

POPULAR INC  
Form 11-K  
June 30, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 11-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2005**  
**Or**

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file Number 0-13818**  
**POPULAR FINANCIAL HOLDINGS, INC. SAVINGS AND RETIREMENT PLAN**  
*(Full title of the Plan and address of the Plan, if different from that of the issuer named below)*  
**POPULAR, INC.**  
**209 MUNOZ RIVERA AVENUE**  
**HATO REY, PUERTO RICO 00918**  
*(Name of issuer of the securities held pursuant to the plan and the address of principal executive office)*

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**Popular Financial Holdings, Inc. Savings and  
Retirement Plan  
Financial Statements and Supplemental Schedule  
December 31, 2005 and 2004**

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**Popular Financial Holdings, Inc. Savings and Retirement Plan  
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\* Other supplementary schedules required by Section 2520.103-10 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

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**Report of Independent Registered Public Accounting Firm**

To the Participants and Administrator of  
Popular Financial Holdings, Inc. Savings and Retirement Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Popular Financial Holdings, Inc. Savings and Retirement Plan (the Plan ) at December 31, 2005 and 2004, and the changes in net assets available for benefits for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held at end of year is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

New York, NY

June 29, 2006

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**Popular Financial Holdings, Inc. Savings and Retirement Plan  
Statements of Net Assets Available for Benefits  
December 31, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Investments, at fair value (See Note 4)	\$ 37,953,603	\$ 29,270,961
Receivables		
Employer contribution		1,475,070
Participant contributions		394,898
Total receivables		1,869,968
Total assets	37,953,603	31,140,929
<b>Liabilities</b>		
Refundable contributions	10,925	11,062
Total liabilities	10,925	11,062
Net assets available for benefits	\$ 37,942,678	\$ 31,129,867

See accompanying notes to the financial statements.

**Popular Financial Holdings, Inc. Savings and Retirement Plan  
Statement of Changes in Net Assets Available for Benefits  
Year Ended December 31, 2005**

**Additions**

Additions to net assets attributed to	
Investment income	
Net appreciation in fair value of investments (See Note 4)	\$ 576,783
Interest and dividend income, investments	451,949
Interest income, participants' loans	51,035
	1,079,767
Contributions	
Employer	2,985,763
Participants	6,084,749
	9,070,512
Total additions	10,150,279

**Deductions**

Deductions from net assets attributed to	
Benefits paid to participants	3,310,276
Refundable contributions	10,925
Administrative expenses	16,267
Total deductions	3,337,468
Net increase	6,812,811

**Net assets available for benefits**

Beginning of year	31,129,867
End of year	\$ 37,942,678

See accompanying notes to the financial statements.

**Popular Financial Holdings, Inc. Savings and Retirement Plan  
Notes to Financial Statements  
December 31, 2005 and 2004**

**1. Description of Plan**

The following description of the Popular Financial Holdings, Inc. (the Company) Savings and Retirement Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

**General**

The Plan is a defined contribution plan covering substantially all full-time employees of the Company who have 30 days of service and are age twenty-one or older.

Effective January 1, 2005 the name of the Equity One, Inc. Savings and Retirement Plan was changed to Popular Financial Holdings, Inc. Savings and Retirement Plan.

Effective March 28, 2005, for mandatory distributions greater than \$1,000, if the participant does not elect to have such distribution paid directly to an eligible retirement plan, or to receive the distribution directly, then the Plan Administrator will pay the distribution in a Direct Rollover to an individual retirement plan designated by the Plan Administrator.

Effective May 1, 2005 employees who are eligible to make elective deferral contributions under this Plan and who have attained age 50 before the close of the Plan Year shall be eligible to make catch-up contributions in accordance with, and subject to, the limitations of IRS Code Section 414(v).

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

**Vesting**

Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Company's matching and other discretionary contribution portion of their accounts plus actual earnings thereon is based on years of credited service. A participant begins to vest in the Plan according to the following table:

<b>Years of Vesting Service</b>	<b>Vesting Percentage</b>
Less than 1	0%
1	20
2	40
3	60
4	80
5 or more	100

One year of service is defined as a service period in which 1,000 or more hours of service are completed. A service period is a one-year period ending on December 31.

**Contributions**

Each year participants may contribute a percentage of their annual wages excluding fringe benefits up to a maximum of \$14,000 based on IRS limitations, as defined in the Plan. Participants direct the investment of Plan

contributions into various investment options offered by the Plan. The Plan currently offers 19 mutual funds as investment options for participants in addition to stock in Popular, Inc., which is the ultimate parent company of the Plan's sponsor. The Company contributes \$1 for each pre-tax \$1 contributed by an employee up to 5% of the employee's

**Popular Financial Holdings, Inc. Savings and Retirement Plan  
Notes to Financial Statements  
December 31, 2005 and 2004**

compensation. In addition, the Company makes a discretionary contribution which is allocated to participants actively employed on the last day of the Plan year based on their pro rata share of total compensation (excluding fringe benefits). Contributions are subject to certain limitations. Also, beginning May 1, 2005 employees who are eligible to make elective deferral contributions under this Plan and who have attained age 50 before the close of the Plan Year are entitled to make catch-up contributions in accordance with, and subject to, the limitation of, IRS Code Section 414(v).

**Participant Accounts**

Each participant's account is credited with the participant's contributions and allocations of the Company's contributions and Plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**Participant Loans**

Participants may borrow from their fund accounts a minimum of \$1,000 and up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance, whichever is less. Loan transactions are treated as a transfer to (from) the investment fund from (to) participant loans. Loan terms range from one to five years or longer if used to acquire a principal residence. The loans are collateralized by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined by the Plan administrator. Interest rates range from 4.00 percent to 9.50 percent. Principal and interest are paid ratably through semi-monthly payroll deductions.

**Payment of Benefits**

On termination of service due to death, disability or retirement, a participant may elect to receive either a lump sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten-year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

**Forfeited Accounts**

At December 31, 2005 and 2004, forfeited non-vested accounts totaled \$5,348 and \$180,579, respectively, and are included in the Plan's net assets. These accounts will be used to reduce future employer contributions. During 2005, forfeitures applied to reduce employer contributions totaled \$441,000 and are shown net of employer contributions in the Statements of Changes in Net Assets Available for Benefits.

**Refundable Contributions**

Refundable contributions totaled \$10,925 at December 31, 2005. These excess contributions arise as a result of failing non-discrimination tests which are prepared in accordance with the Internal Revenue Service Regulations.

**Plan Merger and Restatement**

Effective April 1, 2006, Popular Financial Holdings, Inc.'s Savings and Retirement Plan was merged with Popular, Inc.'s USA Profit Sharing/401(k) Plan and restated as Popular, Inc. USA 401(k) Savings and Investment Plan. In

April of 2006, certain accounts from a profit sharing plan established by Banco Popular de Puerto Rico were transferred into this plan.

**Popular Financial Holdings Inc. Savings and Retirement Plan**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

**2. Summary of Accounting Policies**

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. A description of the more significant accounting policies follows.

**Investment Valuation**

The Plan's investments are stated at fair value. Shares of registered mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year end. Participant loans are valued at cost, which approximates fair value. Popular Inc. Common Stock is valued at its quoted market price at December 31, 2005. Nonregistered separate accounts managed by Principal Investments are valued daily based on the market value of the underlying assets in each separate account.

**Investment Income**

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The weighted average cost basis is used when computing realized gain or loss.

**Administrative Expenses**

Administrative expenses are charged to the Plan, with the exception of trustee's fees, which are paid by the Company. In 2005, the trustee's Fees waived the trustee.

**Payment of Benefits**

Benefits are recorded when paid.

**Risks and Uncertainties**

The Plan provides for various investment options in any combination of stocks, fixed income securities, mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participant account balances and the amounts reported in the statement of net assets available for benefits.

**3. Tax Status**

The Plan is an adoption of a non-standardized prototype plan of Principal Life Insurance Company. The most recent opinion letter stating that the form of the prototype plan meets the requirements for tax qualification under section 401(a) of the Internal Revenue Code of 1986, as amended, was issued by the Internal Revenue Service on August 7, 2001. The Company received an individual determination letter, dated October 7, 2003, from the IRS stating that the Plan meets the requirements for tax qualification.



**Popular Financial Holdings Inc. Savings and Retirement Plan**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

**4. Investments**

Investments held by the Plan are summarized below. Those investments that represent 5 percent or more of the Plan's net assets at the end of the year are noted with an asterisk(\*).

	December 31, 2005		December 31, 2004	
	Shares/ Units	Fair Value	Shares/ Units	Fair Value
Principal Stable Value Fund	286,923	\$ 4,380,450*	239,347	\$ 3,529,953*
Principal Bond & Mortgage Separate Account	3,114	1,945,128*	2,368	1,453,725
Principal Government & HQ Bond Separate Account	84,272	1,523,331	73,486	1,312,072
Principal Large Cap Stock Index Separate Account	66,982	2,813,561*	16,306	659,634
Principal Lifetime Strategic Income Separate Account			7,470	94,615
Principal Lifetime 2010 Separate Account			13,112	167,168
Principal Lifetime 2020 Separate Account			33,051	423,872
Principal Lifetime 2030 Separate Account			161,274	2,036,248*
Principal Lifetime 2040 Separate Account			17,465	221,349
Principal Lifetime 2050 Separate Account			12,200	149,532
Principal U.S. Property Separate Account	1,501	699,571	650	257,425
Principal Mid-Cap Stock Index Separate Account			6,923	114,564
Principal Partners Large-Cap Growth I Separate Account	470,570	4,087,716*	379,629	3,091,546*
Principal Partner Mid-Cap Growth Separate Account			200,658	2,182,374*
Principal Partner Small-Cap Value Separate Account	62,750	1,125,857	30,703	516,062
Principal Small-Cap Stock Index Separate Account			21,843	394,696
AM Funds Hi-Inc Tr R3 Fund			7,647	96,432
American Century Equity Inc Adv	166,918	1,305,302	85,357	692,247
Am Funds Wash Mutual R3 Fund	16,467	505,704	5,631	172,638
AIM Basic Value A Fund			48,575	1,574,815*
Frank Russell LifePoints Aggressive Strategy E Fund	337,833	3,814,137*	66,599	707,283
Frank Russell LifePoints Balanced Strategy E Fund	211,652	2,387,437*	97,363	1,053,464
Frank Russell LifePoints Const E Fund	25,292	271,125	19,390	208,440
Frank Russell LifePoints Equity Aggressive Strategy E Fund	103,439	1,127,486	37,426	376,882
Frank Russell LifePoints Moderate Strategy E Fund	84,390	924,912	52,295	563,215
Am Funds Growth Fund of Am R3 Fund			31,221	846,092
Fidelity Adv Mid-Cap T Fund			44,441	1,120,806

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Fidelity Adv Small-Cap T Fund	51,264	1,259,041	17,014	419,058
Putnam International Equity A Fund	71,862	1,877,748	49,909	1,181,845
Popular Inc.	136,669	2,890,558*	101,498	2,926,184*
Am Century Vista Adv Fund	247,108	3,835,113*		
		36,774,177		28,544,236
Participant loans		1,179,426		726,725
		\$ 37,953,603		\$ 29,270,961

**Popular Financial Holdings, Inc. Savings and Retirement Plan**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

During 2005, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$576,783 as follows:

Mutual funds	\$ 1,497,039
Common stock	(920,256)
	\$ 576,783

**5. Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

**6. Related Party Transactions**

Certain Plan investments are shares of mutual funds managed by Principal Investments. Principal Investments is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. The Plan is also invested in the common stock of its sponsor, Popular, Inc. In addition, the Company pays certain costs on behalf of the Plan.

**7. Prohibited Transactions**

During the year 2005, Popular, Inc. announced a special rights offering (the Rights Offering) pursuant to which each holder of record of its common stock (Popular Stock) on November 7, 2005 (the Record Date) received one (1) nontransferable right for each twenty-six (26) shares of Popular Stock held (the Rights). In general, the Rights allowed shareholders of Popular, Inc. to acquire additional shares of Popular Stock at a significant discount from market value. The deadline for exercising the Rights was December 19, 2005.

Since the Plan was the holder of record of Popular Stock on the Record Date, the grant of a Right to the Plan was a grant of an employer security under Section 407(d)(1) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). In addition, since the Rights were not qualifying employer securities under ERISA Section 407(d)(5), the grant of the Rights to the Plan, and the subsequent exercise of the Rights by participants of the Plan, would violate ERISA Section 407(a)(1) unless an exemption is issued. Also, the prohibited transaction rules of ERISA Sections 406(a), 406(b)(1), and 406(b)(2) prohibit transactions involving a plan and a party in interest to the plan, so that the exercise of the Rights by the Plan's participants would violate those sections, unless an exemption is issued.

The Plan was involved in the transaction because Popular, Inc. treated all holders of Popular Stock in a similar manner with respect to the Rights. In addition, as a holder of Popular Stock, the Plan was entitled to any rights available to the other holders of Popular Stock.

Popular, Inc. expects to file a petition requesting that the United States Department of Labor (the DOL) issue a prohibited transaction individual exemption (the Exemption Petition) under the authority granted pursuant to Section 408(a) of ERISA and Section 4975(c)(2) of the United States Internal Revenue Code of 1986, as amended (the US Code), which would apply to the Plan. Plan Sponsor believes that the DOL will issue the individual prohibited transaction exemptions covering the Plan, as described in the Exemption Petition. This conclusion is supported by the fact that, in the past, the DOL has issued individual prohibited transaction exemptions in connection with the receipt by other ERISA retirement Plans of subscription rights in similar transactions.

As a result of the exercise of the subscription rights by the Plan's participants, a total 1,122 stock rights were exercised at a price of \$21 per right, for a total proceeds of \$23,562.



**Popular Financial Holdings, Inc. Savings and Retirement Plan**  
**Schedule H, Line 4i**  
**Schedule of Assets (Held at End of Year)**  
**December 31, 2005**

Exhibit I

(a)	(b) Identity of issue	(c) Description of investment	(d) Current Value
	Principal Stable Value Fund	286,923	
*		shares	\$ 4,380,450
	Fidelity Adv Small Cap T Fund	51,264 shares	1,259,041
	American Century Eqty Inc Adv	166,918	
		shares	1,305,302
*	Principal Government & HQ Bond Separate Account	84,272 shares	1,523,331
	AM Century Vista Adv Fund	247,108	
		shares	3,835,113
	AM Funds Wash Mutual R3 Fund	16,467 shares	505,704
*	Principal U.S. Property Separate Account	1,501 shares	699,571
*	Principal Bond & Mortgage Separate Account	3,114 shares	1,945,128
*	Principal Partners Large-Cap Growth I Separate Account	66,982 shares 470,570	2,813,561
		shares	4,087,716
*	Principal Partners Small-Cap Value Separate Account	62,750 shares	1,125,857
	Putnam International Equity A Fund	71,862 shares	1,877,748
	Frank Russell LifePoints Moderate Strategy E Fund	84,390 shares	924,912
	Frank Russell LifePoints Balanced Strategy E Fund	211,652	
		shares	2,387,437
	Frank Russell LifePoints Aggressive Strategy E Fund	337,833	
		shares	3,814,137
	Frank Russell LifePoints Const E Fund	25,292 shares	271,125
	Frank Russell LifePoints Equity Aggr Strategy E Fund	103,439	
		shares	1,127,486
	Popular Inc.	136,669	
*		shares	2,890,558
*	Participant Loans - Interest rates range between 4.00% and 9.50%		1,179,426
			\$ 37,953,603
*	Party-in-interest to the Plan		

**Popular Financial Holdings, Inc. Savings and Retirement Plan  
Schedule G, Part III Schedule of Nonexempt Transactions  
Schedule  
December 30, 2005**

**Supplemental****Exhibit II**

(a) Identity of party involved	(b) Relationship to plan, employer, or other party-in- interest	(c) Description of transactions including maturity date, rate of interest, collateral, par or maturity value	(d) Purchase price	(e) Selling price	(f) Lease rental	(g) Expenses incurred in connection with transaction	(h) Cost of asset	(i) Current value of asset	(j) Net gain or (loss) on each transaction
Popular Inc.	Parent Company of Plan Sponsor	Subscription Rights Offering to each holder of Popular, Inc. common stock as of record date of November 7, 2005	N/A*	N/A	N/A	N/A	N/A	N/A	N/A

\*Popular, Inc. made a special rights offering pursuant to which each holder of record of its common stock on November 7, 2005 received one (1) nontransferable right for each twenty-six (26) shares of Common Stock held (the Rights). In general, the Rights allowed shareholders of Popular, Inc. to acquire additional shares of Common Stock at a significant discount from market value. As a result of the exercise of the subscription rights by the Plan's participants, a total 1,122 stock rights were exercised at a price of \$21 per right, for total proceeds of \$23,562.

**SIGNATURE**

Pursuant to the requirement of the Securities Exchange Act of 1934, the persons who administer the employee benefit plan have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**POPULAR FINANCIAL HOLDINGS, INC.  
SAVINGS AND  
RETIREMENT PLAN  
(Registrant)**

Date: June 29, 2006

By: /s/ Matt McGarvey

Matt McGarvey  
Authorized Representative