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METRIS COMPANIES INC.

FORM 10-Q

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June 30, 2001

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Part I. Financial Information

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

METRIS COMPANIES INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

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(Dollars in thousands, except per-share data) (Unaudited)

|   | June 30,<br>2001 | Dec   |
|---|------------------|-------|
|   | -----            | ----- |
| <b>Assets:</b>  |                  |       |
| Cash and due from banks .....   | \$ 101,661       | \$    |
| Federal funds sold .....  | 494,425          |       |
| Short-term investments .....  | 89,297           |       |
|   | -----            | ----- |
| Cash and cash equivalents .....   | 685,383          |       |
|   | -----            | ----- |
| Retained interests in loans securitized .....   | 1,069,090        | 2,    |
| Less: Allowance for loan losses .....   | 568,084          |       |
|   | -----            | ----- |
| Net retained interests in loans securitized .....   | 501,006          | 1,    |
|   | -----            | ----- |
| Credit card loans (net of allowance for loan<br>losses of \$258,057 and \$123,123,<br>respectively).....  | 2,054,595        | 1,    |
| Property and equipment, net .....   | 124,263          |       |
| Deferred income taxes .....   | 107,181          |       |
| Purchased portfolio premium .....   | 80,291           |       |
| Other receivables due from credit card<br>securitizations, net .....  | 169,035          |       |
| Other assets .....  | 234,578          |       |
|   | -----            | ----- |
| Total assets .....  | \$ 3,956,332     | \$ 3, |
|   | =====            | ===== |
| <b>Liabilities:</b>   |                  |       |
| Deposits .....  | \$ 2,174,945     | \$ 2, |
| Debt .....  | 356,337          |       |
| Accounts payable .....  | 137,969          |       |
| Deferred income .....   | 211,331          |       |
| Accrued expenses and other liabilities .....  | 68,502           |       |
|   | -----            | ----- |
| Total liabilities .....   | 2,949,084        | 2,    |
|   | -----            | ----- |
| <b>Stockholders' Equity:</b>  |                  |       |
| Convertible preferred stock - Series C, par<br>value \$.01 per share; 10,000,000<br>shares authorized, 1,011,604 and 967,573<br>shares issued and outstanding, respectively ..... | 376,822          |       |
| Common stock, par value \$.01 per share;<br>100,000,000 shares authorized, 63,793,584<br>and 62,242,787 shares issued and<br>outstanding, respectively .....                      | 638              |       |
| Paid-in capital .....   | 224,068          |       |
| Unearned compensation .....   | (4,779)          |       |
| Retained earnings .....   | 410,499          |       |
|   | -----            | ----- |
| Total stockholders' equity .....  | 1,007,248        |       |
|   | -----            | ----- |
| Total liabilities and stockholders' equity .....  | \$ 3,956,332     | \$ 3, |
|   | =====            | ===== |

See accompanying Notes to Consolidated Financial Statements.

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METRIS COMPANIES INC. AND SUBSIDIARIES  
 Consolidated Statements of Income  
 (Dollars in thousands, except per-share data) (Unaudited)

|   | Three Months Ended<br>June 30, |         |
|---|--------------------------------|---------|
|   | 2001                           | 2000    |
|   | -----                          | -----   |
| Interest Income:  |                                |         |
| Credit card loans and retained<br>interests in loans securitized .....            | \$ 168,702                     | \$ 113, |
| Federal funds sold .....  | 329                            | 1,      |
| Other .....   | 3,176                          |         |
|   | -----                          | -----   |
| Total interest income .....   | 172,207                        | 115,    |
| Deposit interest expense .....  | 32,936                         | 18,     |
| Other interest expense .....  | 11,377                         | 10,     |
|   | -----                          | -----   |
| Total interest expense .....  | 44,313                         | 28,     |
|   | -----                          | -----   |
| Net Interest Income .....   | 127,894                        | 86,     |
| Provision for loan losses .....   | 114,682                        | 98,     |
|   | -----                          | -----   |
| Net Interest Income (Expense) After<br>Provision for Loan Losses.....             | 13,212                         | (11,    |
|   | -----                          | -----   |
| Other Operating Income:   |                                |         |
| Net securitization and credit card<br>servicing income .....                      | 119,712                        | 120,    |
| Credit card fees, interchange and<br>other credit card income .....               | 74,837                         | 53,     |
| Enhancement services revenues .....   | 82,900                         | 63,     |
|   | -----                          | -----   |
|   | 277,449                        | 238,    |
|   | -----                          | -----   |
| Other Operating Expense:  |                                |         |
| Credit card account and other product<br>solicitation and marketing expenses..... | 51,481                         | 36,     |
| Employee compensation .....   | 56,115                         | 42,     |
| Data processing services and communications .....                                 | 22,141                         | 20,     |
| Warranty and debt waiver underwriting<br>and claims servicing expense .....       | 8,250                          | 6,      |
| Credit card fraud losses .....  | 2,200                          | 2,      |
| Purchased portfolio premium amortization .....                                    | 7,418                          | 5,      |
| Other .....   | 41,325                         | 33,     |
|   | -----                          | -----   |
|   | 188,930                        | 148,    |
|   | -----                          | -----   |
| Income Before Income Taxes and Cumulative<br>Effect of Accounting Changes.....    | 101,731                        | 78,     |
| Income taxes .....  | 38,963                         | 30,     |
|   | -----                          | -----   |
| Income Before Cumulative Effect of<br>Accounting Changes.....                     | 62,768                         | 48,     |
| Cumulative effect of accounting changes<br>(net of income taxes of \$9,000 and    |                                |         |

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|                                 |           |        |
|---------------------------------|-----------|--------|
| \$2,180, respectively).....     | -----     | -----  |
|                                 | -----     | -----  |
| Net Income .....                | 62,768    | 48,    |
| Convertible preferred stock     |           |        |
| dividends-Series C .....        | 8,593     | 7,     |
|                                 | -----     | -----  |
| Net Income Applicable To Common |           |        |
| Stockholders.....               | \$ 54,175 | \$ 40, |
|                                 | =====     | =====  |

|  | Three Months Ended |         | Six Months Ended |         |
|--|--------------------|---------|------------------|---------|
|  | June 30,           |         | June 30,         |         |
|  | 2001               | 2000    | 2001             | 2000    |
|  | ----               | ----    | ----             | ----    |
| Earnings per share:                        |                    |         |                  |         |
| Basic-income before cumulative             |                    |         |                  |         |
| effect of accounting changes .....         | \$ 0.64            | \$ 0.55 | \$ 1.22          | \$ 1.16 |
| Basic-cumulative effect of accounting      |                    |         |                  |         |
| changes .....                              | --                 | --      | (0.15)           | (0.04)  |
| Basic-net income .....                     | 0.64               | 0.55    | 1.07             | 1.12    |
| Diluted-income before cumulative           |                    |         |                  |         |
| effect of accounting changes .....         | 0.63               | 0.53    | 1.20             | 1.12    |
| Diluted-cumulative effect of accounting    |                    |         |                  |         |
| changes .....                              | --                 | --      | (0.15)           | (0.04)  |
| Diluted-net income .....                   | 0.63               | 0.53    | 1.05             | 1.08    |
| Shares used to compute earnings per share: |                    |         |                  |         |
| Basic .....                                | 97,633             | 88,002  | 97,117           | 87,564  |
| Diluted .....                              | 99,841             | 91,568  | 99,055           | 91,118  |

See accompanying Notes to Consolidated Financial Statements.

METRIS COMPANIES INC. AND SUBSIDIARIES  
Consolidated Statements of Changes in Stockholders' Equity  
(In thousands) (Unaudited)

|                                | Number of Shares | Preferred | Common     | Paid-in | Une        |
|--------------------------------|------------------|-----------|------------|---------|------------|
|                                | Preferred        | Stock     | Stock      | Capital | Comp       |
|                                | -----            | -----     | -----      | -----   | -----      |
| BALANCE AT DECEMBER 31, 1999 . | 885              | 57,919    | \$ 329,729 | \$ 386  | \$ 130,772 |
| Net income .....               | --               | --        | --         | --      | --         |

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|  |       |        |            |        |            |       |
|--|-------|--------|------------|--------|------------|-------|
| Cash dividends .....   | --    | --     | --         | --     | --         | --    |
| Preferred dividends in<br>kind - Series C .....                      | 40    | --     | 15,004     | --     | --         | --    |
| June 2000 three-for-two<br>stock split .....                         | --    | --     | --         | 201    | (201)      | --    |
| Issuance of common stock<br>under employee<br>benefit plans .....    | --    | 2,480  | --         | 17     | 33,899     | --    |
| BALANCE AT JUNE 30, 2000 .....                                       | 925   | 60,399 | \$ 344,733 | \$ 604 | \$ 164,470 | \$    |
|  | ===== | =====  | =====      | =====  | =====      | ===== |
| BALANCE AT DECEMBER 31, 2000 .                                       | 968   | 62,243 | \$ 360,421 | \$ 622 | \$ 198,077 | \$    |
| Net income .....   | --    | --     | --         | --     | --         | --    |
| Cash dividends .....   | --    | --     | --         | --     | --         | --    |
| Preferred dividends in<br>kind - Series C .....                      | 44    | --     | 16,401     | --     | --         | --    |
| Issuance of common stock<br>under employee<br>benefit plans .....    | --    | 1,551  | --         | 16     | 25,991     | --    |
| Compensation expense<br>related to restricted<br>stock granted ..... | --    | --     | --         | --     | --         | --    |
| BALANCE AT JUNE 30, 2001 .....                                       | 1,012 | 63,794 | \$ 376,822 | \$ 638 | \$ 224,068 | \$    |
|  | ===== | =====  | =====      | =====  | =====      | ===== |

See accompanying Notes to Consolidated Financial Statements.

METRIS COMPANIES INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Dollars in thousands) (Unaudited)

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2001                         | 2000      |
|  | ----                         | ----      |
| Operating Activities:  |                              |           |
| Net income .....   | \$ 104,314                   | \$ 98,238 |
| Adjustments to reconcile net income to net cash<br>provided by operating activities: |                              |           |
| Cumulative effect of accounting changes .....  | 14,499                       | 3,438     |
| Depreciation and amortization .....  | 47,929                       | 37,137    |
| Change in allowance for loan losses .....  | 62,166                       | 58,093    |
| Change in value of derivative instruments .....                                      | (2,990)                      | --        |
| Changes in operating assets and liabilities, net:                                    |                              |           |
| Deferred income taxes .....  | 39,164                       | (15,275)  |
| Other receivables due from credit card<br>securitizations .....                      | (3,522)                      | 54,198    |
| Accounts payable and accrued expenses .....  | 50,669                       | 26,213    |
| Deferred income .....  | (24,176)                     | 44,916    |
| Other .....  | (23,143)                     | (82,039)  |
| Net cash provided by operating activities .....                                      | 264,910                      | 224,919   |
|  | -----                        | -----     |

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|   |            |            |
|---|------------|------------|
| Investing Activities:   |            |            |
| Net proceeds (uses) from sales and repayments of securitized loans..... | 692,051    | (34,075)   |
| Net loans originated .....  | (870,122)  | (561,449)  |
| Additions to property and equipment .....                               | (3,990)    | (41,168)   |
|   | -----      | -----      |
| Net cash used in investing activities .....                             | (182,061)  | (636,692)  |
|   | -----      | -----      |
| Financing Activities:   |            |            |
| Net increase in debt .....  | 271        | 444        |
| Net increase in deposits .....  | 68,746     | 469,592    |
| Cash dividends paid .....   | (1,847)    | (1,137)    |
| Increase in common equity .....   | 13,924     | 33,916     |
|   | -----      | -----      |
| Net cash provided by financing activities .....                         | 81,094     | 502,815    |
|   | -----      | -----      |
| Net increase in cash and cash equivalents .....                         | 163,943    | 91,042     |
| Cash and cash equivalents at beginning of period .....                  | 521,440    | 194,433    |
|   | -----      | -----      |
| Cash and cash equivalents at end of period .....                        | \$ 685,383 | \$ 285,475 |
|   | =====      | =====      |
| Supplemental disclosures and cash flow information:                     |            |            |
| Cash paid during the period for:  |            |            |
| Interest .....  | \$ 86,731  | \$ 40,114  |
| Income taxes .....  | 25,366     | 70,284     |
| Tax benefit from employee stock option exercises.....                   | 6,651      | 16,531     |

See accompanying Notes to Consolidated Financial Statements.

METRIS COMPANIES INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Dollars in thousands, except as noted) (Unaudited)

### NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Metris Companies Inc. ("MCI") and its subsidiaries, including Direct Merchants Credit Card Bank, N.A. ("Direct Merchants Bank"), which may be referred to as "we," "us," "our" and the "Company." The Company is an information-based direct marketer of consumer credit products and enhancement services primarily to moderate-income consumers.

All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior-year amounts have been reclassified to conform with the current year's presentation.

### Interim Financial Statements

We have prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals which, in the opinion of management, are necessary to present fairly our consolidated financial position and the results of our operations and our cash flows for the interim periods.

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You should read these consolidated financial statements in conjunction with the financial statements and the notes thereto contained in our annual report on Form 10-K for the fiscal year ended December 31, 2000. The nature of our business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

### Pervasiveness of Estimates

We have prepared the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amount of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

### NOTE 2 - EARNINGS PER SHARE

The following table presents the computation of basic and diluted weighted average shares used in the per-share calculations:

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2001                           | 2000      | 2001                         | 2000      |
|   | ----                           | ----      | ----                         | ----      |
| (In thousands)  |                                |           |                              |           |
| Income before cumulative effect of<br>accounting changes.....   | \$ 62,768                      | \$ 48,280 | \$118,813                    | \$101,676 |
| Preferred dividends - Series C .....  | 8,593                          | 7,770     | 16,996                       | 15,368    |
|   | -----                          | -----     | -----                        | -----     |
| Net income applicable to common stockholders<br>before cumulative effect of accounting<br>changes ..... | 54,175                         | 40,510    | 101,817                      | 86,308    |
| Cumulative effect of accounting changes, net .....  | --                             | --        | 14,499                       | 3,438     |
|   | -----                          | -----     | -----                        | -----     |
| Net income applicable to common stockholders .....  | \$ 54,175                      | \$ 40,510 | \$ 87,318                    | \$ 82,870 |
|   | =====                          | =====     | =====                        | =====     |
| Weighted-average common shares outstanding .....  | 62,788                         | 58,838    | 62,547                       | 58,400    |
| Adjustments for dilutive securities:  |                                |           |                              |           |
| Assumed conversion of convertible preferred<br>stock .....  | 34,845                         | 29,164    | 34,570                       | 29,164    |
|   | -----                          | -----     | -----                        | -----     |
| Basic common shares (1) .....   | 97,633                         | 88,002    | 97,117                       | 87,564    |
| Assumed exercise of outstanding stock<br>options .....  | 2,208                          | 3,566     | 1,938                        | 3,554     |
|   | -----                          | -----     | -----                        | -----     |
| Diluted common shares .....   | 99,841                         | 91,568    | 99,055                       | 91,118    |
|   | =====                          | =====     | =====                        | =====     |

(1) In accordance with an announcement of the Financial Accounting Standards Board's Staff at the Emerging Issues Task Force meeting in April,



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2001, codified as EITF Topic No. D-95 ("Topic D-95"), the Company revised its computation of basic earnings per common share (EPS). As required by Topic D-95, the dilutive effect of the Company's Series C Convertible Preferred Stock is now included in the computation of basic EPS, utilizing the if-converted method. The Series C Convertible Preferred Stock participates in dividends on an as-converted basis with the Company's common stock. For all periods presented, there is no impact to diluted earnings per share. The Company restated the basic EPS amounts for the three- and six-month periods ended June 30, 2000 to be consistent with the revised methodology. Before the impact of Topic D-95, basic earnings per common share would have been \$0.86, \$0.69, \$1.40 and \$1.42 for the three- and six-month periods ended June 30, 2001 and 2000, respectively.

### NOTE 3 - ACCOUNTING CHANGES

During the quarter ended March 31, 2001 we adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments. SFAS 133 requires enterprises to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair market value. This statement is effective for all quarters of fiscal years beginning after June 15, 2000. As a result of the adoption of SFAS 133 effective January 1, 2001 we marked our derivatives to market value and recognized a one-time, non-cash, after-tax charge to earnings of \$14.5 million. This one-time charge is reflected as a "Cumulative effect of accounting change" in the consolidated statements of income for the six months ended June 30, 2001.

We use derivatives to assist us in achieving our strategy of balanced asset and liability interest rate exposure. Our principal market risk is due to changes in interest rates. Our primary managed assets are credit card loans, which are virtually all priced at rates indexed to the variable Prime Rate. We fund credit card loans through a combination of cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances. The majority of this funding is indexed to variable rate LIBOR. We seek to minimize the impact of changes in interest rates primarily by matching asset and liability repricings. We enter into interest rate cap, floor and swap agreements to hedge the cash flow, fair value and earnings impact of fluctuating market interest rates on the spread between the floating rate loans and the floating and fixed rate debt issued to fund the loans.

In connection with the issuance of term asset-backed securities by the Metris Master Trust ("trust"), we enter into term interest rate cap agreements with highly rated bank counterparties to effectively cap the potentially negative impact to us from increases in the floating interest rate of the securities. These agreements are for original terms ranging from two to ten years and are scheduled to terminate between February 2002 and January 2010. The contracted strike rate on the interest rate caps were above the current market interest rates at December 31, 2000 and June 30, 2001. Therefore, these caps are considered ineffective in hedging the interest rate movements. SFAS 133 required us to reduce the carrying value of these caps to their current market values. The reduction related to the adoption of SFAS 133 effective January 1, 2001 was recorded as a one-time, non-cash, after-tax charge to earnings of \$14.7 million. This one-time charge is included in the "Cumulative effect of accounting change" in the consolidated statements of income for the six months ended June 30, 2001. The adjustment to increase the carrying value of the caps for the three- and six-month periods ended June 30, 2001 was recorded as a non-cash, pre-tax benefit of \$6.7 million and \$3.0 million, respectively, to "Net securitization and credit card servicing income" in the consolidated statements of income.

We also enter into interest rate swap agreements to hedge a portion of our fixed rate deposits. The interest rate swaps are designated as fair value hedges

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under SFAS 133. At adoption, the change in the fair value of the swaps exceeded the change in fair value of the fixed rate deposits. This difference of \$0.2 million was recorded as a one-time, non-cash, after-tax benefit to earnings. This one-time benefit is included in the "Cumulative effect of accounting change" in the consolidated statements of income for the six months ended June 30, 2001. The interest rate swaps were substantially effective in offsetting changes in the fair value of the hedged CD portfolio during the six months ended June 30, 2001. These interest rate swap agreements are for original terms ranging from one to two years and are scheduled to terminate between April 2002 and January 2003.

During the quarter ended March 31, 2000 we adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," for our debt waiver products. This SAB formalized the accounting for services sold where the right to a full refund exists, requiring all companies to defer recognition of revenues until the cancellation period is complete. Previously, we recognized half of the revenues in the month billed and half in the following month. We now recognize all of the revenue the month following completion of the cancellation period. This change resulted in a one-time, non-cash net charge to earnings of \$3.4 million, which is reflected as a "Cumulative effect of accounting change" in the consolidated statements of income for the six months ended June 30, 2000. Because we have applied the provisions of this SAB to our membership programs since 1998, before the SEC formalized its guidance, no adjustment was required for our membership services revenues.

### NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The activity in the allowance for loan losses is as follows:

|                                | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--------------------------------|--------------------------------|------------|------------------------------|------------|
|                                | 2001                           | 2000       | 2001                         | 2000       |
|                                | ----                           | ----       | ----                         | ----       |
| (In thousands)                 |                                |            |                              |            |
| Balance at beginning of period | \$ 786,798                     | \$ 645,089 | \$ 763,975                   | \$ 619,028 |
| Provision for loan losses .... | 114,682                        | 98,215     | 202,411                      | 186,008    |
| Provision for loan losses (1)  | 193,178                        | 114,387    | 373,241                      | 231,064    |
| Loans charged off .....        | (297,071)                      | (196,552)  | (569,152)                    | (390,042)  |
| Recoveries .....               | 28,554                         | 15,982     | 55,666                       | 31,063     |
|                                | -----                          | -----      | -----                        | -----      |
| Net loans charged off .....    | (268,517)                      | (180,570)  | (513,486)                    | (358,979)  |
|                                | -----                          | -----      | -----                        | -----      |
| Balance at end of period ..... | \$ 826,141                     | \$ 677,121 | \$ 826,141                   | \$ 677,121 |
|                                | =====                          | =====      | =====                        | =====      |

(1) Amounts are included in "Net securitization and credit card servicing income."

### NOTE 5 - SEGMENTS

We operate in two principal areas: consumer lending products and

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enhancement services. Our consumer lending products are primarily unsecured and secured credit cards, including the Direct Merchants Bank MasterCard(R) and Visa(R). Our credit card accountholders include customers obtained from third-party lists and other customers for whom general credit bureau information is available.

We market our enhancement services, including (i) debt waiver protection for unemployment, disability, and death; (ii) membership programs such as card registration, purchase protection and other club memberships; and (iii) third-party insurance, directly to our credit card customers and customers of third parties. We currently administer our extended service plans sold through a third-party retailer, and the customer pays the retailer directly. In addition, we develop customized targeted mailing lists from information contained in our databases for use by unaffiliated companies in their own product solicitation efforts that do not directly compete with our efforts.

We have presented the segment information reported below on a managed basis. We use this basis to review segment performance and to make operating decisions. To do so, the income statement and balance sheet are adjusted to reverse the effects of securitizations. Presentation on a managed basis is not in conformity with generally accepted accounting principles. The elimination column in the segment table includes adjustments to present the information on an owned basis as reported in the financial statements of this quarterly report.

We do not allocate the expenses, assets and liabilities attributable to corporate functions to the operating segments, such as employee compensation, data processing services and communications, third-party servicing expenses, and other expenses including occupancy, depreciation and amortization, professional fees, and other general and administrative expenses. We include these expenses in the reconciliation of the income before income taxes and cumulative effect of accounting changes for the reported segments to the consolidated total. We do not allocate capital expenditures for leasehold improvements, capitalized software and furniture and equipment to operating segments. There were no operating assets located outside of the United States for the periods presented.

Our enhancement services operating segment pays a fee to our consumer lending products segment for successful marketing efforts to the consumer lending products segment's cardholders at a rate similar to those paid to our other third parties. Our enhancement services segment reports interest income and the consumer lending products segment reports interest expense at our weighted-average borrowing rate for the excess cash flow generated by the enhancement services segment and used by the consumer lending products segment to fund the growth of cardholder balances.

|                      | Three Months Ended June 30,<br>2001<br>---- |                                  |                             |                       |
|----------------------|---|----------------------------------|-----------------------------|-----------------------|
|                      | Consumer<br>Lending<br>Products<br>-----    | Enhancement<br>Services<br>----- | Reconciliation (a)<br>----- | Consolidated<br>----- |
| Interest income..... | \$ 481,540                                  | \$ 3,202                         | \$ (312,535) (b)            | \$ 172,207            |

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|                                 |             |            |                    |             |
|---------------------------------|-------------|------------|--------------------|-------------|
| Interest expense.....           | 129,361     | --         | (85,048) (b)       | 44,313      |
|                                 | -----       | -----      | -----              | -----       |
| Net interest income .....       | 352,179     | 3,202      | (227,487)          | 127,894     |
| Other revenue .....             | 160,240     | 82,900     | 34,309             | 277,449     |
| Total revenue .....             | 641,780     | 86,102     | (278,226)          | 449,656     |
| Income before income taxes..... | 173,672 (c) | 55,058 (c) | (126,999) (d)      | 101,731     |
| Total assets .....              | \$9,777,687 | \$ 138,076 | \$ (5,959,431) (e) | \$3,956,332 |

Three Months Ended June 30,  
2000

|                                 | Consumer Lending Products | Enhancement Services | Reconciliation(a)  | Consolidated |
|---------------------------------|---------------------------|----------------------|--------------------|--------------|
|                                 | -----                     | -----                | -----              | -----        |
| Interest income.....            | \$ 376,022                | \$ 2,697             | \$ (262,960) (b)   | \$ 115,759   |
| Interest expense.....           | 122,768                   | --                   | (93,986) (b)       | 28,782       |
|                                 | -----                     | -----                | -----              | -----        |
| Net interest income .....       | 253,254                   | 2,697                | (168,974)          | 86,977       |
| Other revenue .....             | 119,452                   | 63,984               | 54,587             | 238,023      |
| Total revenue .....             | 495,474                   | 66,681               | (208,373)          | 353,782      |
| Income before income taxes..... | 138,611 (c)               | 42,666 (c)           | (102,659) (d)      | 78,618       |
| Total assets .....              | \$ 7,737,289              | \$ 150,025           | \$ (5,174,697) (e) | \$ 2,712,617 |

Six Months Ended June 30,  
2001

|                        | Consumer Lending Products | Enhancement Services | Reconciliation (a) | Consolidated |
|------------------------|---------------------------|----------------------|--------------------|--------------|
|                        | -----                     | -----                | -----              | -----        |
| Interest income .....  | \$ 948,360                | \$ 6,822             | \$ (613,246) (b)   | \$ 341,936   |
| Interest expense ..... | 273,291                   | --                   | (181,143) (b)      | 92,148       |

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|  | -----       | -----       | -----              | -----       |
|--|-------------|-------------|--------------------|-------------|
| Net interest income .....  | 675,069     | 6,822       | (432,103)          | 249,788     |
| Other revenue .....  | 285,611     | 161,164     | 58,862             | 505,637     |
| Total revenue .....  | 1,233,971   | 167,986     | (554,384)          | 847,573     |
| Income before income taxes and cumulative effect of accounting changes.. | 331,251 (c) | 109,737 (c) | (248,127) (d)      | 192,861     |
| Total assets .....   | \$9,777,687 | \$ 138,076  | \$ (5,959,431) (e) | \$3,956,332 |

|  | Six Months Ended June 30,<br>2000 |                      |                    |              |
|--|-----------------------------------|----------------------|--------------------|--------------|
|  | Consumer Lending Products         | Enhancement Services | Reconciliation (a) | Consolidated |
|  | -----                             | -----                | -----              | -----        |
| Interest income .....  | \$ 735,524                        | \$ 4,902             | \$ (526,866) (b)   | \$ 213,560   |
| Interest expense .....   | 237,502                           | --                   | (184,612) (b)      | 52,890       |
| Net interest income .....  | 498,022                           | 4,902                | (342,254)          | 160,670      |
| Other revenue .....  | 244,705                           | 123,600              | 111,190            | 479,495      |
| Total revenue .....  | 980,229                           | 128,502              | (415,676)          | 693,055      |
| Income before income taxes and cumulative effect of accounting changes.. | 283,092 (c)                       | 84,543 (c)           | (201,768) (d)      | 165,867      |
| Total assets .....   | \$ 7,737,289                      | \$ 150,025           | \$ (5,174,697) (e) | \$ 2,712,617 |

(a) The reconciliation column includes: intercompany eliminations; amounts not allocated to segments; and adjustments to the amounts reported on a managed basis to reflect the effects of securitization.

(b) The reconciliation to consolidated owned interest revenue and interest expense includes the elimination of \$3.2 million, \$2.7 million, \$6.8 million and \$4.9 million of intercompany interest received by the enhancement services segment from the consumer lending products segment for the three months ended June 30, 2001 and 2000 and the six months ended June 30, 2001 and 2000, respectively.

(c) Income before income taxes (and cumulative effect of accounting changes) includes intercompany commissions paid by the enhancement services segment to the consumer lending products segment for successful marketing efforts to consumer lending products cardholders of \$3.0 million, \$4.1 million, \$6.2 million and \$4.4 million for the three months ended June 30, 2001 and 2000 and the six months ended June 30, 2001 and 2000, respectively.

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(d) The reconciliation to the owned income before income taxes and cumulative effect of accounting changes includes: unallocated costs related to employee compensation; data processing and communications; third-party servicing expenses; and other expenses. The majority of these expenses, although not allocated for the internal segment reporting used by management, relate to the consumer lending products segment.

(e) Total assets include the assets attributable to corporate functions not allocated to operating segments and the removal of investors interests in securitized loans to present total assets on an owned basis.

### NOTE 6 - DEBT AND DEPOSITS

We have a credit facility that consists of a \$170 million revolving credit facility and a \$100 million term loan which mature in July 2003 and June 2003, respectively. At June 30, 2001 and December 31, 2000 we had outstanding borrowings of \$100 million under the term loan facility with weighted-average interest rates of 7.3% and 9.9%, respectively. There were no outstanding borrowings under the revolving credit facility for these periods. At June 30, 2001 we were in compliance with all financial covenants under the credit facility.

Direct Merchants Bank issues certificates of deposit of \$100,000 or more. As of June 30, 2001 and December 31, 2000, \$2.1 billion of CDs were outstanding with original maturities ranging from six months to five years and three months to five years, respectively. These CDs pay fixed interest rates ranging from 4.2% to 7.6% and 5.4% to 7.6%, respectively.

We have various indirect subsidiaries which have not guaranteed the senior notes or credit facility. The following condensed consolidating financial statements of the Company, the guarantor subsidiaries and the non-guarantor subsidiaries are presented for purposes of complying with SEC reporting requirements. Separate financial statements of the guarantor subsidiaries and the non-guarantor subsidiaries are not presented because management has determined that the subsidiaries' financial statements would not be material to investors.

METRIS COMPANIES INC.  
Supplemental Consolidating Balance Sheet  
June 30, 2001  
(Dollars in thousands)  
Unaudited

|                                 | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elim- |
|---------------------------------|--------------------------|---------------------------|-------------------------------|-------|
|                                 | -----                    | -----                     | -----                         | ----- |
| Assets:                         |                          |                           |                               |       |
| Cash and cash equivalents ..... | \$ 1,725                 | \$ 935                    | \$ 682,723                    | \$    |
| Net retained interests in loans |                          |                           |                               |       |
| securitized .....               | (3,009)                  | --                        | 504,015                       |       |
| Credit card loans .....         | 60,045                   | --                        | 1,994,550                     |       |

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|   |              |              |              |         |
|---|--------------|--------------|--------------|---------|
| Property and equipment, net .....                                   | --           | 85,103       | 39,160       |         |
| Deferred income taxes .....   | (3,438)      | 8,613        | 102,006      |         |
| Purchased portfolio premium .....                                   | 248          | --           | 82,631       |         |
| Other receivables due from credit card<br>securitizations, net..... |              | 17           | 167,665      |         |
| Other assets .....  | 13,651       | 33,687       | 194,807      |         |
| Investment in subsidiaries .....                                    | 1,768,597    | 1,658,571    | --           | (3,4    |
|   | -----        | -----        | -----        | -----   |
| Total assets .....  | \$ 1,837,836 | \$ 1,788,262 | \$ 3,767,557 | \$ (3,4 |
|   | =====        | =====        | =====        | =====   |
| Liabilities:  |              |              |              |         |
| Deposits .....  | \$ (1,000)   | \$ --        | \$ 2,175,945 | \$      |
| Debt .....  | 345,470      | 877          | 9,990        |         |
| Accounts payable .....  | 6,120        | 14,996       | 120,541      |         |
| Deferred income .....   | 8,602        | 31,155       | 175,262      |         |
| Accrued expenses and other<br>liabilities.....                      | 468,617      | (27,363)     | (372,752)    |         |
|   | -----        | -----        | -----        | -----   |
| Total liabilities .....   | 827,809      | 19,665       | 2,108,986    |         |
|   | -----        | -----        | -----        | -----   |
| Total stockholders' equity .....                                    | 1,010,027    | 1,768,597    | 1,658,571    | (3,4    |
|   | -----        | -----        | -----        | -----   |
| Total liabilities and<br>stockholders' equity.....                  | \$ 1,837,836 | \$ 1,788,262 | \$ 3,767,557 | \$ (3,4 |
|   | =====        | =====        | =====        | =====   |

METRIS COMPANIES INC.  
Supplemental Consolidating Balance Sheet  
December 31, 2000  
(Dollars in thousands)  
Unaudited

|   | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Elimina   |
|---|--------------------------|---------------------------|-------------------------------|-----------|
|   | -----                    | -----                     | -----                         | -----     |
| Assets:   |                          |                           |                               |           |
| Cash and cash equivalents .....                                     | \$ 64,869                | \$ 10,658                 | \$ 445,913                    | \$        |
| Net retained interests in<br>loans securitized .....                | 311                      | --                        | 1,382,518                     |           |
| Credit card loans .....   | 2,232                    | --                        | 1,053,848                     |           |
| Property and equipment, net .....                                   | --                       | 77,693                    | 50,702                        |           |
| Deferred income taxes .....   | (2,415)                  | 17,104                    | 131,656                       |           |
| Purchased portfolio premium .....                                   | 248                      | --                        | 95,289                        |           |
| Other receivables due from credit<br>card securitizations, net..... | 14                       | 84                        | 186,596                       |           |
| Other assets .....  | 13,806                   | 41,946                    | 173,583                       | (10       |
| Investment in subsidiaries .....                                    | 1,588,918                | 1,442,295                 | --                            | (3,031    |
|   | -----                    | -----                     | -----                         | -----     |
| Total assets .....  | \$ 1,667,983             | \$ 1,589,780              | \$ 3,520,105                  | \$ (3,041 |

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|  | =====        | =====        | =====        | =====      |
|--|--------------|--------------|--------------|------------|
| Liabilities:                                     |              |              |              |            |
| Deposits .....                                   | \$ (1,000)   | \$ --        | \$ 2,107,199 | \$         |
| Debt .....                                       | 345,024      | 880          | 10,162       |            |
| Accounts payable .....                           | 259          | 14,536       | 73,993       | (5)        |
| Deferred income .....                            | 12,718       | 49,934       | 178,170      | (5)        |
| Accrued expenses and other liabilities.....      | 427,429      | (64,488)     | (291,714)    |            |
| Total liabilities .....                          | 784,430      | 862          | 2,077,810    | (10)       |
| Total stockholders' equity .....                 | 883,553      | 1,588,918    | 1,442,295    | (3,031)    |
| Total liabilities and stockholders' equity ..... | \$ 1,667,983 | \$ 1,589,780 | \$ 3,520,105 | \$ (3,041) |
|  | =====        | =====        | =====        | =====      |

METRIS COMPANIES INC.  
Supplemental Consolidating Statements of  
Three Months Ended June 30, 2001  
(Dollars in thousands)  
Unaudited

|   | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminati |
|---|--------------------------|---------------------------|-------------------------------|-----------|
|   | -----                    | -----                     | -----                         | -----     |
| Net Interest (Expense)  |                          |                           |                               |           |
| Income.....   | \$ (25,386)              | \$ (2,162)                | \$ 155,442                    | \$ --     |
| Provision for loan losses .....   | 1,013                    | --                        | 113,669                       | --        |
| Net Interest (Expense)  |                          |                           |                               |           |
| Income After Provision<br>for Loan Losses.....  | (26,399)                 | (2,162)                   | 41,773                        | --        |
| Other Operating Income:   |                          |                           |                               |           |
| Net securitization and<br>credit card servicing<br>income.....                          | 2,378                    | --                        | 117,334                       | --        |
| Credit card fees,<br>interchange and other<br>credit card income.....                   | (1,562)                  | 16,085                    | 60,314                        | --        |
| Enhancement services<br>revenues.....   | --                       | 14,083                    | 68,817                        | --        |
|   | 816                      | 30,168                    | 246,465                       | --        |
| Other Operating Expense:  |                          |                           |                               |           |
| Credit card account and<br>other product<br>solicitation and<br>marketing expenses..... | --                       | 4,364                     | 47,117                        | --        |
| Employee compensation .....   | 342                      | 53,815                    | 1,958                         | --        |



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|   |           |           |           |              |
|---|-----------|-----------|-----------|--------------|
| Data processing services and communications .....   | 2         | (22,399)  | 44,538    |              |
| Warranty and debt waiver underwriting and claims servicing expense.....   | --        | 323       | 7,927     |              |
| Credit card fraud losses .....  | --        | --        | 2,200     |              |
| Purchased portfolio premium amortization .....  | --        | --        | 7,418     |              |
| Other .....   | 52        | 25,825    | 15,448    |              |
|   | -----     | -----     | -----     | -----        |
|   | 396       | 61,928    | 126,606   |              |
|   | -----     | -----     | -----     | -----        |
| (Loss) Income Before Income Taxes, Equity in Income of Subsidiaries and Cumulative Effect of Accounting Change..... | (25,979)  | (33,922)  | 161,632   |              |
| Income taxes .....  | (9,881)   | (13,940)  | 62,784    |              |
| Equity in income of subsidiaries.....   | 78,866    | 98,848    | --        | (177,711)    |
|   | -----     | -----     | -----     | -----        |
| Net Income .....  | \$ 62,768 | \$ 78,866 | \$ 98,848 | \$ (177,711) |
|   | =====     | =====     | =====     | =====        |

METRIS COMPANIES INC.  
Supplemental Consolidating Statements of Income  
Three Months Ended June 30, 2000  
(Dollars in thousands)  
Unaudited

|  | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminati |
|--|--------------------------|---------------------------|-------------------------------|-----------|
|  | -----                    | -----                     | -----                         | -----     |
| Net Interest (Expense)   |                          |                           |                               |           |
| Income .....   | \$ (20,834)              | \$ (1,227)                | \$ 109,038                    | \$        |
| Provision for loan losses .....                                    | (7)                      | --                        | 98,222                        |           |
|  | -----                    | -----                     | -----                         | -----     |
| Net Interest (Expense) Income After Provision for Loan Losses..... | (20,827)                 | (1,227)                   | 10,816                        |           |
|  | -----                    | -----                     | -----                         | -----     |
| Other Operating Income:  |                          |                           |                               |           |
| Net securitization and credit card servicing income.....           | 2,378                    | 24                        | 118,107                       |           |
| Credit card fees, interchange and other credit card income.....    | (1,649)                  | (238)                     | 55,417                        |           |
| Enhancement services revenues.....                                 | --                       | 11,385                    | 52,599                        |           |
|  | -----                    | -----                     | -----                         | -----     |
|  | 729                      | 11,171                    | 226,123                       |           |
|  | -----                    | -----                     | -----                         | -----     |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Other Operating Expense:   |           |           |           |           |
| Credit card account and other product solicitation and marketing expenses..... | --        | 2,878     | 33,438    |           |
| Employee compensation .....  | --        | 35,902    | 6,880     |           |
| Data processing services and communications .....                              | --        | (19,109)  | 39,928    |           |
| Warranty and debt waiver underwriting and claims servicing expense.....        | --        | 24        | 6,736     |           |
| Credit card fraud losses .....   | 1         | --        | 2,430     |           |
| Purchased portfolio premium amortization.....                                  | --        | --        | 5,225     |           |
| Other .....  | 56        | 15,471    | 18,307    |           |
|  | -----     | -----     | -----     | -----     |
|  | 57        | 35,166    | 112,944   |           |
|  | -----     | -----     | -----     | -----     |
| (Loss) Income Before   |           |           |           |           |
| Income Taxes and Equity in Income of Subsidiaries.....                         | (20,155)  | (25,222)  | 123,995   |           |
| Income taxes .....   | (7,789)   | (9,802)   | 47,929    |           |
| Equity in income of subsidiaries.....  | 60,646    | 76,066    | --        | (136,7    |
|  | -----     | -----     | -----     | -----     |
| Net Income .....   | \$ 48,280 | \$ 60,646 | \$ 76,066 | \$ (136,7 |
|  | =====     | =====     | =====     | =====     |

METRIS COMPANIES INC.  
Supplemental Consolidating Statements of  
Six Months Ended June 30, 2001  
(Dollars in thousands)  
Unaudited

|  | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminati |
|--|--------------------------|---------------------------|-------------------------------|-----------|
|  | -----                    | -----                     | -----                         | -----     |
| Net Interest (Expense)                                   |                          |                           |                               |           |
| Income.....  | \$ (60,937)              | \$ (3,592)                | \$ 314,317                    | \$        |
| Provision for loan losses .....                          | 1,217                    | --                        | 201,194                       |           |
|  | -----                    | -----                     | -----                         | -----     |
| Net Interest (Expense)                                   |                          |                           |                               |           |
| Income After Provision<br>for Loan Losses.....           | (62,154)                 | (3,592)                   | 113,123                       |           |
|  | -----                    | -----                     | -----                         | -----     |
| Other Operating Income:                                  |                          |                           |                               |           |
| Net securitization and credit card servicing income..... | 4,756                    | --                        | 202,048                       |           |

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|   |            |            |            |           |
|---|------------|------------|------------|-----------|
| Credit card fees,<br>interchange and other<br>credit card income.....   | (2,851)    | 9,297      | 131,223    |           |
| Enhancement services<br>revenues.....   | --         | 31,201     | 129,963    |           |
|   | -----      | -----      | -----      | -----     |
|   | 1,905      | 40,498     | 463,234    |           |
|   | -----      | -----      | -----      | -----     |
| Other Operating Expense:  |            |            |            |           |
| Credit card account and<br>other product<br>solicitation and<br>marketing expenses.....   | --         | 10,484     | 81,762     |           |
| Employee compensation .....   | 342        | 97,226     | 13,283     |           |
| Data processing services<br>and communications .....  | 2          | (52,932)   | 97,450     |           |
| Warranty and debt waiver<br>underwriting and claims<br>servicing expense.....   | --         | 490        | 14,439     |           |
| Credit card fraud losses .....  | --         | --         | 4,851      |           |
| Purchased portfolio premium<br>amortization .....   | --         | --         | 15,246     |           |
| Other .....   | 90         | 44,287     | 33,133     |           |
|   | -----      | -----      | -----      | -----     |
|   | 434        | 99,555     | 260,164    |           |
|   | -----      | -----      | -----      | -----     |
| (Loss) Income Before Income<br>Taxes, Equity in Income<br>of Subsidiaries and<br>Cumulative Effect of<br>Accounting Change..... | (60,683)   | (62,649)   | 316,193    |           |
| Income taxes .....  | (23,242)   | (25,910)   | 123,200    |           |
| Equity in income of<br>subsidiaries.....  | 141,755    | 178,494    | --         | (320,2    |
|   | -----      | -----      | -----      | -----     |
| Income Before Cumulative<br>Effect of Accounting<br>Change.....   | 104,314    | 141,755    | 192,993    | (320,2    |
| Cumulative effect of<br>accounting change, net .....  | --         | --         | 14,499     |           |
|   | -----      | -----      | -----      | -----     |
| Net Income .....  | \$ 104,314 | \$ 141,755 | \$ 178,494 | \$ (320,2 |
|   | =====      | =====      | =====      | =====     |

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Six Months Ended June 30, 2000  
(Dollars in thousands)  
Unaudited

|   | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | El    |
|---|--------------------------|---------------------------|-------------------------------|-------|
|   | -----                    | -----                     | -----                         | ----- |
| Net Interest (Expense)  |                          |                           |                               |       |
| Income.....   | \$ (32,881)              | \$ (1,798)                | \$ 195,349                    | \$    |
| Provision for loan losses .....   | (22)                     | --                        | 186,030                       |       |
|   | -----                    | -----                     | -----                         | ----- |
| Net Interest (Expense) Income After<br>Provision for Loan Losses  | (32,859)                 | (1,798)                   | 9,319                         |       |
|   | -----                    | -----                     | -----                         | ----- |
| Other Operating Income:   |                          |                           |                               |       |
| Net securitization and<br>credit card servicing<br>income.....  | 4,764                    | (4)                       | 246,808                       |       |
| Credit card fees,<br>interchange and other<br>credit card income.....   | (3,197)                  | 870                       | 106,654                       |       |
| Enhancement services<br>revenues.....   | --                       | 27,719                    | 95,881                        |       |
|   | -----                    | -----                     | -----                         | ----- |
|   | 1,567                    | 28,585                    | 449,343                       |       |
|   | -----                    | -----                     | -----                         | ----- |
| Other Operating Expense:  |                          |                           |                               |       |
| Credit card account and<br>other product<br>solicitation and<br>marketing expenses.....   | --                       | 10,648                    | 57,810                        |       |
| Employee compensation .....   | --                       | 70,773                    | 15,781                        |       |
| Data processing services<br>and communications .....  | --                       | (37,853)                  | 79,297                        |       |
| Warranty and debt waiver<br>underwriting and claims<br>servicing expense.....   | --                       | 818                       | 12,674                        |       |
| Credit card fraud losses .....  | 3                        | --                        | 4,569                         |       |
| Purchased portfolio premium<br>amortization .....   | --                       | --                        | 10,192                        |       |
| Other .....   | 93                       | 33,462                    | 30,023                        |       |
|   | -----                    | -----                     | -----                         | ----- |
|   | 96                       | 77,848                    | 210,346                       |       |
|   | -----                    | -----                     | -----                         | ----- |
| (Loss) Income Before Income<br>Taxes, Equity in Income<br>of Subsidiaries and<br>Cumulative Effect of<br>Accounting Change..... | (31,388)                 | (51,061)                  | 248,316                       |       |
| Income taxes .....  | (12,147)                 | (20,140)                  | 96,478                        |       |
| Equity in income of<br>subsidiaries.....  | 117,479                  | 148,400                   | --                            | (2)   |
|   | -----                    | -----                     | -----                         | ----- |
| Income Before Cumulative<br>Effect of Accounting<br>Change .....  | 98,238                   | 117,479                   | 151,838                       | (2)   |
| Cumulative effect of<br>accounting change, net .....  | --                       | --                        | 3,438                         |       |

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|                  |           |            |            |       |
|------------------|-----------|------------|------------|-------|
| Net Income ..... | \$ 98,238 | \$ 117,479 | \$ 148,400 | \$ (2 |
|                  | =====     | =====      | =====      | ===== |

METRIS COMPANIES INC.  
Supplemental Condensed Consolidating Statement  
Six Months Ended June 30, 2001  
(Dollars in thousands)  
Unaudited

|   | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries |
|---|--------------------------|---------------------------|-------------------------------|
|   | -----                    | -----                     | -----                         |
| Operating Activities:   |                          |                           |                               |
| Net cash (used in) provided by operating activities.....          | \$ (77,889)              | \$ (69,120)               | \$ 411,919                    |
|   | -----                    | -----                     | -----                         |
| Investing Activities:   |                          |                           |                               |
| Net proceeds from sales and repayments of securitized loans ..... | --                       | --                        | 692,051                       |
| Net loans originated .....  | (57,267)                 | --                        | (812,855)                     |
| Dispositions of (additions to) property and equipment.....        | --                       | (14,636)                  | 10,646                        |
|   | -----                    | -----                     | -----                         |
| Net cash (used in) provided by investing activities               | (57,267)                 | (14,636)                  | (110,158)                     |
|   | -----                    | -----                     | -----                         |
| Financing Activities:   |                          |                           |                               |
| Net increase (decrease) in debt .....                             | 95,081                   | 73,890                    | (168,700)                     |
| Net increase in deposits .....                                    | --                       | --                        | 68,746                        |
| Cash dividends paid .....   | (1,847)                  | --                        | --                            |
| Net (decrease) increase in equity .....                           | (21,222)                 | 143                       | 35,003                        |
|   | -----                    | -----                     | -----                         |
| Net cash provided by (used in) financing activities .....         | 72,012                   | 74,033                    | (64,951)                      |
|   | -----                    | -----                     | -----                         |
| Net (decrease) increase in cash and cash equivalents .....        | (63,144)                 | (9,723)                   | 236,810                       |
| Cash and cash equivalents at beginning of period .....            | 64,869                   | 10,658                    | 445,913                       |
|   | -----                    | -----                     | -----                         |
| Cash and cash equivalents at end of period .....                  | \$ 1,725                 | \$ 935                    | \$ 682,723                    |
|   | =====                    | =====                     | =====                         |

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METRIS COMPANIES INC.  
 Supplemental Condensed Consolidating Statement  
 Six Months Ended June 31, 2001  
 (Dollars in thousands)  
 Unaudited

|   | Metris<br>Companies Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries |
|---|--------------------------|---------------------------|-------------------------------|
|   | -----                    | -----                     | -----                         |
| Operating Activities:   |                          |                           |                               |
| Net cash (used in) provided by operating activities.....          | \$ (86,740)              | \$ (49,918)               | \$ 361,577                    |
|   | -----                    | -----                     | -----                         |
| Investing Activities:   |                          |                           |                               |
| Net proceeds from sales and repayments of securitized loans ..... | --                       | --                        | (34,075)                      |
| Net loans collected (originated).....                             | 2,043                    | --                        | (563,492)                     |
| Additions to property and equipment .....                         | --                       | (17,550)                  | (23,618)                      |
|   | -----                    | -----                     | -----                         |
| Net cash provided by (used in) investing activities .....         | 2,043                    | (17,550)                  | (621,185)                     |
|   | -----                    | -----                     | -----                         |
| Financing Activities:   |                          |                           |                               |
| Net increase (decrease) in debt .....                             | 96,452                   | 17,723                    | (113,731)                     |
| Net increase in deposits .....                                    | --                       | --                        | 469,592                       |
| Cash dividends paid .....   | (1,137)                  | --                        | --                            |
| Net (decrease) increase in equity .....                           | (16,615)                 | 50,529                    | 2                             |
|   | -----                    | -----                     | -----                         |
| Net cash provided by financing activities .....                   | 78,700                   | 68,252                    | 355,863                       |
|   | -----                    | -----                     | -----                         |
| Net (decrease) increase in cash and cash equivalents.....         | (5,997)                  | 784                       | 96,255                        |
| Cash and cash equivalents at beginning of period.....             | 43,619                   | 309                       | 150,505                       |
|   | -----                    | -----                     | -----                         |
| Cash and cash equivalents at end of period .....                  | \$ 37,622                | \$ 1,093                  | \$ 246,760                    |
|   | =====                    | =====                     | =====                         |

ITEM 2.

METRIS COMPANIES INC. AND SUBSIDIARIES  
 MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Metris Companies Inc. ("MCI") and its subsidiaries, including Direct Merchants Credit Card Bank, N.A. ("Direct Merchants Bank"), which may be referred to as "we," "us," "our" and the "Company." This discussion should be read in conjunction with the following documents for a full understanding of our financial condition and results of operations: Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2000 Annual Report to Shareholders; our annual report on Form 10-K for the fiscal year ended December 31, 2000; and our Proxy Statement for the 2001 Annual Meeting of Shareholders. In addition, this discussion should be read in conjunction with our quarterly report on Form 10-Q for the period ended June 30, 2001, of which this commentary is a part, and the condensed consolidated financial statements

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and related notes thereto.

### Results of Operations

Net income for the three months ended June 30, 2001 was \$62.8 million, up from \$48.3 million for the second quarter of 2000. Diluted earnings per share for the three months ended June 30, 2001 was \$0.63 compared to \$0.53 per share for the second quarter of 2000. The increase in net income is the result of increases in net interest income and other operating income, partially offset by increases in the provision for loan losses and other operating expenses. These increases are largely attributable to the growth in average managed loans to \$9.9 billion for the second quarter 2001 from \$7.6 billion for the second quarter 2000, an increase of 29%, and growth in total credit card accounts to 4.6 million at June 30, 2001, from 4.1 million at June 30, 2000. Enhancement services revenue also increased 30% to \$82.9 million for the second quarter of 2001 compared to the same period in 2000.

Net income for the six months ended June 30, 2001 was \$104.3 million, up from \$98.2 million for the first six months of 2000. Net income reported for the six-month periods ended June 30, 2001 and 2000 includes \$14.5 million and \$3.4 million, respectively, of cumulative effect of accounting changes described below. Without these items, reported earnings would have been \$118.8 million and \$101.7 million for the six-month periods ended June 30, 2001 and 2000, respectively. Diluted earnings per share for the six-months ended June 30, 2001 was \$1.05 compared to \$1.08 for the same period in 2000. Without the impact of the cumulative effect of accounting changes, diluted earnings per share would have been \$1.20 and \$1.12 for the six months ended June 30, 2001 and 2000, respectively. The increase in net income is the result of increases in net interest income and other operating income, partially offset by increases in the provision for loan losses and other operating expenses. These increases are largely attributable to the growth in average managed loans to \$9.6 billion for the six months ended June 30, 2001 from \$7.5 billion for the same period in 2000, an increase of 29%, along with the previously discussed growth in credit card accounts. Enhancement services revenue also increased 30% to \$161.2 million for the six months ended June 30, 2001 compared to the same period in 2000.

During the quarter ended March 31, 2001 we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments. SFAS 133 requires enterprises to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. Prior to SFAS 133, we amortized the costs of interest rate contracts on a straight-line basis over the expected life of the contract. The adoption of SFAS 133 resulted in a one-time, non-cash, after-tax charge to earnings of \$14.5 million reflected as a "Cumulative effect of accounting change" in the consolidated statements of income for the six months ended June 30, 2001.

During the quarter ended March 31, 2000 we adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," for our debt waiver products. This SAB formalized the accounting for services sold where the right to a full refund exists, requiring all companies to defer recognition of revenues until the cancellation period is complete. Previously, we recognized half of the revenues in the month billed and half in the following month. We now recognize all of the revenue the month following completion of the cancellation period. This change resulted in a one-time, non-cash net charge to earnings of \$3.4 million, which is reflected as a "Cumulative effect of accounting change" in the consolidated statements of income for the six months ended June 30, 2000. Because we have applied the provisions of this SAB to our membership programs since 1998, before the SEC formalized its guidance, no adjustment was required for our membership services revenues.

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In September 2000 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which replaces SFAS No. 125, and revises the standards for accounting for securitizations and transfers of financial assets and collateral and requires certain disclosures. It requires enterprises to recognize, upon transfer of financial assets, the financial and servicing assets it controls and the liabilities it has incurred, derecognize financial assets when control has been surrendered, and derecognize liabilities when extinguished. This statement is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The statement is effective for recognition and reclassification of collateral and for disclosures related to securitization transactions and collateral for fiscal years ending after December 15, 2000. We implemented the disclosure requirements in our 2000 Annual Report to comply with the new standard. The adoption of the accounting portion of the new standard did not have a material impact on our financial statements.

### Managed Loan Portfolio

We analyze our financial performance on a managed loan portfolio basis. To do so, we adjust the income statement and balance sheet to reverse the effects of securitization. Our discussion of revenues, where applicable, and provision for loan losses includes comparisons to amounts reported in our consolidated statements of income ("owned basis"), as well as on a managed basis.

Our managed loan portfolio is comprised of credit card loans, retained interests in loans securitized and the investors' share of securitized credit card loans. The investors' share of securitized credit card loans is not an asset of the Company. Therefore, we do not show it on our consolidated balance sheets. The following tables summarize our managed loan portfolio:

|  | June 30,<br>2001<br>---- | December 31,<br>2000<br>---- | June 30,<br>2000<br>---- |
|--|--------------------------|------------------------------|--------------------------|
| (Dollars in thousands)                             |                          |                              |                          |
| Period-end balances:                               |                          |                              |                          |
| Credit card loans:                                 |                          |                              |                          |
| Credit card loans .....                            | \$ 2,312,652             | \$ 1,179,203                 | \$ 543,836               |
| Retained interests in loans<br>securitized .....   | 1,069,090                | 2,023,681                    | 1,815,047                |
| Investors' interests in<br>securitized loans ..... | 6,762,272                | 6,070,224                    | 5,484,238                |
| Total managed loan portfolio .                     | \$10,144,014             | \$ 9,273,108                 | \$ 7,843,121             |

|  | Three Months Ended<br>June 30,<br>----- |              | Six Months End<br>June 30,<br>----- |
|--|---|--------------|-------------------------------------|
|  | 2001<br>----                            | 2000<br>---- | 2001<br>----                        |



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(Dollars in thousands)

Average balances

Credit card loans:

|  |             |             |             |
|--|-------------|-------------|-------------|
| Credit card loans .....                            | \$1,548,810 | \$ 453,780  | 1,424,470   |
| Retained interests in loans<br>securitized .....   | 1,928,464   | 1,851,563   | 1,986,275   |
| Investors' interests in<br>securitized loans ..... | 6,376,798   | 5,306,617   | 6,214,612   |
|  | -----       | -----       | -----       |
| Total managed loan portfolio..                     | \$9,854,072 | \$7,611,960 | \$9,625,357 |
|  | =====       | =====       | =====       |

Impact of Credit Card Securitizations

The following table provides a summary of the effects of credit card securitizations on selected line items of our statements of income for each of the periods presented, as well as selected financial information on both an owned and managed loan portfolio basis:

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2001                           | 2000       | 2001                         | 2000       |
|  | ----                           | ----       | ----                         | ----       |
| (Dollars in thousands)   |                                |            |                              |            |
| Statements of Income   |                                |            |                              |            |
| (owned basis):   |                                |            |                              |            |
| Net interest income .....  | \$ 127,894                     | \$ 86,977  | \$ 249,788                   | \$ 160,670 |
| Provision for loan losses ..   | 114,682                        | 98,215     | 202,411                      | 186,008    |
| Other operating income .....   | 277,449                        | 238,023    | 505,637                      | 479,495    |
| Other operating expense ....   | 188,930                        | 148,167    | 360,153                      | 288,290    |
|  | -----                          | -----      | -----                        | -----      |
| Income before income taxes<br>and cumulative effect of<br>accounting changes ..... | \$ 101,731                     | \$ 78,618  | \$ 192,861                   | \$ 165,867 |
|  | =====                          | =====      | =====                        | =====      |
| Adjustments for  |                                |            |                              |            |
| Securitizations:   |                                |            |                              |            |
| Net interest income .....  | \$ 227,487                     | \$ 168,974 | \$ 432,103                   | \$ 342,254 |
| Provision for loan losses ..   | 193,178                        | 114,387    | 373,241                      | 231,064    |
| Other operating income .....   | (34,309)                       | (54,587)   | (58,862)                     | (111,190)  |
| Other operating expense ....   | --                             | --         | --                           | --         |
|  | -----                          | -----      | -----                        | -----      |
| Income before income taxes<br>and cumulative effect of<br>accounting changes ..... | \$ --                          | \$ --      | \$ --                        | \$ --      |
|  | =====                          | =====      | =====                        | =====      |

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Statements of Income

(managed basis):

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Net interest income .....  | \$ 355,381 | \$ 255,951 | \$ 681,891 | \$ 502,924 |
| Provision for loan losses ..   | 307,860    | 212,602    | 575,652    | 417,072    |
| Other operating income .....   | 243,140    | 183,436    | 446,775    | 368,305    |
| Other operating expense .....  | 188,930    | 148,167    | 360,153    | 288,290    |
|  | -----      | -----      | -----      | -----      |
| Income before income taxes<br>and cumulative effect of<br>accounting changes ..... | \$ 101,731 | \$ 78,618  | \$ 192,861 | \$ 165,867 |
|  | =====      | =====      | =====      | =====      |

|  |                                |      |                   |  |
|--|--------------------------------|------|-------------------|--|
|  | Three Months Ended<br>June 30, |      | Six Month<br>June |  |
|  | -----                          |      | -----             |  |
|  | 2001                           | 2000 | 2001              |  |
|  | ----                           | ---- | ----              |  |

(Dollars in thousands)

Other Data:

Owned Basis:

|                                    |              |              |              |    |
|------------------------------------|--------------|--------------|--------------|----|
| Average interest-earning assets .. | \$ 3,765,165 | \$ 2,475,510 | \$ 3,776,734 | \$ |
| Return on average assets (1) ..... | 6.6%         | 7.5%         | 6.3%         |    |
| Return on average total equity (1) | 25.9%        | 26.9%        | 25.5%        |    |
| Net interest margin (2) .....      | 13.6%        | 14.1%        | 13.3%        |    |

Managed Basis:

|                                    |               |              |              |    |
|------------------------------------|---------------|--------------|--------------|----|
| Average interest-earning assets .. | \$ 10,141,963 | \$ 7,782,127 | \$ 9,991,346 | \$ |
| Return on average assets (1) ..... | 2.5%          | 2.5%         | 2.4%         |    |
| Return on average total equity (1) | 25.9%         | 26.9%        | 25.5%        |    |
| Net interest margin (2) .....      | 14.1%         | 13.2%        | 13.8%        |    |

(1) Amounts for the six-month period ended June 30, 2001 are shown before the impact of the adoption of SFAS 133.

(2) Net interest margin is equal to annualized net interest income divided by average interest-earning assets.

Net Interest Income

Net interest income consists primarily of interest earned on our credit card loans, less interest expense on borrowings to fund the loans. Managed net interest income for the three- and six-month periods ended June 30, 2001 was \$355.4 million and \$681.9 million compared to \$256.0 million and \$502.9 million for the same periods in 2000. The increase in net interest income is primarily due to \$2.4 billion and \$2.3 billion increases in managed interest-earning assets and increases in net interest margin to 14.1% and 13.8% from 13.2% and 13.2% in the same periods in 2000. The managed net interest margin increase is primarily due to lower cost of funds resulting from decreases in LIBOR. Financing costs as a percentage of borrowings for the second quarter and year-to-date periods of 2001 were 5.7% and 6.2% compared with 7.1% and 7.0% in the same periods of 2000.

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Analysis of Average Balances, Interest and Average Yields and Rates

The following tables provide an analysis of interest income and expense, net interest spread, net interest margin and average balance sheet data for the three- and six-month periods ended June 30, 2001 and 2000:

|   | 2001                        |                   | Three Months Ended June 30, |                             |
|---|-----------------------------|-------------------|-----------------------------|-----------------------------|
|   | Average<br>Balance<br>----- | Interest<br>----- | Yield/<br>Rate<br>----      | Average<br>Balance<br>----- |
| (Dollars in thousands)  |                             |                   |                             |                             |
| Owned Basis   |                             |                   |                             |                             |
| Assets:   |                             |                   |                             |                             |
| Interest-earning assets:  |                             |                   |                             |                             |
| Federal funds sold .....  | \$ 31,013                   | \$ 329            | 4.3%                        | \$ 110,300                  |
| Short-term investments .....  | 256,878                     | 3,176             | 5.0%                        | 59,867                      |
| Credit card loans and<br>retained interests in loans<br>securitized ..... | 3,477,274                   | 168,702           | 19.5%                       | 2,305,343                   |
| Total interest-earning assets   | \$ 3,765,165                | \$ 172,207        | 18.3%                       | \$ 2,475,510                |
| Other assets .....  | 831,526                     | --                | --                          | 770,797                     |
| Allowances for loan losses ..   | (808,087)                   | --                | --                          | (661,743)                   |
| Total assets .....  | \$ 3,788,604                | --                | --                          | \$ 2,584,564                |
| Liabilities and Equity:   |                             |                   |                             |                             |
| Interest-bearing liabilities:   |                             |                   |                             |                             |
| Deposits .....  | \$ 2,061,761                | \$ 32,936         | 6.4%                        | \$ 1,104,424                |
| Debt .....  | 360,910                     | 11,377            | 12.6%                       | 350,899                     |
| Total interest-bearing<br>liabilities .....                               | \$ 2,422,671                | \$ 44,313         | 7.3%                        | \$ 1,455,323                |
| Other liabilities .....   | 394,004                     | --                | --                          | 408,204                     |
| Total liabilities .....   | 2,816,675                   | --                | --                          | 1,863,527                   |
| Stockholders' equity .....  | 971,929                     | --                | --                          | 721,037                     |
| Total liabilities and equity  | \$ 3,788,604                | --                | --                          | \$ 2,584,564                |
| Net interest income and<br>interest margin (1) .....                      |                             |                   |                             |                             |
| Net interest rate spread (2)  | --                          | \$ 127,894        | 13.6%                       | --                          |
|   | --                          | --                | 11.0%                       | --                          |
| Managed Basis   |                             |                   |                             |                             |
| Credit card loans .....   | \$ 9,854,072                | \$ 478,034        | 19.5%                       | \$ 7,611,960                |
| Total interest-earning assets   | 10,141,963                  | 481,540           | 19.0%                       | 7,782,127                   |

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|   |           |            |       |           |
|---|-----------|------------|-------|-----------|
| Total interest-bearing liabilities .....          | 8,799,469 | 126,159    | 5.7%  | 6,761,940 |
| Net interest income and interest margin (1) ..... | --        | \$ 355,381 | 14.1% | --        |
| Net interest rate spread (2)                      | --        | --         | 13.3% | --        |

(1) We compute net interest margin by dividing annualized net interest income by average total interest-earning assets.

(2) The net interest rate spread is the annualized yield on average interest-earning assets minus the annualized funding rate on average interest-bearing liabilities.

|   | 2001            |            | Six Months Ended June 30, |                 |
|---|-----------------|------------|---------------------------|-----------------|
|   | Average Balance | Interest   | Yield/Rate                | Average Balance |
|   | -----           | -----      | ----                      | -----           |
| (Dollars in thousands)  |                 |            |                           |                 |
| Owned Basis   |                 |            |                           |                 |
| Assets:   |                 |            |                           |                 |
| Interest-earning assets:  |                 |            |                           |                 |
| Federal funds sold .....  | \$ 97,425       | \$ 2,640   | 5.5%                      | \$ 103,492      |
| Short-term investments .....  | 268,564         | 7,072      | 5.3%                      | 70,501          |
| Credit card loans and retained interests in loans securitized ..... | 3,410,745       | 332,224    | 19.6%                     | 2,132,270       |
|   | -----           | -----      | ----                      | -----           |
| Total interest-earning assets                                       | \$ 3,776,734    | \$ 341,936 | 18.3%                     | \$ 2,306,263    |
| Other assets .....  | 818,830         | --         | --                        | 752,518         |
| Allowances for loan losses ..                                       | (794,649)       | --         | --                        | (655,698)       |
|   | -----           |            |                           | -----           |
| Total assets .....  | \$ 3,800,915    | --         | --                        | \$ 2,403,083    |
|   | =====           |            |                           | =====           |
| Liabilities and Equity:   |                 |            |                           |                 |
| Interest-bearing liabilities:                                       |                 |            |                           |                 |
| Deposits .....  | \$ 2,095,898    | \$ 69,559  | 6.7%                      | \$ 993,286      |
| Debt .....  | 360,954         | 22,589     | 12.6%                     | 351,899         |
|   | -----           | -----      | ----                      | -----           |
| Total interest-bearing liabilities .....                            | \$ 2,456,852    | \$ 92,148  | 7.6%                      | \$ 1,345,185    |
| Other liabilities .....   | 403,547         | --         | --                        | 370,241         |
|   | -----           |            |                           | -----           |
| Total liabilities .....   | 2,860,399       | --         | --                        | 1,715,426       |
| Stockholders' equity .....  | 940,516         | --         | --                        | 687,657         |
|   | -----           |            |                           | -----           |
| Total liabilities and equity  | \$ 3,800,915    | --         | --                        | \$ 2,403,083    |
|   | =====           |            |                           | =====           |
| Net interest income and interest margin (1) .....                   | --              | \$ 249,788 | 13.3%                     | --              |
| Net interest rate spread (2)  | --              | --         | 10.7%                     | --              |

Managed Basis

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|   |              |            |       |              |
|---|--------------|------------|-------|--------------|
| Credit card loans .....                           | \$ 9,625,357 | \$ 938,647 | 19.7% | \$ 7,482,178 |
| Total interest-earning assets                     | 9,991,346    | 948,360    | 19.1% | 7,656,171    |
| Total interest-bearing liabilities .....          | 8,671,464    | 266,469    | 6.2%  | 6,695,094    |
| Net interest income and interest margin (1) ..... | --           | \$ 681,891 | 13.8% | --           |
| Net interest rate spread (2)                      | --           | --         | 12.9% | --           |

(1) We compute net interest margin by dividing annualized net interest income by average total interest-earning assets.

(2) The net interest rate spread is the annualized yield on average interest-earning assets minus the annualized funding rate on average interest-bearing liabilities.

### Other Operating Income

Other operating income contributes substantially to our results of operations, representing 68% and 67% of owned revenues for the three- and six-month periods ended June 30, 2001, respectively.

Other operating income increased \$39.4 million and \$26.1 million for the three- and six-month periods ended June 30, 2001 over the comparable periods in 2000. These increases are primarily due to the \$21.3 million and \$33.3 million increases in income generated from credit card fees, interchange and other credit card income, due to the growth in total accounts and loans in the managed credit card portfolio for the three- and six-month periods ended June 31, 2001 over the comparable periods in 2000. For the three- and six-month periods ended June 30, 2001, net securitization and credit card income decreased \$0.1 million and \$44.8 million, respectively, from the comparable periods in 2000. These decreases are primarily the result of the increased provision for securitized loans. For the six-month period ended June 30, 2000, other operating income included the \$12.1 million favorable impact related to the operational policy change in the billing of overlimit fees. This impact is reflected in net securitization and credit card servicing income and credit card fees, interchange and other credit card income in the consolidated statements of income.

Enhancement services revenues increased by \$18.9 million and \$37.6 million for the three- and six-month periods ended June 30, 2001. These increases reflect the strong sales of our debt waiver product and the increase in membership program revenues resulting from additional product offers to third-party cardholders. At June 30, 2001 combined active enhancement members totaled approximately 5.9 million.

### Other Operating Expense

Total other operating expenses for the three- and six-month periods ended June 30, 2001 increased \$40.8 million and \$71.9 million over the comparable periods in 2000, largely due to costs associated with the growth of our business activities. Employee compensation increased \$13.3 million and \$24.3 million for the three- and six-month periods ended June 30, 2001, due to increased staffing needs to support the increase in credit card accounts and enhancement services active member growth. Other expenses increased \$7.5 million and \$13.9 million for the three- and six-month periods ended June 30, 2001, due to increased fees associated with higher credit card volume. Also, credit card account and other product solicitation and marketing expenses increased \$15.2 million and \$23.8

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million over the comparable periods in 2000, largely due to increased enhancement services marketing activity and costs associated with our credit card marketing activity, which resulted in over 510,000 new credit card accounts and 1.7 million new enhancement relationships during the first six months of 2001.

### Income Taxes

Our provision for income taxes, which includes both federal and state income taxes, represents an effective tax rate of 38.4% for the six-month period ended June 30, 2001, compared to 38.7% for the same period in 2000.

### Asset Quality

Our delinquency and net loan charge-off rates at any point in time reflect, among other factors, the credit risk of loans, the average age of our various credit card account portfolios, the success of our collection and recovery efforts, and general economic conditions. The average age of our credit card portfolio affects the stability of delinquency and loss rates. In order to minimize losses, we continue to focus our resources on refining our credit underwriting standards for new accounts, and on collections and post charge-off recovery efforts. At June 30, 2001, 49% of managed accounts and 31% of managed loans were less than 24 months old.

For the quarter ended June 30, 2001, our managed net charge-off ratio was 10.9% compared to 9.5% for the quarter ended June 30, 2000. For the six months ended June 30, 2001, the net charge-off rate stood at 10.8% compared to 9.6% for the six months ended June 30, 2000. Without the impact of purchase accounting related to acquired portfolios, the charge-off rate was 10.9% and 10.8% for the three- and six-month periods ended June 30, 2001 compared to 9.7% and 10.0% for the same periods of 2000. Our charge-offs without the impact of purchase accounting have been stable, with losses between 9.5% and 11.0% for the last 10 quarters. We believe, consistent with our statistical models and other credit analysis, that this rate will continue to fluctuate between this range over the next few quarters.

We use credit line analyses, account management and customer transaction authorization procedures to minimize loan losses. Our risk models determine initial credit lines at the time of solicitation and generally result in lower credit lines than the industry average. We manage credit lines on an ongoing basis and adjust them based on customer usage and payment patterns. To maximize profitability, we continually monitor customer accounts and initiate appropriate collection activities when an account is delinquent or overlimit.

### Delinquencies

Delinquencies not only have the potential to affect earnings in the form of net loan losses, but are also costly in terms of the personnel and other resources dedicated to their resolution. We monitor delinquency levels on a managed basis, since delinquency on either an owned or managed basis subjects us to credit loss exposure. A credit card account is contractually delinquent if we do not receive the minimum payment by the specified date on the cardholder's statement. It is our policy to continue to accrue interest and fee income on all credit card accounts, except in limited circumstances, until we charge off the account and all related loans, interest and other fees. The following table presents the delinquency trends of our credit card loan portfolio on a managed portfolio basis:

### Managed Loan Delinquency

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|                                 | June 30,<br>2001<br>---- | % of<br>Total<br>----- | December 31,<br>2000<br>---- | % of<br>Total<br>----- | June 30,<br>2000<br>---- | %<br>To<br>--- |
|---------------------------------|--------------------------|------------------------|------------------------------|------------------------|--------------------------|----------------|
| (Dollars in thousands)          |                          |                        |                              |                        |                          |                |
| Managed loan portfolio          | \$10,144,014             | 100%                   | \$ 9,273,108                 | 100%                   | \$ 7,843,121             | 1              |
| Loans contractually delinquent: |                          |                        |                              |                        |                          |                |
| 30 to 59 days ...               | 253,328                  | 2.5%                   | 228,238                      | 2.5%                   | 189,322                  | 2              |
| 60 to 89 days ...               | 190,381                  | 1.9%                   | 173,531                      | 1.9%                   | 137,513                  | 1              |
| 90 or more days .               | 401,162                  | 3.9%                   | 365,963                      | 3.9%                   | 274,968                  | 3              |
| Total .....                     | \$ 844,871               | 8.3%                   | \$ 767,732                   | 8.3%                   | \$ 601,803               | 7              |
|                                 | =====                    | =====                  | =====                        | =====                  | =====                    | =====          |

The increase in the managed delinquency rates over June 30, 2000 reflects a slight deterioration in the economy, increased delinquencies in our secured card portfolio and the adoption of recent FFIEC guidelines on re-aging accounts effective January 1, 2001, which required us to report an additional \$39.3 million of receivables as delinquent as of June 30, 2001. We intend to continue to focus our resources on our collection efforts to minimize the negative impact to net loan losses that results from increased delinquency levels.

Net Charge-Offs

Net charge-offs are the principal amount of losses from cardholders unwilling or unable to pay their loan balances, as well as bankrupt and deceased cardholders, less current period recoveries. Net charge-offs exclude accrued finance charges and fees, which are charged against the related income at the time of charge-off. The following table presents our net charge-offs for the periods indicated as reported in the consolidated financial statements and on a managed portfolio basis:

|   | Three Months Ended<br>June 30,<br>----- |              | Six Months Ended<br>June 30,<br>----- |              |
|---|---|--------------|---------------------------------------|--------------|
|   | 2001<br>----                            | 2000<br>---- | 2001<br>----                          | 2000<br>---- |
| (Dollars in thousands)  |   |              |                                       |              |
| Owned basis:  |   |              |                                       |              |
| Average loans and retained interests in loans securitized outstanding ..... | \$3,477,274                             | \$2,305,343  | \$3,410,745                           | \$2,132,2    |
| Net charge-offs .....   | 92,494                                  | 55,723       | 173,931                               | 103,2        |
| Net charge-offs as a percentage of average loans outstanding (1)            | 10.7%                                   | 9.7%         | 10.3%                                 | 9            |
|   | =====                                   | =====        | =====                                 | =====        |
| Managed basis:  |   |              |                                       |              |
| Average loans outstanding .....   | \$9,854,072                             | \$7,611,960  | \$9,625,357                           | \$7,482,1    |
| Net charge-offs .....   | 268,517                                 | 180,570      | 513,486                               | 358,9        |

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|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Net charge-offs as a percentage of average loans outstanding(1) ... | 10.9% | 9.5%  | 10.8% | 9     |
|   | ===== | ===== | ===== | ===== |

(1) Annualized

Provision and Allowance for Loan Losses

We maintain an allowance for loan losses for both owned loans and the retained interest in loans securitized. The portion allocated to the retained interest in loans securitized represents our estimate of a valuation adjustment to report this asset in accordance with SFAS 140. For securitized loans, anticipated losses and related provisions for loan losses are reflected in the calculation of net securitization and credit card servicing income. We make provisions for loan losses in amounts necessary to maintain the allowance at a level estimated to be sufficient to absorb probable future loan losses, net of recoveries, inherent in the existing loan portfolio.

The provision for loan losses on a managed basis for the three- and six-month periods ended June 30, 2001 totaled \$307.9 million and \$575.7 million compared to provisions of \$212.6 million and \$417.1 million for the three- and six-month periods ended June 30, 2000. The increase for the three- and six-month periods ended June 30, 2001, as compared to the three- and six-month periods ended June 30, 2000, is reflective of the increase in loans and an increase in charge-offs. The allowance for loan losses on a managed basis was 8.1% at June 30, 2001 compared to 8.6% at June 30, 2000.

Derivatives Activities

We use derivative financial instruments for the purpose of managing our exposure to interest rate risks. We have a number of procedures in place to monitor and control both market and credit risk from these derivatives activities. Our senior management approves all derivative strategies and transactions.

Liquidity, Funding and Capital Resources

One of our primary financial goals is to maintain an adequate level of liquidity through active management of assets and liabilities. Because the pricing and maturing characteristics of our assets and liabilities change, liquidity management is a dynamic process, affected by changes in short- and long-term interest rates. We use a variety of financing sources to manage liquidity, refunding and interest rate risks.

| June 30,<br>2001<br>---- | Weighted-<br>Average<br>Interest Rate<br>----- | December 31,<br>2000<br>---- |
|--------------------------|--|------------------------------|
|--------------------------|--|------------------------------|

Total period-end



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|                                   |                |       |               |
|-----------------------------------|----------------|-------|---------------|
| funding .....                     | \$10.3 billion | 5.3%  | \$9.4 billion |
| Bank loans .....                  | 1.0%           | 7.2%  | 1.0%          |
| Bank conduit<br>securitizations.. | --             | --    | 2.3%          |
| Long-term debt .....              | 2.5%           | 10.8% | 2.7%          |
| Equity .....                      | 9.8%           | --    | 9.4%          |
| Deposits .....                    | 21.1%          | 6.2%  | 22.4%         |
| Metris Master Trust ...           | 65.6%          | 4.8%  | 62.2%         |
|                                   | -----          |       | -----         |
|                                   | 100.0%         |       | 100.0%        |
|                                   | =====          |       | =====         |

We finance the growth of our credit card loan portfolio through cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances.

During the three- and six-month periods ended June 30, 2001, we received net proceeds of \$591.9 million and \$692.0 million, respectively, from sales of credit card loans to the trust and conduits. We used cash generated from these transactions to fund credit card loan portfolio growth. During the three-month period ended June 30, 2000 we received net proceeds of \$248.0 million and distributed net proceeds of \$34.1 million during the six-month period ended June 30, 2000, to the trust and conduits. We financed these receivables on our balance sheet with the growth in our subsidiary bank deposit program.

Direct Merchants Bank issues certificates of deposit of \$100,000 or more. As of June 30, 2001 and December 31, 2000, \$2.1 billion of CDs were outstanding, with original maturities ranging from six months to five years and three months to five years, respectively. These CDs pay fixed interest rates ranging from 4.2% to 7.6% and 5.4% to 7.6%, respectively.

We have a \$170 million, three-year revolving credit facility and a \$100 million five-year term loan. At June 30, 2001 and December 31, 2000 we were in compliance with all financial covenants under these agreements. At June 30, 2001, and December 31, 2000, we had outstanding borrowings of \$100 million under the term loan facility and no outstanding borrowings under the revolving credit facility. We have also issued and sold \$150 million of 10.125% Senior Notes due 2006 and \$100 million of 10% Senior Notes due 2004.

As the portfolio of credit card loans grows our funding needs will increase accordingly. We believe that our cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances will provide us with adequate liquidity for meeting anticipated cash needs, although no assurance can be given to that effect.

### Newly Issued Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which establishes accounting and reporting standards for goodwill and other intangible assets. It requires enterprises to test these assets for impairment upon adoption of SFAS No. 142 as well as on an annual basis, and reduce the carrying amount of these assets if they are found to be impaired. Goodwill and other intangible assets with an indefinite useful life will no longer be amortized. Other intangible assets with an estimable useful life will continue to be amortized to their residual value over their useful lives. This statement is effective for goodwill and intangible assets included

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on the balance sheet for all fiscal years beginning after December 15, 2001. The adoption of the new standard will not have a material impact on our financial statements.

### Forward-Looking Statements

This quarterly report contains some forward-looking statements. Forward-looking statements give our current expectations of future events. You will recognize these statements because they do not strictly relate to historical or current facts. Such statements may use words such as "anticipate," "estimate," "expect," "project," "intend," "think," "believe" and other words or terms of similar meaning in connection with any discussion of future performance of the Company. For example, these include statements relating to future actions, future performance of current or anticipated products, solicitation efforts, expenses, the outcome of contingencies such as litigation, and the impact of the capital markets on liquidity. From time to time, we also may provide oral or written forward-looking statements in other material released to the public.

Any or all of our forward-looking statements in this report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many factors, which can not be predicted with certainty, will be important in determining future results. Among such factors are the lack of seasoning of our credit card accounts which renders predictability of delinquencies more difficult, higher default and bankruptcy rates of our target market of moderate-income consumers, interest rate risks, risks associated with acquired portfolios, dependence on the securitization markets and other funding sources, state and federal laws and regulations that limit our business activities, product offerings and fees, privacy laws that could result in lower marketing revenue and penalties for non-compliance, and general economic conditions that can have a major impact on the performance of loans. Each of these factors and others are more fully discussed under the caption "Business--Risk Factors" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. As a result of these factors, we cannot guarantee any forward-looking statements. Actual future results may vary materially. Also, please note that the factors we provide are those we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here or in our 10-K for the year ended December 31, 2000 could also adversely affect us.

We undertake no obligations to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we make on related subjects in our periodic filings with the Securities and Exchange Commission. This discussion is provided to you as permitted by the Private Securities Litigation Reform Act of 1995.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. Our principal market risk is due to changes in interest rates. This affects us directly in our lending and borrowing activities, as well as indirectly, as interest rates may impact the payment performance of our cardholders.

To manage our direct risk to market interest rates, management actively monitors the interest rates and the interest sensitive components of our owned and managed balance sheet to minimize the impact changes in interest rates have

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on the fair value of assets, net income and cash flow. We seek to minimize the impact of changes in interest rates on us primarily by matching asset and liability repricings.

Our primary managed assets are credit card loans, which are virtually all priced at rates indexed to the variable Prime Rate. We fund credit card loans through a combination of cash flows from operations, asset securitizations, bank loans, subsidiary bank deposits, long-term debt and equity issuances. Our securitized loans are owned by a trust and bank-sponsored single-seller and multi-seller receivable conduits, which have committed funding primarily indexed to variable commercial paper rates and the London Interbank Offered Rate ("LIBOR"). The \$270 million bank credit facility has pricing that is also indexed to LIBOR or Prime Rate. The subsidiary bank deposits are issued at fixed interest rates. We have entered into interest rate swap agreements which effectively converted \$420 million of deposits to rates indexed to LIBOR. The long-term debt is at fixed interest rates. At June 30, 2001 approximately 10.7% of the trust and conduit funding of securitized receivables was funded with fixed rate securities.

In an interest rate environment with rates at or below current rates, 89.3% of the securitization funding for the managed loan portfolio is indexed to floating commercial paper and LIBOR rates. In an interest rate environment with rates significantly above current rates, the potentially negative impact on earnings of higher interest expense is mitigated by fixed rate funding and interest rate cap contracts.

The approach used by management to quantify interest rate risk is a sensitivity analysis, which management believes best reflects the risk inherent in our business. This approach calculates the impact on net income from an instantaneous and sustained change in interest rates by 200 basis points. Assuming no counteractive measures by management, a 200 basis point increase in interest rates affecting our floating rate financial instruments, including both debt obligations and loans, will result in an increase in net income of approximately \$17.2 million relative to a base case over the next 12 months; while a decrease of 200 basis points will result in a reduction in net income of approximately \$5.4 million. Our use of this methodology to quantify the market risk of financial instruments should not be construed as an endorsement of its accuracy or the accuracy of the related assumptions. In addition, this methodology does not take into account the indirect impact interest rates may have on the payment performance of our cardholders. The quantitative information about market risk is necessarily limited because it does not take into account operating transactions or other costs associated with managing immediate changes in interest rates.

### Part II. Other Information

#### Item 1. Legal Proceedings

We are a party to various legal proceedings resulting from the ordinary business activities relating to our operations. In July 2000 an Amended Complaint was filed in Hennepin County Court in Minneapolis, Minnesota against Metris Companies Inc. and our subsidiaries Metris Direct, Inc. and Direct Merchants Bank. The complaint seeks damages in unascertained amounts and purports to be a class action complaint on behalf of all cardholders who were issued a credit card by Direct Merchants Bank and were allegedly assessed fees or charges that the cardholder did not authorize. Specifically, the complaint alleges violations of the Minnesota

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Prevention of Consumer Fraud Act, the Minnesota Deceptive Trade Practices Act and breach of contract. We filed our answer to the complaint in August 2000. To date, the complaint has not been certified as a class action claim. We believe we have numerous substantive legal defenses to these claims and are continuing to vigorously defend the case. There can be no assurance that defense or resolution of these matters will not have a material adverse effect on our financial position.

On May 3, 2001, Direct Merchants Bank entered into a consent order with the Office of the Comptroller of the Currency ("OCC"). The consent order requires Direct Merchants Bank to pay approximately \$3.2 million in restitution to about 62,000 credit card customers who applied for and received a credit card in connection with a series of limited test marketing campaigns from March 1999 to June 1, 2000. Under the terms of the consent order, Direct Merchants Bank made no admission or agreement on the merits of the OCC's assertions. The restitution as required by the OCC consent order is reflected in our June 30, 2001 financial statements. We believe that Direct Merchants Bank's agreement with the OCC will not have a material adverse effect on the financial position of Metris Companies Inc. or Direct Merchants Bank.

The OCC also indicated that it is considering whether or not to pursue an assessment of civil money penalties and gave Direct Merchants Bank the opportunity to provide information to the OCC bearing on whether imposing a penalty would be appropriate and the severity of any penalty. The statutory provisions pursuant to which a civil money penalty could be assessed give the OCC broad discretion in determining whether or not a penalty will be assessed and, if so, the amount of the penalty. Because we are unable at this time to determine whether or not any civil money penalty will be assessed, there can be no assurance that the resolution of this matter will not have a material adverse effect on our financial position.

- Item 2. Changes in Securities  
Not applicable
- Item 3. Defaults Upon Senior Securities  
Not applicable
- Item 4. Submission of Matters to a Vote of Security Holders  
(a) The Company held its annual meeting of stockholders on May 9, 2001 and the following matters were voted on at that meeting.

(b) The directors listed below were elected at that meeting.

(1) The holders of our Common Stock elected three directors for a three-year term:

Walter Hoff  
Frank D. Trestman  
Ronald N. Zebeck

(2) The holders of our Series C Preferred Stock elected four directors for a one-year term:

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C. Hunter Boll  
 Thomas M. Hagerty  
 David V. Harkins  
 Thomas H. Lee

(3) The following directors, previously elected by the holders of our Common Stock, continued their term of office after the meeting:

Lee R. Anderson, Sr.  
 John A. Cleary  
 Derek V. Smith  
 Edward B. Speno

(c) Matters Voted Upon

(1) The election of the following directors who will serve until their successors are elected and qualified, or their earlier death or resignation:

| Director          | For        | Against | Withheld  | Abstentions | Broker Non-Vote |
|-------------------|------------|---------|-----------|-------------|-----------------|
| Walter Hoff       | 55,882,884 | None    | 1,256,856 | None        | None            |
| Frank D. Trestman | 55,878,869 | None    | 1,260,871 | None        | None            |
| Ronald Zebeck     | 47,571,238 | None    | 9,568,502 | None        | None            |
| C. Hunter Boll    | 33,693,403 | None    | None      | None        | None            |
| Thomas M. Hagerty | 33,693,403 | None    | None      | None        | None            |
| David V. Harkins  | 33,693,403 | None    | None      | None        | None            |
| Thomas H. Lee     | 33,693,403 | None    | None      | None        | None            |

(2) The approval of an increase in the number of shares reserved for issuance pursuant to the Metris Companies Inc. Amended and Restated Long-Term Incentive and Stock Option Plan from 15,000,000 to 17,000,000 shares.

| For        | Against    | Withheld | Abstentions | Broker Non-Vote |
|------------|------------|----------|-------------|-----------------|
| 76,120,065 | 14,589,353 | None     | 123,725     | None            |

(3) Ratification of the selection of KPMG LLP as independent auditors of the Company for 2001.

| For        | Against   | Withheld | Abstentions | Broker Non-Vote |
|------------|-----------|----------|-------------|-----------------|
| 88,911,019 | 1,898,048 | None     | 24,076      | None            |

Item 5. Other Information  
 Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Transfer and Administration Agreement, dated June 15, 2001, among Direct Merchants Credit Card Bank, National Association, as Transferor, Variable Funding Capital

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Corporation, as a Conduit Investor, First Union National Bank, as a Committed Investor and as Liquidity Agent, and First Union Securities, Inc., as Deal Agent.

10.2 Amendment No. 1, dated as of April 26, 2001, to the Amended and Restated Pooling and Servicing Agreement dated as of July 30, 1998, among Metris Receivables, Inc., as Transferor, Direct Merchants Credit Card Bank, National Association, as Servicer, and U.S. Bank National Association, as Trustee (incorporated by reference to exhibit 4.2 to Metris Receivables, Inc.'s Registration Statement on Form S-3 (File No. 333-60530)).

10.3 Amendment No. 2, dated as of May 31, 2001, to the Amended and Restated Pooling and Servicing Agreement dated as of July 30, 1998, among Metris Receivables, Inc., as Transferor, Direct Merchants Credit Card Bank, National Association, as Servicer, and U.S. Bank National Association, as Trustee (incorporated by reference to exhibit 4.3 to Metris Receivables, Inc.'s Registration Statement on Form S-3 (File No. 333-60530)).

11 Computation of Earnings Per Share.

(b) Reports on Form 8-K: On May 4, 2001 the Company filed a Current Report on Form 8-K to report an agreement reached with the Office of the Comptroller of the Currency by Direct Merchants Bank, National Association, a subsidiary of Metris Companies Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METRIS COMPANIES INC.  
(Registrant)

Date: August 13, 2001 By: /s/ David D. Wesselink  
-----  
David D. Wesselink  
Vice Chairman  
Principal Financial Officer

Date: August 13, 2001 By: /s/ Jeffrey D. Grosklags  
-----  
Jeffrey D. Grosklags  
Senior Vice President, Assistant Secretary  
Principal Accounting Officer

