none">- Executive Vice President of the Corporation since- General Counsel of the Corporation since 1997.- Senior Vice President from March 1996 until Januar- Secretary of the Board of Directors of Popular Int Bank, Inc., Banco Popular North America, GM Group, Popular Cash Express, Inc., Banco Popular, National Association, Popular Insurance, Inc., Popular Secu Levitt Mortgage Corporation, Popular Insurance Age Inc., Popular Auto, Inc., Popular Finance, Inc., P Mortgage, Inc., Equity One, Inc., Popular North Am Popular RE , Inc. and Popular FS, LLC.- Secretary of the Board of Directors of Puerto Rico Tax Free Fund, Inc. I, II, III, IV, V, VI, of Puer Free Target Maturity Fund, Inc. I and II, and of P

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Investors Flexible Allocation Fund, Inc.

- Assistant Secretary of the Board of Directors of the Corporation and the Bank since May 1994.
- Member of the Board of Regents, Colegio Puertorriqueño since June 2002.

CARLOS J. VAZQUEZ: (45 YEARS)

- Executive Vice President of the Corporation since 2001.
- Supervisor of the Corporation's Risk Management Group since 2001.
- Director of Popular Securities, Inc. and Popular Real Estate since 2001.
- Director of the Puerto Rico Community Foundation and La Opera, Inc.

FELIX M. VILLAMIL: (42 YEARS)

- Executive Vice President of the Corporation since 2001.
- Supervisor of the Operations Group since April 2001.
- Supervisor of the Bank's Ponce Region from April 2001 to December 2001.
- Supervisor of the Credit Risk Management Division from 1997 through March 2001.

SAMUEL T. CESPEDES: (67 YEARS)

- Secretary of the Board of Directors of the Corporation and the Bank since 1991.
- Attorney-at-Law.
- Senior Counsel of the law firm McConnell Valdes.
- Secretary of the Board of Directors of Puerto Rico Defense Mutual Insurance Company.

18

FAMILY RELATIONSHIPS

Mr. Richard L. Carrion, Chairman of the Board and President and CEO of the Corporation and the Bank, is the uncle of Mr. Jose R. Vizcarrondo, nominee for Director of the Corporation.

OTHER RELATIONSHIPS, TRANSACTIONS AND EVENTS

During 2003 the Corporation engaged, in the ordinary course of business, the legal services of the law firm McConnell Valdes, of which Mr. Samuel T. Cespedes, Secretary of the Board of Directors of the Corporation and the Bank, is a Senior Counsel. The amount of fees paid to McConnell Valdes for

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fiscal year 2003 amounted to \$620,076. The Corporation also engaged, in the ordinary course of business, the legal services of Pietrantonio, Mendez & Alvarez, LLP of which Mr. Ignacio Alvarez and Mr. Antonio Santos, husband and brother, respectively, of Mrs. Brunilda Santos de Alvarez, Executive Officer of the Corporation, are partners. The amount of fees paid to Pietrantonio, Mendez & Alvarez for fiscal year 2003 amounted to \$881,286.

The Bank has had loan transactions with the Corporation's directors and officers, and with their associates, and proposes to continue such transactions in the ordinary course of its business, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable loan transactions with other people and subject to the provisions of the Banking Act of the Commonwealth of Puerto Rico, the Sarbanes-Oxley Act of 2002 and other applicable federal laws and regulations. The extensions of credit have not involved and do not currently involve more than normal risks of collectibility or present other unfavorable features.

On August 25, 2000, the Corporation acquired 19.99% of Mediawire Communications, Inc.'s ("Mediawire") common stock for \$800,000. On June 30, 2003, the Corporation liquidated its participation in Mediawire and the Bank acquired 100% of Mediawire's assets for \$3,152,000. Subsequently, officers and employees of Mediawire became Bank employees, creating a new division called Technology Research Division. Mr. Manuel A. Morales, son of Manuel Morales Jr., a director of the Corporation, owned 26% of Mediawire. The Bank used the discounted cash flow method and a market comparables analysis to determine the purchase price of Mediawire's assets. Mr. Manuel Morales Jr. did not have any direct or indirect interest in Mediawire.

During 2003, Carrion, Laffitte & Casellas, Inc. earned commissions of \$1,694,515 for the institutional insurance business of the Corporation and its subsidiaries. Jose B. Carrion, III, son of Jose B. Carrion Jr., a director of the Corporation, is a significant shareholder of Carrion, Laffitte & Casellas, Inc. Jose B. Carrion Jr. does not have any direct or indirect interest in Carrion, Laffitte & Casellas, Inc.

Mr. Jose R. Vizcarrondo who is nominated for election as a director, is an officer and partner of Metropolitan Builders, S.E., a special partnership under the laws of the Commonwealth of Puerto Rico. Metropolitan Builders, S.E. has been awarded approximately \$52,000,000 in contracts related to two Bank construction projects. The award of these contracts was determined by competitive bids. During 2003, Metropolitan Builders, S. E. invoiced approximately \$22,000,000 in relation to these projects.

Mrs. Maria Luisa Ferre has a material interest in Virtual, Inc., a company where the Corporation has invested \$1,826,166. In addition, the Corporation has invested \$4,002,333 and \$1,500,000 in Guayacan Private Equity Fund Limited Partnership and Venture Capital Fund, Inc., respectively. Ms. Ferre's husband is the president of the two companies that are administrators of these funds, Advent Morro Equity Partners and Venture Management, Inc. In 2003, the Bank paid rent of \$27,534 to CV Plaza S.E., a special partnership controlled by the Ferre Rangel Family.

In 2003, the Bank made a contribution of \$3,683,137 to Fundacion Banco Popular, Inc. (the "Fundacion"), a Puerto Rico not-for-profit corporation created to improve the Puerto Ricans' quality of life. The Fundacion is the Bank's philanthropic arm and provides a scholarship fund for employees' children, and supports education and community development projects. Richard L. Carrion (Chairman, CEO and President of the Corporation), Manuel Morales Jr. (Director of the Corporation), and Maria I. Burckhart (Executive Officer of the Corporation) are members of the Board of Trustees of the Fundacion. The Bank appoints five of nine members of the Board of Trustees. The remaining four trustees are appointed by the Fundacion. The Bank also provides significant

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human and operational resources to support the activities of the Fundacion.

The Bank and its employees (through voluntary personal donations) are the main source of funds of the Fundacion.

19

PROPOSAL 3: RATIFICATION OF SELECTION OF AUDITORS

The Board intends to retain the services of PricewaterhouseCoopers LLP as the independent public accountants of the Corporation for the year 2004. PricewaterhouseCoopers LLP has served as independent public accountants of the Bank since 1971 and of the Corporation since May 1991, when it was appointed by the Board.

Neither the Corporation's Certificate of Incorporation nor its By-Laws requires that the shareholders ratify the selection of PricewaterhouseCoopers LLP as our independent auditors. We are doing so because we believe it is a matter of good corporate practice. If the shareholders do not ratify the selection, the Board of Directors and the Audit Committee will reconsider whether or not to retain PricewaterhouseCoopers LLP, but may retain such independent auditors. Even if the selection is ratified, the Board of Directors and the Audit Committee in their discretion may change the appointment at any time during the year if they determine that such change would be in the best interest of the Corporation and its shareholders.

Representatives of PricewaterhouseCoopers LLP will attend the Meeting and will be available to respond to any appropriate questions that may arise; they will also have the opportunity to make a statement if they so desire.

The selection of PricewaterhouseCoopers LLP as the Corporation's auditors must be ratified by a majority of the votes cast at the Meeting.

The Board recommends that you vote FOR ratification of PricewaterhouseCoopers LLP as the Corporation's independent auditors for 2004.

DISCLOSURE OF AUDITORS' FEES

The following is a description of the fees billed to the Corporation by PricewaterhouseCoopers LLP for the years ended December 31, 2003 and 2002:

AUDIT FEES

The aggregate fees billed by PricewaterhouseCoopers LLP for the audit of the Corporation's annual financial statements for the years ended December 31, 2003 and 2002 and for the reviews of the financial statements included in the Corporation's quarterly reports on Form 10-Q were \$1,746,988 and \$1,308,398, respectively.

AUDIT-RELATED FEES

The aggregate fees billed by PricewaterhouseCoopers LLP to the Corporation for the years ended December 31, 2003 and 2002 for audit-related services were \$647,300 and \$317,661, respectively. Audit related fees generally include fees for assurance services such as audits of pension plans, compliance related to servicing of assets, assistance with securitizations and SAS 70 reports.

TAX FEES

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The aggregate fees billed by PricewaterhouseCoopers LLP to the Corporation for the years ended December 31, 2003 and 2002 for tax related services were \$358,166 and \$455,557, respectively. These fees are associated with tax return preparation and tax consulting services.

ALL OTHER FEES

The aggregate fees billed by PricewaterhouseCoopers LLP to the Corporation for the years ended December 31, 2003 and 2002 for services not included above were \$385,000 and \$81,500, respectively. All other fees include mainly operational reviews and consulting services.

The Audit Committee has established controls and procedures that require the pre-approval of all audit and permissible non-audit services provided by PricewaterhouseCoopers LLP or another firm. The Audit Committee may delegate to one or more of its members the authority to pre-approve any audit or permissible non-audit services. Under the pre-approval controls and procedures, audit services for the Corporation are negotiated annually. In the event that any additional audit services not included in the annual negotiation or permissible non-audit services are required by the Corporation, a proposed engagement letter should be obtained from the auditor and evaluated by the Audit Committee or the member(s) of the Audit Committee with authority to pre-approve auditor services. Any decisions to pre-approve such audit and non-audit services and fees shall be reported to the full Audit Committee at its next regular meeting. The Audit Committee has considered that the provision of the services covered by this paragraph is compatible with maintaining the independence of the independent public accountants of the Corporation. During 2003 all auditors fees were pre-approved by the Audit Committee or the Board.

20

RESTATED ARTICLES OF INCORPORATION

PROPOSAL 4. AMENDMENT TO THE ARTICLE FIFTH OF THE RESTATED ARTICLES OF INCORPORATION

The Board recommends the amendment of Article Fifth of the Corporation's Restated Articles of Incorporation in the manner shown in Annex E hereto. The proposed text of Article Fifth set forth in Annex E assumes shareholder approval of this proposal and the proposal to increase the authorized shares of Preferred Stock. The proposed Amendment to Article Fifth would change the number of authorized shares of the Corporation's Common Stock from one-hundred and eighty million (180,000,000) shares to four hundred and seventy million (470,000,000) shares. This change would be effective upon the date of filing the Amendment to the Restated Articles with the Department of State in the Commonwealth of Puerto Rico.

The Board believes that it is in the best interest of the Corporation and its shareholders that the Corporation have a sufficient number of authorized but unissued shares of Common Stock available for possible use in future acquisition and expansion opportunities that may arise, for general corporate needs such as future stock dividends or stock splits, and for other proper purposes within the limitations of the law, as determined by the Board. The Corporation has no current plans to use its authorized but unissued shares of Common Stock for any particular purpose. Such shares would be available for issuance without further action by the shareholders, except as otherwise limited by applicable law.

If additional shares of Common Stock are issued by the Corporation, it

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may potentially have an anti-takeover effect by making it more difficult to obtain shareholders' approval of various actions, such as a merger. Also, the issuance of additional shares of Common Stock may have a dilutive effect on earnings per share and equity, and may have a dilutive effect on the voting power of existing shareholders if the preferential rights provided in Article Sixth are not applicable. The terms of any Common Stock issuance will be determined by the Board, will depend upon the reason for the issuance and largely on market conditions and other factors existing at the time. The increase in authorized shares of Common Stock has not been proposed in connection with any anti-takeover related purpose and the Board and management have no knowledge of any current efforts by anyone to obtain control of the Corporation or to effect large accumulations of the Corporation's Common Stock.

The resolution attached to this proxy as Annex E will be submitted for adoption at the Meeting. The affirmative vote of a majority of the holders of shares of Common Stock of the Corporation is necessary to adopt the proposed amendment in accordance with the terms of Article Fifth of the Restated Articles of Incorporation. Proxies will be voted for the resolutions unless otherwise instructed by the stockholders. Abstentions and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as votes cast against the proposed Amendment. The Board has declared the desirability of the adoption of this amendment and recommends a vote FOR the resolution.

RESTATED ARTICLES OF INCORPORATION

PROPOSAL 5. AMENDMENT TO THE ARTICLE FIFTH OF THE RESTATED ARTICLES OF INCORPORATION

The Board recommends the amendment of Article Fifth of the Corporation's Restated Articles of Incorporation in the manner shown in Annex E hereto. The proposed text of Article Fifth set forth in Annex E assumes shareholder approval of this proposal and the proposal to increase the authorized shares of Common Stock. The proposed Amendment to Article Fifth would increase the number of authorized shares of the Corporation's Preferred Stock, from ten million (10,000,000) shares to thirty million (30,000,000) shares. This change would be effective upon the date of filing the Amendment to the Restated Articles with the Department of State in the Commonwealth of Puerto Rico.

The Board believes that the proposed increase in the number of authorized shares of Preferred Stock is necessary to maintain a balanced capital structure for the Corporation and allow for possible use in future acquisition and expansion opportunities that may arise, for general corporate needs, and for other proper purposes within the limitations of the law, as determined by the Board. The Corporation has no current plans to use its authorized but unissued shares of Preferred Stock for any particular purpose. Such shares would be available for issuance without further action by the shareholders, except as otherwise limited by applicable law.

The availability of the shares of Preferred Stock for issuance, without the delay and expense of obtaining the approval of shareholders at a special meeting, will afford the Corporation greater flexibility and efficiency in acting upon proposed transactions. The Corporation has no plans to issue additional shares of Preferred Stock in the immediate future. The shares of Preferred Stock may be issued in one or more series from time to time for such corporate purposes and consideration as the Board may approve and no further

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of shareholders of the Corporation will be required except as may be required by applicable law or by any rule of a securities exchange or automated quotation system applicable to the Corporation. The Board will have broad discretion with respect to designating and establishing the terms of each series of Preferred Stock prior to its issuance. The Board may provide for each series:

- voting rights, if any,
- the number of shares constituting the series,
- the dividend rate of such series, the condition and dates in which such dividends shall bear to the dividends payable on any other class or classes or on any other series of any class or classes of capital stock of the Corporation, and whether such dividends shall be cumulative or non-cumulative,
- whether the shares of such series shall be subject to redemption by the Corporation, and, if made subject to redemption, the times, prices and other terms and conditions of such redemption,
- the rights of holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, the Corporation, which rights may be different in case of a voluntary dissolution than in the case of involuntary dissolution,
- sinking fund provisions, if any, for the redemption or purchase of shares,
- the terms and conditions, if any, on which shares may be converted into or exchanged for shares of common stock or other capital stock or securities of the Corporation, and
- any other rights and preferences of the shares, to the full extent now or hereafter permitted by the laws of the Commonwealth of Puerto Rico.

All shares of Preferred Stock which may be redeemed or retired by sinking fund payment, repurchased by the Corporation or converted into common stock, shall have the status of authorized and unissued shares of Preferred Stock and may be reissued by the Board as shares of the same or any other series, unless otherwise provided with respect to any series in the resolution of the Board creating such series.

Ownership of shares of Preferred Stock will not entitle the holder thereof to any preemptive rights to subscribe for or purchase any additional securities issued by the Corporation.

Upon the issuance of any series of Preferred Stock, the holders of shares of such series will have certain preferences over the holders of outstanding shares of common stock, depending upon the specific terms of such series designated by the Board. For example, the provisions of a particular series of Preferred Stock could prohibit the declaration and payment of dividends on the common stock until full dividends on all outstanding shares of such series for all past periods and for the current dividend period shall have been declared and paid by the Corporation or the Corporation shall have set apart a sum sufficient for such payment. In addition, to the extent that Preferred Stock is made convertible into common stock, such conversion would result in dilution of the voting power and equity interest of holders of common stock.

In the event of any dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of each series of the then outstanding Preferred Stock will be entitled to receive the amount fixed

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for such purpose by the Board together with all accumulated and unpaid dividends. Depending upon the consideration paid for any series of Preferred Stock and the liquidation preference of such series, the issuance thereof could result in a reduction in the assets available for distribution to the holders of common stock in the event of the liquidation of the Corporation.

The outstanding shares of any series of Preferred Stock, or any part thereof, which are by their terms redeemable, may be redeemed at any time at the option of the Corporation, subject to and in accordance with such terms and conditions as may be designated by the Board in creating such series. Subject to the terms and conditions established by the Board in creating the various series of Preferred Stock, the Corporation may redeem all or any part of the shares of any series of Preferred Stock without redeeming all or any part of the shares of any other series.

Preferred Stock could be issued to delay or defeat a change in control of the Corporation and, accordingly, under certain circumstances, could discourage transactions that might otherwise have a favorable effect on the price of the Common Stock. The Corporation does not currently expect to use the Preferred Stock for this purpose and the increase in authorized shares of Preferred Stock has not been proposed in connection with any anti-takeover related purpose.

The resolution attached to this proxy as Annex E will be submitted for adoption at the Annual Stockholders meeting. The affirmative vote of a majority of the holders of shares of Common Stock of the Corporation is necessary to adopt the proposed amendment in accordance with the terms of Article Fifth of the Restated Articles of Incorporation. Proxies will be voted for the resolutions unless otherwise instructed by the shareholders. Abstentions and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as votes cast against the proposed Amendment. The Board of Directors has declared the desirability of the adoption of this amendment and recommends a vote FOR the resolution.

22

RESTATED ARTICLES OF INCORPORATION PROPOSAL 6. AMENDMENT TO THE ARTICLE EIGHTH OF THE RESTATED ARTICLES OF INCORPORATION

The Board recommends the amendment of Article Eighth of the Corporation's Restated Articles of Incorporation in the manner shown in Annex F. Section 1 of Article Eighth provides that the Board shall be composed of such number of directors as are established from time to time by the Board and approved by an absolute majority of directors; provided, however, that the total number of directors shall always be an odd number of not less than nine (9) nor more than twenty-five (25). The proposed Amendment to Article Eighth would eliminate the requirement that the total number of directors shall always be an odd number. This change would be effective upon the date of filing the Amendment to the Restated Articles with the Department of State in the Commonwealth of Puerto Rico.

The purpose of the odd number requirement for the total number of directors is to facilitate the determination of a majority of votes whenever a matter is reviewed and voted upon by the directors. The Board believes that this requirement is related to a procedural matter that should be properly addressed in the Corporation's By-Laws.

The resolution attached to this proxy as Annex F will be submitted for adoption at the Meeting. The affirmative vote of two-thirds of the holders of

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shares of Common Stock of the Corporation is necessary to adopt the proposed amendment. Abstentions and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as votes cast against the proposed amendment. Abstentions and shares not voted by brokers and other entities holding shares on behalf of beneficial owners will have the same effect as votes cast against the proposed amendment. The Board has declared the desirability of the adoption of this amendment and recommends a vote FOR the resolution.

23

PROPOSAL 7: APPROVAL OF THE CORPORATION'S 2004 OMNIBUS INCENTIVE PLAN

On February 24, 2004, the Board of the Corporation formally adopted the new Popular, Inc. Omnibus Incentive Plan (the "Omnibus Plan"), subject to shareholder approval. The Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and dividend equivalents, as well as cash and equity-based performance awards.

The Corporation currently has in effect the Popular, Inc. 2001 Stock Option Plan (the "2001 Plan"), which provides for the grant of stock options. In the event the Omnibus Plan is approved by the requisite vote of shareholders, no further awards will be made under the 2001 Plan, although outstanding awards under the 2001 Plan will continue in accordance with their terms.

OVERVIEW

The purpose of the Omnibus Plan is to provide flexibility to the Corporation and its affiliates to attract, retain and motivate their officers, executives and other key employees through the grant of awards and to adjust the Corporation's compensation practices to the best compensation practice and corporate governance trends as they develop from time to time. The Plan is further intended to help retain and align the interests of the nonemployee members of the Board of the Corporation and its affiliates with the Corporation's shareholders. Awards under the Omnibus Plan (each, an "Award") are intended to be based upon the recipient's individual performance, level of responsibility and potential to make significant contributions to the Corporation. Generally, the Omnibus Plan will terminate as of (a) the date when no more shares of Common Stock are available for issuance under the Omnibus Plan, or, if earlier, (b) the date the Omnibus Plan is terminated by the Board.

ADMINISTRATION

The Compensation Committee of the Board, or such other committee as the Board may designate (the "Committee"), shall administer the Omnibus Plan. The Committee shall consist of two or more members, each of whom shall be a "nonemployee director" within the meaning of Rule 16b-3 under the Exchange Act, an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") and an "independent director" under the NASDAQ's rules.

The Committee has full authority to interpret and administer the Omnibus Plan in order to carry out its provisions and purposes. The Committee has the authority to determine those persons eligible to receive Awards and to establish the terms and conditions of any Awards. The Committee may delegate, subject to such terms or conditions or guidelines as it shall determine, to any employee or group of employees any portion of its authority and powers with respect to Awards to officers of the Corporation or any subsidiary who are not subject to the reporting requirements under Section 16(a) of the Exchange Act

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("Executive Officers"). Only the Committee or the Board of Directors may exercise authority in respect of Awards granted to Executive Officers.

The Committee may condition the grant of any Award on entering into a written agreement containing covenants not to compete, not to solicit the Corporation's employees and customers and not to disclose confidential information.

ELIGIBILITY

Awards may be made to any individual who is an employee (including each officer) of the Corporation or any affiliate and to any nonemployee director of the Corporation or an affiliate.

TYPES OF AWARDS

The Omnibus Plan provides for grants of incentive stock options ("ISOs") qualifying for special tax treatment under Code Section 422, qualified stock options ("QSOs") qualifying for special tax treatment under Section 1046 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "Puerto Rico Code"), nonstatutory stock options ("Nonstatutory Options," and together with ISOs and QSOs, "Options"), stock appreciation rights ("SARs"), restricted stock units ("Restricted Units"), restricted stock ("Restricted Stock"), dividend equivalents ("Dividend Equivalents"), long-term performance units ("Long-Term Performance Units"), performance shares ("Performance Shares") and annual incentive awards ("Annual Incentive Awards"), whether granted singly, in combination or in tandem, pursuant to which Common Stock or cash may be delivered to the Award recipient.

SHARES SUBJECT TO THE PLAN; OTHER LIMITATIONS OF AWARDS

The maximum number of shares of Common Stock issuable under the Omnibus Plan shall be 5,000,000. To the extent that any shares of Common Stock subject to an Award are not issued because the Award expires without having been exercised, is cancelled, terminated, forfeited or is settled without issuance of Common Stock (including, but not limited to, shares tendered to exercise outstanding Options, shares tendered or withheld for taxes on Awards or shares issued in connection with a Restricted Stock or Restricted Unit Award that are subsequently forfeited), such shares will be available again for grants of Awards under the Omnibus Plan. The

24

shares to be delivered under the Omnibus Plan may consist, in whole or in part, of Common Stock purchased by the Company for the purpose of such Awards, treasury Common Stock or authorized but unissued Common Stock not reserved for any other purpose.

The Omnibus Plan has limits that apply to individual and aggregate awards, designed in part to comply with the requirements of Code Section 162(m) governing the deductibility of compensation paid to executive officers of a publicly-traded company. In order to satisfy these requirements, shareholders must approve any "performance-based plan," that sets maximum limits on the amount of any award granted to a particular executive. For all participants who are "covered employees" within the meaning of Code Section 162(m) and are eligible to receive Annual Incentive Awards under this Plan (the "Covered Employees"), the maximum amount of such Annual Incentive Awards that may be paid or made available to any such individuals in any year may not exceed one-half of one percent (0.5%) of Adjusted Net Income ("Covered Employees Annual Incentive Award Pool"). For purposes of the Omnibus Plan, "Adjusted Net Income" means the

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Corporation's net income applicable to common stockholders as it appears on the income statement of the Corporation prepared in accordance with generally accepted accounting principles, excluding the effects of (i) extraordinary, unusual and/or non-recurring items of gain or loss, including but not limited to, restructuring or restructuring-related charges, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, (iv) the effect of a merger or acquisition, all of which are identified in the Corporation's audited financial statements or the Corporation's annual report to stockholders, or (v) those other items determined by the Committee.

OPTIONS

Options entitle the recipient to purchase shares of Common Stock at the exercise price specified by the Committee in the recipient's Option agreement. The Omnibus Plan permits the grant of both ISOs, QSOs and Nonstatutory Options. The Committee will generally determine the terms and conditions of all Options granted; provided, however, that, generally, Options must be granted with an exercise price at least equal to the fair market value of a share of Common Stock on the date of grant, Options shall not be exercisable for more than 10 years after the date of grant (except in the event of death) and no Option that is intended to be an ISO or a QSO may be granted after the tenth anniversary of the date the Omnibus Plan was approved by the Board. Options will become exercisable as determined by the Committee at the time of grant, and the Committee may establish performance-based criteria for the exercisability of any Option. For purposes of the Omnibus Plan, "fair market value" generally means, on any given date, the price of the last trade in the Common Stock on such date on the Nasdaq National Market (or if not listed on the Nasdaq National Market, on such other recognized quotation system on which trading prices of the Common Stock are then quoted). If there are no trades on the relevant date, the "fair market value" for that date means the closing price on the immediately preceding date on which Common Stock transactions were reported.

The Committee does not have the power or authority to reduce the exercise price of any outstanding option or to grant any new Options in substitution for or upon the cancellation of Options previously granted.

STOCK APPRECIATION RIGHTS (SARs)

A SAR is a contractual right granted to the participant to receive, either in cash or Common Stock, an amount equal to the appreciation of one share of Common Stock from the date of grant. SARs may be granted as freestanding Awards, or in tandem with other types of grants. Unless the Committee otherwise determines, the terms and conditions applicable to (i) SARs granted in tandem with Options will be substantially identical to the terms and conditions applicable to the tandem Options, and (ii) freestanding SARs will be substantially identical to the terms and conditions that would have been applicable were the grant of the SARs a grant of Options. SARs that are granted in tandem with an Option may only be exercised upon surrender of the right to exercise such Option for an equivalent number of shares. The Committee may cap any SAR payable in cash.

RESTRICTED STOCK, RESTRICTED UNITS AND DIVIDEND EQUIVALENTS

The Omnibus Plan provides for the grant of Restricted Stock, Restricted Units and Dividend Equivalents, which are converted to shares of Common Stock upon the lapse of restrictions. The Committee may, in its discretion, pay the value of Restricted Units and Dividend Equivalents in Common Stock, cash or a combination of both.

A share of Restricted Stock is a share of Common Stock that is subject to certain transfer restrictions and forfeiture provisions for a period of time as specified by the Committee in the recipient's Award agreement. A Restricted

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Unit is an unfunded, unsecured right (which is subject to forfeiture and transfer restrictions) to receive a share of Common Stock at the end of a period of time specified by the Committee in the recipient's Award agreement. A Dividend Equivalent represents an unfunded and unsecured promise to pay an amount equal to all or any portion of the regular cash dividends that would be paid on a specified number of shares of Common Stock if such shares were owned by the Award recipient. Dividend Equivalents may be granted in connection with a grant of Restricted Units, Options and/or SARs.

The restrictions on Restricted Stock and Restricted Units will lapse on such date as is determined by the Committee at the date of grant.

25

Generally, a participant will, subject to any restrictions and conditions specified by the Committee, have all the rights of a shareholder with respect to shares of Restricted Stock, including but not limited to, the right to vote and the right to receive dividends. A participant will not have the rights of a shareholder with respect to Restricted Units or Dividend Equivalents.

ANNUAL INCENTIVE AWARDS

At the direction of the Committee, Awards with a performance cycle of one year or less may be made to participants and, unless determined otherwise by the Committee, shall be paid in cash based on achievement of specified performance goals.

LONG-TERM PERFORMANCE UNIT AWARDS

At the discretion of the Committee, Long-Term Performance Unit Awards, payable in cash, may be made to participants. Performance cycles are generally multiple years, where performance may be measured by objective criteria other than the appreciation or depreciation of Common Stock value.

PERFORMANCE SHARES

The Committee also has the discretion to grant "Performance Share Awards," which are Awards of units denominated in Common Stock. The number of such units is determined over the performance period based on the satisfaction of performance goals relating to the Common Stock price. Performance Share Awards are payable in Common Stock.

TREATMENT OF AWARDS ON TERMINATION OF EMPLOYMENT OR SERVICE AS A NONEMPLOYEE DIRECTOR

Under the Omnibus Plan, generally, unless the Committee determines otherwise as of the date of a grant of any Award or thereafter, Awards are treated as follows upon a participant's termination of employment or service as a nonemployee director.

Resignation. If a participant voluntarily terminates employment from the Company or any subsidiary:

- Options/SARs (including associated Dividend Equivalents): All outstanding Options, SARs and associated Dividend Equivalents granted but not yet exercised by the participant are forfeited as of the date of such resignation, and are not thereafter exercisable or payable, unless otherwise determined by the Committee;

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- Restricted Stock/Restricted Units (including associated Dividend Equivalents): All Restricted Stock, Restricted Units and associated Dividend Equivalents credited to such participant are forfeited, unless otherwise determined by the Committee;
- Annual Incentive Awards: If such termination occurs before authorization of the payment of an Annual Incentive Award, the participant forfeits all rights to such amounts, unless otherwise determined by the Committee; and
- Long-Term Performance Unit Awards/Performance Share Awards: All Long-Term Performance Unit Awards and Performance Share Awards credited to such participant are forfeited, unless otherwise determined by the Committee.

Termination for Cause. If a participant's employment is terminated for "cause":

- Options/SARs (including associated Dividend Equivalents): Outstanding Options, SARs and associated Dividend Equivalents are forfeited at the time of such termination, and the Committee may require that the participant disgorge any profit, gain or benefit from any Award exercised up to 12 months prior to the participant's termination;
- Restricted Stock/Restricted Units (including associated Dividend Equivalents): All such Awards are forfeited at the time of such termination, and the Committee may require that the participant disgorge any profit, gain or benefit from any such Award where the restrictions had lapsed up to 12 months prior to the participant's termination;
- Annual Incentive Awards: All rights to an Annual Incentive Award are forfeited; and
- Long-Term Performance Unit Awards/Performance Share Awards: Any outstanding Long-Term Performance Units or Performance Share Awards are forfeited, and the Committee may require that the participant disgorge any profit, gain or benefit from any Award paid to such participant up to 12 months prior to the participant's termination.

For purposes of the Omnibus Plan, "cause" includes dishonesty, fraud or misrepresentation; inability to obtain or retain appropriate licenses; violation of any rule or regulation of any regulatory or self-regulatory agency or of any policy of the Corporation or any affiliate; commission of a crime; breach of a written covenant or agreement not to misuse property or information; or any act or omission detrimental to the conduct of the Corporation's or any affiliate's business in any way.

26

Approved Retirement. If a participant's employment terminates by reason of "Approved Retirement":

- Options/SARs (including associated Dividend Equivalents): All outstanding Options, SARs and associated Dividend Equivalents shall become immediately exercisable in full and may be exercised by the participant at any time prior to the

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expiration of the term of the Options or within five years (or such shorter period as determined by the Committee at the time of grant) following the participant's Approved Retirement, whichever period is shorter;

- Restricted Stock/Restricted Units (including associated Dividend Equivalents): Any restrictions will lapse as to outstanding Restricted Stock and Restricted Units and associated Dividend Equivalents would be paid;
- Annual Incentive Awards: Such participant will receive a prorated Annual Incentive Award based on actual achievement of the performance goals for such performance cycle; and
- Long-Term Performance Unit Awards/Performance Share Awards: Such participant will receive a prorated Award payment of such participant's Long-Term Performance Unit Awards and Performance Share Awards based on actual achievement of the performance goals for such performance cycle.

For purposes of the Omnibus Plan, "Approved Retirement" generally means termination of a participant's employment, other than for "cause": (i) on or after the normal retirement date or any early retirement date established under any defined benefit pension plan maintained by the Corporation or an affiliate and in which the participant participates, or (ii) on or after attaining age 55 and completing such period of service as the Committee shall determine from time to time, when the participant does not participate in any such defined benefit pension plan maintained by the Corporation or an affiliate.

Termination of Service as a Nonemployee Director. If a participant who is a nonemployee director terminates his or her service as a director of the Company or any subsidiary for reasons other than for "cause":

- Options/SARs (including associated Dividend Equivalents): All outstanding Options, SARs and associated Dividend Equivalents shall become immediately exercisable in full and may be exercised by the participant at any time prior to the expiration of the term of the Options; and
- Restricted Stock/Restricted Units (including associated Dividend Equivalents): Any restrictions will lapse as to outstanding Restricted Stock and Restricted Units and associated Dividend Equivalents would be paid.

Death or Disability. The Omnibus Plan also has default provisions for the treatment of Awards following termination of a participant's employment due to death or disability.

Termination for Other Reasons. If a participant's employment terminates for any reason other than resignation, termination for cause, approved retirement, death or disability, outstanding Awards are treated in the same manner as in the case of a resignation except that Options/SARs and associated Dividend Equivalents that are exercisable on the date of such termination may be exercised at any time prior to the expiration date of the term of the Options or the 90th day following termination of employment, whichever period is shorter; and, in the case of Long-Term Performance Unit Awards/Performance Share Awards, a prorated payment of the participant's Long-Term Performance Unit Award and Performance Share Award will be made as if the target performance goals for the performance cycle had been achieved.

NON-TRANSFERABILITY OF AWARDS

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Generally, no Awards granted under the Omnibus Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

ADJUSTMENT IN CAPITALIZATION

If an "adjustment event" occurs, the Committee, in its discretion, shall adjust appropriately (a) the aggregate number of shares of Common Stock available for Awards, (b) the aggregate limitations on the number of shares that may be awarded as a particular type of Award or that may be awarded to any particular participant in any particular period, and (c) the aggregate number of shares subject to outstanding Awards and the respective exercise prices or base prices applicable to outstanding Awards. To the extent deemed equitable and appropriate by the Committee, and subject to any required action by the Corporation's shareholders, with respect to any "adjustment event" that is a merger, consolidation, reorganization, liquidation, dissolution or similar transaction, any Award granted under the Omnibus Plan shall be deemed to pertain to the securities and other property, including cash, which a holder of the number of shares of Common Stock covered by the Award would have been entitled to receive in connection with such an "adjustment event." For purposes of the Omnibus Plan, "adjustment event" means any stock dividend, stock split or share combination of, or extraordinary cash dividend on, the Common Stock or recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, dissolution, liquidation, exchange of shares,

27

warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or other similar event affecting the Common Stock. Any shares of stock or cash or other property received with respect to any Restricted Stock Award or Restricted Unit Award as a result of any adjustment event or any distribution of property shall (except in the case of a change of control or as otherwise provided by the Committee) be subject to the same terms, conditions and restrictions as are applicable to such shares of Restricted Stock or Restricted Units.

CHANGE OF CONTROL

Upon the occurrence of a change of control of the Corporation, each outstanding Option and SAR shall become fully exercisable and all restrictions on outstanding Restricted Stock and Restricted Units shall lapse. In addition, any Long-Term Performance Unit Awards and Performance Share Awards outstanding will be paid in full at target. Such payments shall be made within 30 days of the change of control, and the participants may opt to receive such payments in cash. The Committee may, in its discretion, provide for cancellation of each Option, SAR, Restricted Stock and Restricted Stock Unit in exchange for a cash payment per share based upon the change of control price. This change of control price is the highest share price offered in conjunction with any transaction resulting in a change of control (or, if there is no such price, the highest trading price during the 30 days preceding the change of control event). Notwithstanding the forgoing, no acceleration of vesting or exercisability, cancellation, cash payment or other settlement shall occur with respect to any Option, SAR, Restricted Stock, Restricted Unit, Long-Term Performance Unit Award or Performance Share Award if the Committee reasonably determines in good faith prior to the change of control that such Awards will be honored or assumed or equitable replacement awards will be made by a successor employer immediately following the change of control and that such Awards will vest and payments will be made if a participant is involuntarily terminated without cause.

For purposes of the Omnibus Plan, "change of control" shall be deemed

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to have occurred if: (i) any "person" (within the meaning of Section 3(a)(9) of the Exchange Act) other than by the Corporation, its subsidiaries or any employee benefit plan of the Corporation or its subsidiaries acquires direct or indirect ownership of 50% or more of the combined voting power of the then outstanding securities of the Corporation as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise; or (ii) the shareholders of the Corporation approve (A) any consolidation or merger of the Corporation in which the Corporation is not the surviving corporation (other than a merger of the Corporation in which the holders of Common Stock immediately prior to the merger have the same or substantially the same proportionate ownership of the surviving corporation immediately after the merger), or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation to an entity which is not a wholly-owned subsidiary of the Corporation.

AMENDMENT

The Board may, at any time amend, modify, suspend or terminate the Omnibus Plan, in whole or in part, without notice to or the consent of any participant or employee; provided, however, that any amendment which would (i) increase the number of shares available for issuance under the Omnibus Plan, (ii) lower the minimum exercise price at which an Option (or the base price at which a SAR may be granted), (iii) change the individual Award limits or (iv) require shareholder approval under NASDAQ rules, shall be subject to the approval of the Corporation's shareholders. No amendment, modification or termination of the Omnibus Plan may in any manner adversely affect any Award theretofore granted under the Omnibus Plan, without the consent of the participant. However, for purposes of this provision, any payments made in accordance with the change of control provision described above, other accelerations of payments under the Plan, or any decision by the Committee to limit participation or other features of the Plan prospectively will not be deemed, an "adverse amendment" of the Omnibus Plan.

NO LIMITATION ON COMPENSATION; SCOPE OF LIABILITIES

Nothing in the Omnibus Plan limits the right of the Corporation to establish other plans if and to the extent permitted by applicable law. The liability of the Corporation, its subsidiaries and affiliates under the Omnibus Plan is limited to the obligations expressly set forth in the Plan.

TAX IMPLICATIONS FOR CERTAIN AWARDS

The following is a brief description of the Puerto Rico and U.S. federal income tax consequences generally arising with respect to the grant of Options and SARs under the Omnibus Plan.

Puerto Rico Code. A recipient of a QSO does not recognize income at the time of the grant of an option. In addition, no income is recognized at the time a QSO is exercised. On a subsequent sale or exchange of the shares acquired pursuant to the exercise of a QSO, the optionee may have taxable long-term or short-term capital gain or loss, depending on whether the shares were held for more than six months, measured by the difference between the amount realized on the disposition of such shares on his or her tax basis in such shares. Tax basis will, in general, be the amount paid for the shares. The Corporation will not be entitled to a business expense deduction in respect of the grant of the option, the exercise thereof or the disposition of the shares.

With respect to a Nonstatutory Option, a recipient of a

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Nonstatutory Option does not recognize income at the time of grant of the Nonstatutory Option. The difference between the fair market value of the shares of stock on the date of exercise and the stock option exercise price generally will be treated as compensation income upon exercise, and the Corporation will be entitled to a deduction in the amount of income so recognized by the optionee. Upon a subsequent disposition of the shares, the difference between the amount received by the optionee and the fair market value of the shares of stock on the option exercise date will be treated as long or short-term capital gain or loss, depending on whether the shares were held for more than six months.

SARs will not result in taxable income to the recipient or a tax deduction for the Corporation at the time of grant. The exercise of SARs will generally result in compensation in the amount of the cash payment taxable as ordinary income to the employee. The Corporation may generally claim a tax deduction in the amount of any cash paid.

Federal Tax Consequences. The Corporation and most of its operating subsidiaries are organized under the laws of the Commonwealth of Puerto Rico and, at the present time, most of them are not directly engaged in any trade or business in the United States (the "Non-U.S. Taxpayers"). Accordingly, the Non-U.S. Taxpayers are subject generally to a flat 30% federal income tax on their fixed or determinable, annual or periodic income, if any, from sources within the United States. The Non-U.S. Taxpayers would only be entitled to claim deductions in computing their U.S. income tax liability to the extent such deductions were directly related to any income effectively connected with the conduct of a trade or business in the United States. Because the Non-U.S. Taxpayers are not engaged in the conduct of a trade or business in the United States, the limitations imposed by Section 162(m) of the Code for compensation to certain highly paid executives should not limit the tax deductions available to the Non-U.S. Taxpayers under the Omnibus Plan.

The Corporation's subsidiaries organized under the laws of the United States or a state of the United States and some of the Corporation's subsidiaries organized under the laws of the Commonwealth of Puerto Rico that are engaged in trade or business in the United States (the "U.S. Taxpayers") generally will be entitled to a tax deduction equal to the amount recognized as ordinary income by the recipient in connection with the exercise of a Nonstatutory Option or SAR. The U.S. Taxpayers generally are not entitled to a tax deduction with respect to any amount that represents a capital gain to a recipient or that represents compensation in excess of \$1 million paid to "covered employees" that is not "qualified performance based compensation" under Section 162(m) of the Code. Accordingly, the U.S. Taxpayers will not be entitled to any tax deduction with respect to an ISO if the recipient holds the shares for the ISO holding periods prior to dispositions of the shares and may not be entitled to any deduction with respect to certain Options or SARs that may be exercised by or granted to "covered employees."

For purposes of the discussion below, some of the QSOs granted under the Omnibus Plan may also be treated as ISOs for purposes of Sections 421 and 422 of the Code.

Residents of Puerto Rico, Recipients of Options or SARs who are residents of Puerto Rico during the entire taxable year and perform services for the Corporation or its subsidiaries in Puerto Rico, will not have any gross income for federal income tax purposes either in respect of (1) the grant or the exercise of Options or (2) the grant of, or the receipt of cash payments upon exercise of, SARs.

Non-Residents of Puerto Rico and Residents of Puerto Rico who Perform

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Services Outside Puerto Rico. In general, an optionee who is a non-resident of Puerto Rico or a resident of Puerto Rico who performs services outside Puerto Rico, will not recognize taxable income upon grant or exercise of an ISO and the Corporation and its subsidiaries will not be entitled to any business expense deduction with respect to the grant or exercise of an ISO. However, upon the exercise of an ISO, the excess of the fair market value on the date of exercise of the shares received over the exercise price of the shares will be treated as an adjustment to alternative minimum taxable income. In order for the exercise of an ISO to qualify for the foregoing tax treatment, the optionee generally must