GREATER BAY BANCORP
Form 10-Q
May 07, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)

For the transition period from ___________ to _____________.

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Commission file number 0-25034

GREATER BAY BANCORP
(Exact name of registrant as specified in its charter)

California	77-0387041
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

2860 West Bayshore Road, Palo Alto, California 94303
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (650) 813-8200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

Outstanding shares of Common Stock, no par value, as of May 1, 2001: 42,541,283

GREATER BAY BANCORP

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GREATER BAY BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	March 31, 2001 (unaudited)
ASSETS	
Cash and due from banks	$ 206,156
Federal funds sold	85,000
Other short term securities	57
Cash and cash equivalents	291,213
Investment securities:	
Available for sale, at fair value	1,176,640
Held to maturity, at amortized cost (fair value 2000: $364,787)	-
Other securities	40,273
Investment securities	1,216,913
Total loans:	
Commercial	1,595,293
Term real estate - commercial	992,777

Total commercial	2,588,070
Real estate construction and land	701,414
Real estate other	233,538
Consumer and other	216,064
Deferred loan fees and discounts	(13,461)
Total loans, net of deferred fees	3,725,625
Allowance for loan losses	(85,914)
Total loans, net	3,639,711
Property, premises and equipment, net	37,084
Interest receivable and other assets	221,325
Total assets	$ 5,406,246
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Demand, noninterest-bearing	$ 897,229
MMDA, NOW and savings	2,108,098
Time certificates, $100,000 and over	777,901
Other time certificates	490,402
Total deposits	4,273,630
Other borrowings	572,828
Other liabilities	105,922
Total liabilities	4,952,380
Company obligated mandatorily redeemable cumulative trust preferred securities of subsidiary trusts holding solely junior subordinated debentures	99,500
Commitments and contingencies	
SHAREHOLDERS' EQUITY	
Preferred stock, no par value: 4,000,000 shares authorized; none issued	-
Common stock, no par value: 80,000,000 shares authorized; 42,546,142 and 41,929,173 shares issued and outstanding as of March 31, 2001 and December 31, 2000, respectively	179,835
Accumulated other comprehensive income (loss)	1,596
Retained earnings	172,935
Total shareholders' equity	354,366
Total liabilities and shareholders' equity	$ 5,406,246

See notes to consolidated financial statements.

GREATER BAY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(Dollars in thousands, except per share amounts)	Three months ended 2001
INTEREST INCOME	
Interest on loans	$ 88,944
Interest on investment securities:	
Taxable	14,502
Tax - exempt	2,130
Total interest on investment securities	16,632
Other interest income	1,118
Total interest income	106,694
INTEREST EXPENSE	
Interest on deposits	34,478
Interest on long term borrowings	2,143
Interest on other borrowings	3,827
Total interest expense	40,448
Net interest income	66,246
Provision for loan losses	6,928
Net interest income after provision for loan losses	59,318
OTHER INCOME	
Loan and international banking fees	3,101
Service charges and other fees	2,013
Gain on sale of investments, net	1,578
Trust fees	886
Gain on sale of SBA loans	835
ATM network revenue	662
Other income	1,656
Total recurring	10,731
Warrant income, net	-
Total	10,731
OPERATING EXPENSES	
Compensation and benefits	18,405
Occupancy and equipment	5,863
Dividends paid on Trust Preferred Securities	2,458
Legal and other professional fees	1,387
Telephone, postage and supplies	1,323
Marketing and promotion	1,235
Client services	644
FDIC insurance and regulatory assessments	273
Directors fees	267
Other real estate owned	-
Other	3,735

Total, recurring	35,590
Merger and other related nonrecurring costs	-
Total operating expenses	35,590
Income before provision for income taxes	34,459
Provision for income taxes	12,928
Net income	$ 21,531
Net income per share - basic**	$0.51
Net income per share - diluted**	$0.49

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*Restated on a historical basis to reflect the mergers described in note 1 on a pooling of interests basis.

**Restated to reflect 2 - for - 1 stock split effective on October 4, 2000.

See notes to consolidated financial statements.

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GREATER BAY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three
(Dollars in thousands)	2001
Net income	$ 21,53
Other comprehensive income (loss):	
Unrealized gains on securities:	
Unrealized holding gains (losses) arising during period (net of taxes of $11,723 and $(1,229) for the three months ended March 31, 2001 and 2000, respectively)	16,76
Reclassification adjustment for gains (losses) included in net income	91
Net change	15,85
Cash flow hedge:	
Net derivative gains (losses) arising during period (net of taxes of $(684) and $177 for the three months ended March 31, 2001 and 2000, respectively)	(97
Reclassification adjustment for income included in net income (net of taxes of $18 and $1 for the three months ended March 31, 2001 and 2000, respectively)	2

Net change	(1,00
Other comprehensive income (loss)	14,84
Comprehensive income	$ 36,37

* Restated on a historical basis to reflect the mergers described in note 1 on a pooling of interests basis.

See notes to consolidated financial statements.

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GREATER BAY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ende
(Dollars in thousands)	2001
Cash flows - operating activities	
Net income	$ 21,531
Reconcilement of net income to net cash from operations:	
Provision for loan losses	6,928
Depreciation and amortization	2,319
Deferred income taxes	(782)
(Gain) loss on sale of investments, net	1,579
Changes in:	
Accrued interest receivable and other assets	1,440
Accrued interest payable and other liabilities	(8,006)
Deferred loan fees and discounts, net	(196)
Operating cash flows, net	24,813
Cash flows - investing activities	
Maturities and partial paydowns on investment securities:	
Held to maturity	-
Available for sale	115,833
Purchase of investment securities:	
Held to maturity	-
Available for sale	(418,293)
Other securities	(10,622)
Proceeds from sale of available for sale securities	65,766
Loans, net	(114,943)
Loans acquired from business acquisition	(14,351)
Payment for business acquisition, net of cash acquired	(7,983)
Purchase of property, premises and equipment	(5,291)
Purchase of insurance policies	(3,661)
Investing cash flows, net	(393,545)
Cash flows - financing activities	
Net change in deposits	108,569
Net change in other borrowings - short term	79,901

Proceeds from other borrowings - long term	83,200
Principal repayment - long term borrowings	(21,501)
Proceeds from company obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures	-
Proceeds from sale of common stock	5,183
Cash dividends	(4,237)
Financing cash flows, net	251,115
Net change in cash and cash equivalents	(117,617)
Cash and cash equivalents at beginning of period	408,830
Cash and cash equivalents at end of period	$ 291,213
Cash flows - supplemental disclosures	
Cash paid during the period for:	
Interest	$ 37,029
Income taxes	$ 15,234
Non-cash transactions:	
Additions to other real estate owned	$ 259

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* Restated on a historical basis to reflect the mergers described in note 1 on a pooling of interests basis.

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of March 31, 2001 and December 31, 2000 and for the
Three Months Ended March 31, 2001 and 2000

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Balance Sheet as of March 31, 2001, and the Consolidated Statements of Operations, Comprehensive Income and Cash Flows for the three months ended March 31, 2001 have been prepared by Greater Bay Bancorp ("Greater Bay" on a parent-only basis, and "we" or "our" on a consolidated basis) and are not audited. The results of operations for the quarter ended March 31, 2001 are not necessarily indicative of the results expected for any subsequent quarter or for the entire year ended December 31, 2001.

We have completed six mergers since December 31, 1999. The mergers with Mt. Diablo Bancshares, Coast Bancorp, Bank of Santa Clara and Bank of Petaluma were accounted for as a pooling-of-interests and, accordingly, all of our financial information for the periods prior to the mergers has been restated as if the mergers had occurred at the beginning of the earliest period presented. The mergers with The Matsco Companies, Inc. and CAPCO Financial Company, Inc. ("CAPCO") were accounted for using the purchase accounting method and accordingly The Matsco Companies, Inc.'s and CAPCO's results of operations have been included in the consolidated financial statements since the date of merger.

Consolidation and Basis of Presentation

The unaudited financial information presented was prepared on the same

basis as the audited financial statements for the year ended December 31, 2000. The consolidated financial statements include the accounts of Greater Bay Bancorp and our wholly owned subsidiaries, Bank of Petaluma, Bank of Santa Clara, Bay Area Bank, Bay Bank of Commerce, Coast Commercial Bank, Cupertino National Bank, Golden Gate Bank, Mid-Peninsula Bank, Mt. Diablo National Bank, Peninsula Bank of Commerce, GBB Capital I, GBB Capital II, GBB Capital III, GBB Capital IV, Matsco Lease Finance, Inc. II, and Matsco Lease Finance, Inc. III and our operating divisions. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior periods consolidated financial statements to conform to the current presentation. In the opinion of management such unaudited financial statements reflect all adjustments necessary for fair statement of the results of operations and balances for the interim period presented. Our accounting and reporting policies conform to generally accepted accounting principles and the prevailing practices within the banking industry.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" requires us to classify items of other comprehensive income by their nature in the financial statements and display the accumulated other comprehensive income separately from retained earnings in the equity section of the balance sheet. The changes to the balances of accumulated other comprehensive income are as follows:

(Dollars in thousands)	Unrealized gains (losses) on securities	Cash flow hedges
Balance - December 31, 2000	$ (6,700)	$ 148
Current period change	9,151	(1,003)
Balance - March 31, 2001	$ 2,451	$ (855)
Balance - December 31, 1999	$ (10,662)	$ 1,504
Current period change	(1,756)	251
Balance - March 31, 2000	$ (12,418)	$ 1,755

Segment Information

In accordance with SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), we use the "management approach" for reporting business segment information. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of our reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas, and major customers.

NOTE 2--BUSINESS COMBINATIONS

On March 30, 2001, we completed a merger with CAPCO for a purchase price of $8.5 million in cash and 44,820 shares of common stock with a fair value of $1.4 million. The merger was accounted for using the purchase method of accounting and, accordingly, CAPCO's results of operations have been included in the consolidated financial statements since the date of the merger. The source of funds for the merger was our available cash.

The purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. The excess of purchase price over the estimated fair values of the net assets acquired, totaling $5.7 million, has been recorded as goodwill and will be amortized on the straight-line method over twenty years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
As of March 31, 2001 and December 31, 2000 and for the
Three Months Ended March 31, 2001 and 2000

NOTE 3--INVESTMENT SECURITIES

During the first quarter of 2001, we transferred our held to maturity debt securities to the available for sale category. The amortized cost of these securities at the time of transfer was $345.8 million and the securities had an unrealized gain of $11.0 million ($6.4 million, net of taxes) at the time of the transfer. Although our intention to hold a majority of our debt securities to maturity has not changed, the transfer was made to increase our flexibility in responding to future economic changes and to increase our efficiency in managing our investment portfolio. Subsequent to the transfer, we sold securities which had been classified as held to maturity at December 31, 2000 with an amortized cost of $20.4 million for a gain of $1.1 million.

NOTE 4--BORROWINGS

Other borrowings are detailed as follows:

(Dollars in thousands)	March 31, 2001	December 31, 2000
Other borrowings:		
Short term borrowings:		
Securities sold under		

agreements to repurchase	$ -	$ 63,000
Other short term notes payable	15,419	15,419
FHLB advances	293,000	183,000
Advances under credit lines	48,000	15,000
Total short term borrowings	356,419	276,419
Long term borrowings:		
Other long term notes payable	30,209	51,809
FHLB advances	186,200	103,000
Total other long term borrowings	216,409	154,809
Total other borrowings	$ 572,828	$ 431,228

During the three months ended March 31, 2001 and the year ended December 31, 2000, the average balance of securities sold under short term agreements to repurchase was $27.9 million and $76.8 million, respectively, and the average interest rates during those periods were 6.59% and 6.05%, respectively. Securities sold under short term agreements to repurchase generally mature within 90 days of dates of purchase.

During the three months ended March 31, 2001 and the year ended December 31, 2000, the average balance of federal funds purchased was $302.5 million and $105.3 million, respectively, and the average interest rates during those periods were 6.23% and 6.49%, respectively. There was no such balance outstanding at March 31, 2001 and December 31, 2000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
As of March 31, 2001 and December 31, 2000 and for the
Three Months Ended March 31, 2001 and 2000

The FHLB advances are collateralized by loans and securities pledged to the FHLB. The following is a breakdown of rates and maturities:

(Dollars in thousands)	Short term	Long term
Amount	$ 293,000	$ 186,200
Maturity	2001	2002 - 2003
Average rates	5.45%	5.30%

The Company as of March 31, 2001 had short-term, unsecured credit facilities from two financial institutions totaling $65.0 million. At March 31, 2001 and December 31, 2000 the Company had advances outstanding of $48.0 million and $15.0 million under these facilities. The average rate paid on these advances was approximately LIBOR + 0.50%. In addition, the Company was in compliance with all related financial covenants for these credit facilities.

NOTE 5--PER SHARE DATA

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing net income by the weighted average number of common shares plus common equivalent shares outstanding including dilutive stock options. The following table provides a reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the three months ended March 31, 2001 and 2000.

	For the three months ended March 31, 2001	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominator)
Basic net income per share:		
Income available to common shareholders	$ 21,531	42,323,000
Effect of dilutive securities:		
Stock options	-	1,852,000
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 21,531	44,175,000

	For three months ended March 31, 2000	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominator)
Basic net income per share:		
Income available to common shareholders	$ 17,296	39,784,000
Effect of dilutive securities:		
Stock options	-	1,848,000
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 17,296	41,632,000

There were options to purchase 1,241,976 shares and 232,950 shares that were considered anti-dilutive whereby the options' exercise price was greater than the average market price of the common shares, during the three months ended March 31, 2001 and 2000, respectively.

The three month period ended March 31, 2000 has been retroactively restated

to reflect the 2-for-1 stock split effective as of October 4, 2000.

Weighted average shares outstanding and all per share amounts included in the consolidated financial statements and notes thereto are based upon the increased number of shares giving retroactive effect to the 2000 mergers with Bank of Petaluma at a 0.5731 conversion ratio, Bank of Santa Clara at a 0.8499 conversion ratio and Coast Bancorp at a 0.6338 conversion ratio.

NOTE 6--ACTIVITY OF BUSINESS SEGMENTS

The accounting policies of the segments are described in the "Summary of Significant Accounting Policies." Segment data includes intersegment revenue, as well as charges allocating all corporate-headquarters costs to each of our operating segments. Intersegment revenue is recorded at prevailing market terms and rates and is not significant to the results of the segments. This revenue is eliminated in consolidation. We evaluate the performances of our segments and allocate resources to them based on net interest income, other income, net income before income taxes, total assets and deposits.

We are organized primarily along community banking and trust divisions. Thirteen of the divisions have been aggregated into the "community banking" segment. Community banking provides a range of commercial banking services to small and medium-sized businesses, real estate developers, property managers, business executives, professional and other individuals. The trust division has been shown as the "trust operations" segment. Our business is conducted in the U.S.

The following table shows each segment's key operating results and financial position for the three months ended March 31, 2001 and 2000:

	Three months ended March 31, 2001		Thre M
(Dollars in thousands)	Community banking	Trust operations	Community banking
Net interest income	$ 66,073	$ 178	$ 50,692
Other income	9,613	1,002	16,136
Operating expenses	21,949	722	20,513
Net income before income taxes (1)	46,878	389	42,298
Total assets	4,875,248	-	3,871,138
Deposits	4,273,630	52,561	3,652,198
Assets under management	-	734,910	-

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(1) Includes intercompany earnings allocation charge which is eliminated in consolidation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
As of March 31, 2001 and December 31, 2000 and for the
Three Months Ended March 31, 2001 and 2000

A reconciliation of total segment net interest income and other income combined, net income before income taxes, and total assets to the consolidated numbers in each of these categories for the three months ended March 31, 2001

and 2000 is presented below.

(Dollars in thousands)	Three months ended March 31, 2001	Thr M
Net interest income and other income		
Total segment net interest income and other income	$ 76,866	
Parent company net interest income and other income	111	
Consolidated net interest income and other income	$ 76,977	
Net income before taxes		
Total segment net income before income taxes	$ 47,267	
Parent company net income before income taxes	(12,808)	
Consolidated net income before income taxes	$ 34,459	
Total assets		
Total segment assets	$4,875,248	
Parent company segment assets	530,998	
Consolidated total assets	$5,406,246	

NOTE 7--CASH DIVIDEND

We declared a cash dividend of $.10 cents per share payable on April 14, 2001 to shareholders of record as of March 30, 2001.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Greater Bay is a bank holding company with 10 bank subsidiaries: Bank of Petaluma, Bank of Santa Clara, Bay Area Bank, Bay Bank of Commerce, Coast Commercial Bank, Cupertino National Bank, Golden Gate Bank, Mid-Peninsula Bank, Mt. Diablo National Bank and Peninsula Bank of Commerce.

We own GBB Capital I, GBB Capital II, GBB Capital III and GBB Capital IV, which are Delaware statutory business trusts formed for the exclusive purpose of issuing and selling Cumulative Trust Preferred Securities.

We also own Matsco Lease Finance, Inc. II and Matsco Lease Finance, Inc. III, which are special purpose corporations formed for the exclusive purpose of securitizing leases and issuing lease-backed notes.

We also operate through the following divisions: CAPCO, Greater Bay Bank Contra Costa Region, Greater Bay Bank Fremont Region, Greater Bay Bank Marin, Greater Bay Bank Santa Clara Valley Commercial Banking Group, Greater Bay Bank

SBA Lending Group, Greater Bay Corporate Finance Group, Greater Bay International Banking Division, Greater Bay Trust Company, Matsco, Pacific Business Funding and the Venture Banking Group.

We provide a wide range of commercial banking services to small and medium-sized businesses, real estate developers, property managers, business executives, professionals and other individuals. We operate throughout the San Francisco Bay Area including Silicon Valley, San Francisco and the San Francisco Peninsula, the East Bay, Santa Cruz and Sonoma County, with 38 offices located in Aptos, Blackhawk, Capitola, Cupertino, Danville, Fremont, Hayward, Lafayette, Millbrae, Milpitas, Palo Alto, Petaluma, Pleasanton, Point Reyes Station, Redwood City, San Francisco, San Jose, San Leandro, San Mateo, San Ramon, San Rafael, Santa Clara, Santa Cruz, Scotts Valley, Sunnyvale, Valley Ford, Walnut Creek and Watsonville.

At March 31, 2001, we had total assets of $5.4 billion, total loans, net, of $3.6 billion and total deposits of $4.3 billion.

We have completed six mergers since December 31, 1999. The mergers with Mt. Diablo Bancshares, Coast Bancorp, Bank of Santa Clara and Bank of Petaluma were accounted for as a pooling-of-interests and, accordingly, all of our financial information for the periods prior to the mergers has been restated as if the mergers had occurred at the beginning of the earliest period presented. The mergers with The Matsco Companies, Inc. and CAPCO were accounted for using the purchase accounting method and accordingly The Matsco Companies, Inc.'s and CAPCO's results of operations have been included in the consolidated financial statements since the date of merger.

The three month period ended March 31, 2000 has been restated to reflect the 2-for-1 stock split effective as of October 4, 2000.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The following discussion and analysis is intended to provide greater details of our results of operations and financial condition. The following discussion should be read in conjunction with our consolidated financial data included elsewhere in this document. Certain statements under this caption constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include but are not limited to economic conditions, competition in the geographic and business areas in which we conduct our operations, fluctuation in interest rates, credit quality and government regulation and other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2000.

RESULTS OF OPERATIONS

The following table summarizes income, income per share and key financial ratios for the periods indicated using three different measurements:

Core earnings (income before nonrecurring warrant income, merger and other related nonrecurring costs, other nonrecurring expenses and extraordinary items)

(Dollars in thousands, except per share amounts)	Three months ended March 31, 2001	Three months ended March 31, 2000
Income	$21,531	$14,666
Income per share:		
Basic	$ 0.51	$ 0.37
Diluted	$ 0.49	$ 0.35
Return on average assets	1.72%	1.48%
Return on average shareholders' equity	25.64%	21.88%

	Income including nonrecurring warrant income and before merger and other related nonrecurring costs and extraordinary items	
(Dollars in thousands, except per share amounts)	Three months ended March 31, 2001	Three months ended March 31, 2000
Income	$21,531	$19,685
Income per share:		
Basic	$ 0.51	$ 0.49
Diluted	$ 0.49	$ 0.47
Return on average assets	1.72%	1.99%
Return on average shareholders' equity	25.64%	29.37%

	Net income (including non-recurring warrant income and merger and other nonrecurring costs and extraordinary items)	
(Dollars in thousands, except per share amounts)	Three months ended March 31, 2001	Three months ended March 31, 2000
Income	$21,531	$17,296
Income per share:		
Basic	$ 0.51	$ 0.43
Diluted	$ 0.49	$ 0.42
Return on average assets	1.72%	1.75%
Return on average shareholders' equity	25.64%	25.81%

Net income for the first quarter of 2001 increased 24.5% to $21.5 million, or $0.49 per diluted share, compared to net income of $17.3 million, or $0.42 per diluted share, for the first quarter of 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The first quarter 2000 results included nonrecurring warrant income of $8.6 million ($5.0 million, net of taxes). In addition, the results of the first quarter of 2000 included merger and other related nonrecurring costs of $3.9 million ($2.4 million, net of taxes). There were no such items during the first quarter of 2001.

Income including nonrecurring warrant income and before nonrecurring merger

related expenses and extraordinary items, increased 9.4% to $21.5 million, or $0.49 per diluted share, in the first quarter of 2001, compared to $19.7 million, or $0.47 per diluted share, in the first quarter of 2000.

Our core earnings for the first quarter of 2001 increased 46.8% to $21.5 million, or $0.49 per diluted share, compared to $14.7 million, or $0.35 per diluted share, in the first quarter of 2000. Based on our core earnings for first quarter of 2001, our return on average shareholders' equity was 25.64% and our return on average assets was 1.72%. During the first quarter of 2000, our core earnings resulted in a return on average shareholders' equity of 21.88% and a return on average assets of 1.48%.

The 46.8% increase in core earnings during first quarter of 2001 as compared to first quarter of 2000 was the result of significant growth in loans and investments. For the three months ended March 31, 2001, net interest income increased 32.1% as compared to the three months ended March 31, 2000. This increase was primarily due to a 27.0% increase in average interest-earning assets for the three months ended 2001 as compared to 2000. The increases in loans, trust assets, and deposits also contributed to the 43.9% increase in loan and international banking fees, service charges and other fees, and trust fees. Increases in operating expenses were required to service and support our growth. As a result, increases in revenue were partially offset for the three months ended March 31, 2001 by a 21.9% increase in recurring operating expenses, as compared to three months ended March 31, 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Net Interest Income

Net interest income increased 32.1% to $66.2 million for the first quarter of 2001 from $50.2 million for the first quarter of 2000. This increase was primarily due to the $1.0 billion, or 27.0%, increase in average interest-earning assets and a 26 basis point increase in our net yield on interest-earning assets. Net interest income increased 1.3% in the first quarter of 2001 from $65.4 million from the fourth quarter of 2000. This increase was primarily due to the $265.3 million, or 6.0%, increase in average interest-earning assets, which was partially offset by the 16 basis point decrease in our net yield on interest-earning assets.

The following table presents, for the periods indicated, our condensed average balance sheet information together with interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities. Average balances are average daily balances.

	Three months ended March 31, 2001		
(Dollars in thousands)	Average balance (1)	Interest	Average yield / rate
INTEREST-EARNING ASSETS:			
Fed funds sold	$ 79,910	$ 1,117	5.67%
Other short term securities	57	1	7.12%

Investment securities:			
Taxable	792,628	14,502	7.42%
Tax-exempt (2)	176,022	2,130	4.91%
Loans (3)	3,638,946	88,944	9.91%
Total interest-earning assets	4,687,563	106,694	9.23%
Noninterest-earning assets	400,816		
Total assets	$5,088,379	106,694	
INTEREST-BEARING LIABILITIES:			
Deposits:			
MMDA, NOW and Savings	$2,156,195	19,303	3.63%
Time deposits, over $100,000	776,408	10,869	5.68%
Other time deposits	302,835	4,306	5.77%
Total interest-bearing deposits	3,235,438	34,478	4.32%
Other borrowings	407,587	5,970	5.94%
Total interest-bearing liabilities	3,643,025	40,448	4.50%
Noninterest-bearing deposits	891,537		
Other noninterest-bearing liabilities	113,735		
Trust Preferred Securities	99,500		
Shareholders' equity	340,582		
Total shareholders' equity and liabilities	$5,088,379	40,448	
Net interest income		$ 66,246	
Interest rate spread			4.73%
Contribution of interest free funds			1.00%
Net yield on interest-earnings assets(4)			5.73%

	Three months ended December 31, 2000		
(Dollars in thousands)	Average balance (1)	Interest	Average yield / rate
INTEREST-EARNING ASSETS:			
Fed funds sold	$ 97,882	$ 1,570	6.38%
Other short term securities	24,802	437	7.01%
Investment securities:			
Taxable	796,487	14,575	7.28%
Tax-exempt (2)	176,581	2,341	5.27%
Loans (3)	3,326,505	85,453	10.22%
Total interest-earning assets	4,422,257	104,376	9.39%
Noninterest-earning assets	361,188		
Total assets	$4,783,445	104,376	

	Average balance (1)	Interest	Average yield / rate
INTEREST-BEARING LIABILITIES:			
Deposits:			
MMDA, NOW and Savings	$2,171,437	21,908	4.01%
Time deposits, over $100,000	737,832	10,781	5.81%
Other time deposits	161,716	2,178	5.36%
Total interest-bearing deposits	3,070,985	34,867	4.52%
Other borrowings	263,528	4,090	6.17%
Total interest-bearing liabilities	3,334,513	38,957	4.65%
Noninterest-bearing deposits	942,090		
Other noninterest-bearing liabilities	91,011		
Trust Preferred Securities	99,500		
Shareholders' equity	316,331		
Total shareholders' equity and liabilities	$4,783,445	38,957	
Net interest income		$ 65,419	
Interest rate spread			4.74%
Contribution of interest free funds			1.14%
Net yield on interest-earnings assets(4)			5.89%

(Dollars in thousands)	Three months ended March 31, 2000		
	Average balance (1)	Interest	Average yield / rate
INTEREST-EARNING ASSETS:			
Fed funds sold	$ 280,126	$ 4,118	5.91%
Other short term securities	30,583	468	6.15%
Investment securities:			
Taxable	675,346	11,671	6.95%
Tax-exempt (2)	152,108	2,003	5.30%
Loans (3)	2,553,083	61,577	9.70%
Total interest-earning assets	3,691,246	79,837	8.70%
Noninterest-earning assets	288,129		
Total assets	$3,979,375	79,837	
INTEREST-BEARING LIABILITIES:			
Deposits:			
MMDA, NOW and Savings	$1,983,349	19,361	3.93%
Time deposits, over $100,000	554,351	6,668	4.84%
Other time deposits	159,482	1,831	4.62%
Total interest-bearing deposits	2,697,182	27,860	4.15%
Other borrowings	122,384	1,814	5.96%
Total interest-bearing liabilities	2,819,566	29,674	4.23%
Noninterest-bearing deposits	770,926		

Other noninterest-bearing liabilities	69,413		
Trust Preferred Securities	49,940		
Shareholders' equity	269,530		
Total shareholders' equity and liabilities	$3,979,375	29,674	
Net interest income		$ 50,163	
Interest rate spread			4.47%
Contribution of interest free funds			1.00%
Net yield on interest-earnings assets(4)			5.47%

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(1) Nonaccrual loans are excluded from the average balance and only collected interest on nonaccrual loans is included in the interest column.

(2) Tax equivalent yields earned on the tax exempt securities are 7.08%, 7.62% and 7.70% for the three months ended March 31, 2001, December 31, 2000, and March 31, 2000, respectively, using the federal statutory rate of 34%.

(3) Loan fees totaling $3.3 million, $2.8 million and $2.1 million are included in loan interest income for three months ended March 31, 2001, December 31, 2000 and March 31, 2000, respectively.

(4) Net yield on interest-earning assets during the period equals (a) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (b) average interest-earning assets for the period.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The most significant impact on our net interest income between periods is derived from the interaction of changes in the volume of, and rate earned or paid on, interest-earning assets and interest-bearing liabilities. The volume of interest-earning asset dollars in loans and investments, compared to the volume of interest-bearing liabilities represented by deposits and borrowings, combined with the spread, produces the changes in the net interest income between periods. The table below sets forth, for the periods indicated, a summary of the changes in average asset and liability balances (volume) and changes in average interest rates (rate).

	Three months ended March 31, 2001 compared with December 31, 2000 favorable/(unfavorable)		
(Dollars in thousands)	Volume	Rate	Net
INTEREST EARNED ON INTEREST-EARNING ASSETS			
Federal funds sold	$ (282)	$ (171)	$ (453)
Other short term investments	(482)	46	(436)
Investment securities:			
Taxable	(464)	391	(73)
Tax-exempt	(9)	(202)	(211)

Loans	18,116	(14,625)	3,491
Total interest income	16,879	(14,561)	2,318
INTEREST EXPENSE ON INTEREST-BEARING LIABILITIES			
Deposits:			
MMDA, NOW and savings	179	2,426	2,605
Time deposits over $100,000	(1,444)	1,356	(88)
Other time deposits	(1,958)	(170)	(2,128)
Total interest-bearing deposits	(3,224)	3,613	389
Other borrowings	(2,912)	1,032	(1,880)
Total interest expense	(6,137)	4,646	(1,491)
Net increase (decrease) in net interest income	$ 10,744	$ (9,917)	$ 827

The Quarter Ended March 31, 2001 Compared to March 31, 2000

Interest income in the first quarter ended March 31, 2001 increased 33.6% to $106.7 million from $79.8 million in the quarter ended March 31, 2000. This was primarily due to the significant increase in loans, our highest yielding interest-earning asset, and investment securities. The increase was enhanced by an increase in the yield earned on average interest-earning assets. Average interest-earning assets increased $1.0 billion, or 27.0%, to $4.7 billion in the three months ended March 31, 2001, compared to $3.7 billion in the same period for 2000. Average loans increased $1.1 billion, or 42.5%, to $3.6 billion for three months ended March 31, 2001 from $2.6 billion in the same period for 2000. Average investment securities, Federal funds sold and other short-term securities, decreased 7.9% to $1.0 billion in the first quarter of 2001 from $1.1 billion in the same period for 2000.

The average yield on interest-earning assets increased 53 basis points to 9.23% in the first quarter of 2001 from 8.70% in the same period of 2000 primarily due to an increase in the average yield on loans. Loans represented approximately 77.6% of total interest-earning assets in the first quarter of 2001 compared to 69.2% for the same period in 2000. The average yield on loans increased 21 basis points to 9.91% in the same period of 2001 from 9.70% for the same period in 2000.

Interest expense in the first quarter of 2001 increased 36.3% to $40.4 million from $29.7 million for the same period of 2000. This increase was due to greater volumes of interest-bearing liabilities and higher interest rates paid on interest-bearing liabilities. Average interest-bearing liabilities increased 29.2% to $3.6 billion in the first quarter of 2001 from $2.8 billion in the same period for 2000. The increase was due primarily to the efforts of our relationship managers in generating core deposits from their client relationships and the deposits derived from the activities of the Greater Bay Trust Company and the Venture Banking Group.

During the first quarter of 2001, average noninterest-bearing deposits increased to $891.5 million from $770.9 million in the same period of 2000.

As a result of the foregoing, our interest rate spread increased to 4.73% in the first quarter of 2001 from 4.47% in the same period of 2000. The net yield on interest-earning assets increased in the first quarter of 2001 to 5.73% from 5.47% in the same period of 2000.

The Quarter Ended March 31, 2001 Compared to December 31, 2000

Interest income increased 2.2% to $106.7 million in the first quarter of 2001 from $104.4 million in the previous quarter, as a result of the increase in average interest-earning assets offset by a decline in the yields earned. Average interest-earning assets increased 6.0% to $4.7 billion in the first quarter of 2001 from $4.4 billion in the previous quarter as a result of increase in loans. The yield on the higher volume of average interest-earning assets declined 16 basis points to 9.23% in the first quarter of 2001 from 9.39% in the previous quarter, primarily as a result of declining market rates.

Interest expense in the first quarter of 2001 increased 3.8% to $40.4 million from $39.0 million in the previous quarter as a result of the increase in the volume of interest-bearing liabilities, which was partially offset by a decrease in the rates paid on interest-bearing liabilities. Corresponding to the growth in average interest-earning assets, average interest-bearing liabilities increased 9.3% to $3.6 billion in first quarter of 2001 from $3.3 billion in the previous quarter.

As a result of the foregoing, our interest rate spread declined to 4.73% in the first quarter of 2001 from 4.74% in the previous quarter and the net yield on interest-earning assets declined to 5.73% in the first quarter of 2001 from 5.89% in previous quarter.

At December 31, 2000, we estimated that a 100 basis point decrease in market rates would result in a 6 to 14 basis point compression in our net yield on interest earning assets and a 150 basis point decrease in market rates would result in a 9 to 19 basis point compression in our net yield on interest earning assets. As a result of the 150 basis point drop in market rates during the first quarter of 2001, our net yield earned on average interest earning assets declined by 16 basis points.

At March 31, 2001, our static net yield on interest earning assets was 5.63%, as compared to 5.77% at December 31, 2000. The static net yield on interest earning assets reflects the yield on assets and liabilities at the end of the quarter, as opposed to the yield earned on average interest earning assets, which reflects our actual results during the preceding quarter. The static position provides a better indication of future earnings as the results from the most recent quarter do not fully reflect the impact of the 50 basis point decrease in market rates which occurred on March 20, 2001. In the absence of any further rate declines, we would anticipate that our static net yield on interest earning assets would increase slightly as certificates of deposits and borrowing mature. However, current indications are that the market interest rates will continue to decline further.

Current modeling of our interest rate risk indicates that further reductions in market interest rates will have a similar effect on our net yield on interest earning assets. We anticipate that market interest rates will decline at least an additional 75 basis points during the second quarter of 2001, including the 50 basis point decrease of the Fed Funds Rate announced by the Federal Reserve Board on April 18, 2001. Our modeling indicates that the impact of a 75 basis point decrease in market interest rates will result in our static net yield on interest earning assets declining to the 5.4% to 5.5% range

by year end. For further information regarding our interest rate risk, see "Quantitative and Qualitative Disclosures about Market Risk".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

We incurred certain client service expenses with respect to our noninterest-bearing liabilities. These expenses include courier and armored car services, check supplies and other related items that are included in operating expenses. If these expenses had been included in interest expense, our net yield on interest-earning assets would have been as follows for each of the years presented.

(Dollars in thousands)	Three months ended Ma 2001
Average noninterest bearing demand deposits	$891,537
Client service expenses	644
Client service expenses, as a percentage of average noninterest bearing demand deposits	0.29%
IMPACT ON NET YIELD ON INTEREST-EARNING ASSETS:	
Net yield on interest-earning assets	5.73%
Impact of client service expense	(0.05)%
Adjusted net yield on interest-earning assets	5.68%

The impact on the net yield on interest-earning assets is determined by offsetting net interest income by the cost of client service expense, which reduces the yield on interest-earning assets. The cost for client service expense reflects our efforts to manage interest expense.

Provision for Loan Losses

The provision for loan losses represents the current period credit cost associated with maintaining an appropriate allowance for credit losses. The loan loss provision for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the value of the underlying collateral on problem loans and the general economic conditions in our market area. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for loan losses; however, actual loan losses may vary from current estimates.

Refer to the section "Financial Condition - Allowance for Loan Losses" for a description of our systematic methodology employed in determining an adequate allowance for loan losses.

The provision for loan losses for the first quarter of 2001 was $6.9 million, compared to $5.6 million for the first quarter of 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

For further information on nonperforming and classified loans and the allowance for loan losses, see "Financial Condition -- Nonperforming and Classified Assets".

Other Income

Total other recurring income increased to $10.7 million in the first quarter of 2001, compared to $7.9 million for the fourth quarter of 2000 and $8.6 million for the first quarter of 2000. The following table sets forth information by category of other income for the years indicated.

	At and for the three month periods			
(Dollars in thousands)	March 31, 2001	December 31, 2000	September 30, 2000	June 30, 2000
Loan and international banking fees	$ 3,101	$2,562	$ 2,497	$1,927
Service charges and other fees	2,013	2,034	2,219	2,194
Gain on sale of investments, net	1,578	21	3	58
Trust fees	886	954	822	827
Gain on sale of SBA loans	835	312	429	753
ATM network revenue	662	748	817	676
Other income	1,656	1,289	1,288	1,482
Total, recurring	10,731	7,920	8,075	7,917
Warrant income	-	870	2,767	740
Total	$10,731	$8,790	$10,842	$8,657

The increase in other recurring income in the first quarter of 2001 as compared to the fourth quarter of 2000 was primarily the result of a $1.6 million increase in gain on sale of investments, a $539,000 increase in loan and international banking fees, a $523,000 increase in the gain on sale of SBA loans and a $367,000 increase in other income.

During the first quarter of 2001, we recorded a $1.6 million gain on the sale of investments, as compared to $21,000 in the fourth quarter of 2000 and a $1,000 loss in the first quarter of 2000. The gain during the first quarter of 2001 was a result of our efforts to consolidate all of the individual banks' investment portfolios and thereby creating operating efficiencies by reducing the number of individual security positions. For further information regarding this program, refer to the section "Financial Condition -Investment Securities".

The gain on sale of investments allowed us to postpone the planned sale of Matsco loans. Our future plans would indicate selling approximately 20%-40% of Matsco's loan production. By retaining all of Matsco's first quarter loan production, we have a stronger balance sheet with an increase in net interest income and greater flexibility for future Matsco loan sales.

During the first quarter of 2001, we recorded $3.1 million of loan and international banking fees, as compared to $2.6 million in the fourth quarter of 2000 and $1.2 million in the first quarter of 2000. Approximately $550,000 of this increase in the first quarter of 2001, as compared to the fourth quarter of 2000, relates to fee income earned by Matsco. A significant portion of the remaining growth from the first quarter of 2000 as compared to the first quarter of 2001 is a result in the growth our overall loan portfolio.

During the first quarter of 2001, we recorded an $835,000 gain on sale of SBA loans, as compared to $312,000 in the fourth quarter of 2000 and $696,000 in the first quarter of 2000. We originate SBA loans with the intention of selling a significant portion of those loans into the secondary market. Occasionally, weakness in the market for these loans will cause us to retain newly originated loans in our portfolio until such a time that the secondary market for these loans strengthens. Such a weakness in the secondary market for these loans took place in the latter half of 2000, causing us to reduce the pace of our SBA loan sales. In the first quarter of 2001, we increased the amount of the sales of SBA loans as market conditions for these sales had improved.

Other income in the first quarter of 2000 includes $2.1 million in appreciation recognized on equity securities received in the settlement of a loan. No such appreciation was recorded in the first quarter of 2001 or the fourth quarter of 2000. During the first quarter of 2001, we recorded $1.7 million of other income, as compared to $1.3 million in the fourth quarter of 2000 and $1.0 million in the first quarter of 2000, excluding the impact of the appreciation described above.

Other income in the fourth quarter of 2000 and the first quarter of 2000 included warrant income of $870,000 and $8.6 million, which is net of related employee incentives of $0 million and $5.1 million, respectively. During the first quarter of 2001, we did not recognize any additional warrant income. As a result of current market conditions, the prices we would have realized upon liquidating our positions did not meet our long-term targets for those positions and we elected to portfolio our holdings until market condition improves. At March 31, 2001, we held approximately 165 warrant positions. We occasionally receive warrants to acquire common stock from companies that are in the start-up or development phase. The timing and amount of income derived from the exercise and sale of client warrants typically depend upon factors beyond our control, and cannot be predicted with any degree of accuracy and are likely to vary materially from period to period.

Operating Expenses

The following table sets forth the major components of operating expenses for the years indicated.

	At and for the three m		
(Dollars in thousands)	March 31, 2001	December 31, 2000	Sept
Compensation and benefits	$18,405	$17,449	$

Occupancy and equipment	5,863	5,711	
Dividends paid on Trust Preferred Securities	2,458	2,412	
Legal and other professional fees	1,387	1,083	
Client service expenses	644	563	
FDIC insurance and regulatory assessments	273	356	
Expenses on other real estate owned	-	5	
Other	6,560	5,770	
Total operating expenses excluding nonrecurring costs	35,590	33,349	
Mergers and other related nonrecurring costs	-	3,899	
Total operating expenses	$35,590	$37,248	$
Efficiency ratio	46.23%	50.19%	
Efficiency ratio (before merger, nonrecurring and extraordinary items)	46.23%	45.47%	
Efficiency ratio (excluding Matsco)	44.67%	49.68%	
Efficiency ratio (excluding Matsco and before merger, nonrecurring and extraordinary items)	44.67%	44.84%	
Total operating expenses to average assets	2.84%	3.10%	
Total operating expenses to average assets (before merger, nonrecurring and extraordinary items)	2.84%	2.77%	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Operating expenses totaled $35.6 million for the first quarter of 2001, compared to $37.2 million for the fourth quarter of 2000 and $35.2 million for the first quarter of 2000. The ratio of operating expenses to average assets was 2.84% in first quarter of 2001, 3.10% in the fourth quarter of 2000, and 3.55% in the first quarter of 2000. In prior quarters, total operating expenses include merger and other related nonrecurring costs.

The efficiency ratio is computed by dividing total operating expenses by net interest income and other income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same (or greater) volume of income while a decrease would indicate a more efficient allocation of resources. Our efficiency ratio before merger, nonrecurring and extraordinary items for the first quarter of 2001 was 46.23%, compared to 45.47% for the fourth quarter of 2000 and 49.66% for the first quarter of 2000.

The increase in our efficiency ratio in the first quarter of 2001, as compared to the fourth quarter of 2000 was primarily a result of the addition of Matsco, which had been included in our results for only one month in the previous quarter. Excluding Matsco, our efficiency ratio would have been 44.67% in the first quarter of 2001, as compared to 44.84% in the fourth quarter of 2000.

As indicated by the improvements in the efficiency ratio in 2001 as compared to the same period in 2000 we have been able to achieve increasing economies of scale. For the first quarter of 2001, average assets increased 27.9% from first quarter of 2000, while operating expenses, excluding nonrecurring costs, increased only 21.9%.

Compensation and benefits expenses increased in the first quarter of 2001 to $18.4 million, compared to $17.4 million in the fourth quarter of 2000. As

described above, compensation and benefit expenses for Matsco had been included in our results for only one month in the fourth quarter of 2000. Of this increase, $1.5 million is due to the inclusion of Matsco for the full three months of the first quarter of 2001. Excluding Matsco, compensation and benefits declined $571,000 or 3.3%.

Compensation and benefits expenses increased in the first quarter of 2001 to $18.4 million, compared to $15.8 million in the first quarter of 2000. The primary reason for the increase in compensation and benefits is due to the addition of Matsco in our results and the remainder of the increase is due to additions in personnel made during the prior twelve months.

Dividends paid on Trust Preferred Securities were $2.5 million for the first quarter of 2001, which is unchanged from the fourth quarter of 2000, and compares to $1.1 million for the first quarter of 2000. The increase in the dividends paid on Trust Preferred Securities was a result of the $50.5 million in Trust Preferred Securities issued in 2000.

The increases in occupancy and equipment, legal and other professional fees, Federal Deposit Insurance Corporation ("FDIC") insurance and regulatory assessments and other operating expenses were related to the growth in our staffing levels, loans, deposits and trust assets.

Our goodwill amortization for the first quarter of 2001 was $199,000, which is included in other expenses. There was no amortization of goodwill recorded in any prior periods. Our diluted earnings per share excluding goodwill amortization was $0.48 for the first quarter of 2001.

Income Taxes

Our effective income tax rate for the first quarter of 2001 was 37.5%, compared to 39.7% in the first quarter of 2000. The effective rates were lower than the statutory rate of 42% due to the donation of appreciated securities to the Foundation, state enterprise zone tax credits and tax-exempt income on municipal securities. The reductions were partially offset by the impact of nondeductible merger and other related nonrecurring costs.

FINANCIAL CONDITION

Total assets increased 5.4% to $5.4 billion at March 31, 2001, compared to $5.1 billion at December 31, 2000. The increase in the first quarter of 2001 was primarily due to increases in our loan portfolio funded by growth in deposits and other borrowings.

Investment Securities

During the first quarter of 2001, we reclassified all of our existing debt-securities from held to maturity to the available for sale category.

During the first quarter of 2001, we began a program to consolidate the investment portfolios of our ten subsidiary banks. As a result of this program, we liquidated a number of our smaller investment positions. We anticipate that this will result in improved operating efficiencies as well as improving the overall yield, as our average block sizes increase. During the first quarter of 2001, we sold 51 securities with an amortized cost of $64.3 million for a recognized gain of $1.6 million. Those sales include 22 securities previously

classified as held to maturity with an amortized cost of $20.4 million for a gain of $1.1 million. These sales resulted in only a 5 basis point reduction on the yield on our investment portfolio. We anticipate making further investment security sales under this program in subsequent quarters.

Loans

Total gross loans increased to $3.7 billion at March 31, 2001, compared to $3.6 billion at December 31, 2000 and $2.7 billion at March 31, 2000. We continue to anticipate strong loan growth, but we don't expect the growth rate of over 30% experienced during the last three years to continue. Our performance goals for 2001 (included in a Current Report on Form 8-K filed on April 17, 2001) indicated a target loan growth rate of 20%-25%. At March 31, 2001, our loan pipeline was at $950 million, which represented the second highest level in our history. Historically we have funded between 65% and 70% of our pipeline. Although historical experience is not a guarantee of future performance, our relationship officers who work with individual clients continue to be cautiously optimistic that there will continue to be a demand for good quality credits.

Our loan portfolio is concentrated in commercial (primarily manufacturing, service and technology) and real estate lending, with the balance in leases and consumer loans. While no specific industry concentration is considered significant, our lending operations are located in a market area that is dependent on the technology and real estate industries and supporting service companies. Thus, a downturn in these sectors of the economy could adversely impact our borrowers. This could, in turn, reduce the demand for loans and adversely impact the borrowers' abilities to repay their loans, while also decreasing our net interest margin.

The following table presents the composition of our loan portfolio at the dates indicated.

	March 31, 2001		December 31, 2000	
(Dollars in thousands)	Amount	%	Amount	%
Commercial	$1,595,293	43.8%	$1,562,712	44.4%
Term real estate - commercial	992,777	27.3	967,428	27.5
Total Commercial	2,588,070	71.1	2,530,140	71.9
Real estate construction and land	701,414	19.3	691,912	19.7
Real estate other	233,538	6.4	176,568	5.0
Consumer and other	216,064	5.9	216,459	6.2
Total loans, gross	3,739,086	102.7	3,615,079	102.8
Deferred fees and discounts, net	(13,461)	(0.4)	(13,657)	(0.4)
Total loans, net of deferred fees	3,725,625	102.3	3,601,422	102.4
Allowance for loan losses	(85,914)	(2.3)	(84,014)	(2.4)
Total loans, net	$3,639,711	100.0%	$3,517,408	100.0%

The following table presents the maturity distribution of our commercial, real estate construction and land, term real estate - commercial and real estate other portfolios and the sensitivity of such loans to changes in interest rates at March 31, 2001.

(Dollars in thousands)	Commercial	Term real estate- commercial	Real es constru and l
Loans maturing in:			
One year or less:			
Fixed rate	$ 306,430	$ 25,339	$
Variable rate	388,974	52,795	
One to five years:			
Fixed rate	201,442	113,313	
Variable rate	350,505	130,026	
After five years:			
Fixed rate	206,156	350,721	
Variable rate	141,786	320,583	
Total	$1,595,293	$992,777	$

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Nonperforming and Classified Assets

We generally place loans on nonaccrual status when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, any interest previously accrued and not collected is generally reversed from income. Loans are charged off when management determines that collection has become unlikely. Restructured loans are those where the Banks have granted a concession on the interest paid or original repayment terms due to financial difficulties of the borrower. Other real estate owned ("OREO") consists of real property acquired through foreclosure on the related collateral underlying defaulted loans.

The following table sets forth information regarding nonperforming assets at the dates indicated.

	At and for the three mon		
(Dollars in thousands)	March 31, 2001	December 31, 2000	Septem 20

Nonperforming loans:			
Nonaccrual loans	$ 17,874	$ 12,593	$
Restructured loans	-	-	
Total nonperforming loans	17,874	12,593	
OREO	259	-	
Total nonperforming assets	$ 18,133	$ 12,593	$
Accruing loans past due 90 days or more	$ 1,307	$ 723	$
Nonperforming assets to total loans and OREO	0.49%	0.35%	
Nonperforming assets to total assets	0.34%	0.25%	
Nonperforming assets and accruing loans past due 90 days or more to total loans and OREO	0.52%	0.37%	
Nonperforming assets and accruing loans past due 90 days or more to total assets	0.36%	0.26%	
Total Loans	3,725,625	3,601,422	3,
Total Assets	5,406,246	5,130,378	4,

At March 31, 2001, we had $18.1 million in nonperforming assets, as compared to $12.6 million at December 31, 2000 and $7.3 million at March 31, 2000. Our ratio of nonperforming assets to total assets at March 31, 2001 was 0.34%, as compared to 0.25% at December 31, 2000 and 0.18% at March 31, 2000. Our ratios compare favorably to the industry average ratio of nonperforming assets to total assets of 0.83% at December 31, 2000, which represents the most recently available data.

We have three classifications for problem loans: "substandard", "doubtful" and "loss". Substandard loans have one or more defined weakness and are characterized by the distinct possibility that the Banks will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of substandard loans with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable; and there is a high possibility of loss of some portion of the principal balance. A loan classified as "loss" is considered uncollectable and its continuance as an asset is not warranted.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The following table sets forth the classified assets at the dates indicated.

	At and for the three month periods		
(Dollars in thousands)	March 31, 2001	December 31, 2000	September 2000

Substandard (1)	$64,784	$51,477	$44,9
Doubtful	9,268	1,759	3,7
Loss	-	-	
OREO	259	-	3
Classified assets	$74,311	$53,236	$49,1
Classified to total loans and OREO	1.99%	1.48%	1.
Allowance for loan losses to total classified loans and OREO	115.61%	157.81%	137.

(1) Classified assets at March 31, 2001 and December 31, 2000 include $7.4 million and approxima
respective, of Matsco leases that qualify as substandard under the regulatory definition. Th
secured and no loss is anticipated. The December 31, 2000 totals have been restated to inclu

Classified assets increased to $74.3 million at March 31, 2001, as compared to $53.2 million at December 31, 2000. The $21.1 million increase includes a $6.9 million loan to a contractor; the loan is well secured by a combination of accounts receivable and real estate and no loss is anticipated. The remaining $13.5 million increase consists primarily of four commercial loans to a variety of businesses. All are well secured and are in the process of collection. One loan, totaling $4.2 million, was paid in full in April 2001.

With the exception of these classified loans, management was not aware of any loans outstanding as of March 31, 2001 where the known credit problems of the borrower would cause management to have doubts as to the ability of such borrowers to comply with their present loan repayment terms and which would result in such loans being included in nonperforming or classified asset tables at some future date. Management cannot, however, predict the extent to which economic conditions in our market areas may worsen or the full impact that such an environment may have on our loan portfolio. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured loans, or other real estate owned in the future.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of risk inherent in our loan portfolio. The allowance is increased by provisions charged against current earnings and reduced by net charge-offs. Loans are charged off when they are deemed to be uncollectable; recoveries are generally recorded only when cash payments are received.

The following table sets forth information concerning our allowance for loan losses at the dates and for the years indicated.

(Dollars in thousands)	At and for the three mont		
	March 31, 2001	December 31, 2000	September 3 2000
Period end loans outstanding	$3,725,625	$3,601,422	$3,090,328
Average loans outstanding	$3,638,946	$3,326,505	$2,962,402
Allowance for loan losses:			
Balance at beginning of period	$ 84,014	$ 67,637	$ 58,578
Allowance of entities acquired through mergers accounted for under purchase accounting method	320	10,927	-
Charge-offs:			
Commercial	(6,008)	(2,987)	(2,790
Term Real Estate - Commercial	-	-	-
Total Commercial	(6,008)	(2,987)	(2,790
Real estate construction and land	-	-	-
Real estate other	-	-	-
Consumer and other	(46)	(67)	(20
Total charge-offs	(6,054)	(3,054)	(2,810
Recoveries:			
Commercial	683	386	31
Term Real Estate - Commercial	-	-	-
Total Commercial	683	386	31
Real estate construction and land	-	-	-
Real estate other	-	-	-
Consumer and other	23	37	36
Total recoveries	706	423	67
Net charge-offs	(5,348)	(2,631)	(2,743
Provision charged to income (1)	6,928	8,081	11,802
Balance at end of period	$ 85,914	$ 84,014	$ 67,637
Quarterly net charge-offs to average loans outstanding during the period, annualized	0.59%	0.31%	0.37
Year to date net charge-offs to average loans outstanding during the period, annualized	0.59%	0.38%	0.41
Allowance as a percentage of average loans outstanding	2.35%	2.52%	2.27
Allowance as a percentage of period end loans outstanding	2.30%	2.32%	2.18
Allowance as a percentage of non-performing loans	473.80%	667.15%	430.84

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(1) Includes $1.5 million, $3.9 million, $1.5 million and $850,000 during the quarters ended December 31, 2000, September 30, 2000, June 30, 2000, and March 31 2000 respectively, to conform to the Company's reserve methodologies which are included in mergers and related nonrecurring costs.

During the first quarter of 2001, our ratio of net charge-offs to average loans outstanding during the quarter increased to 0.59%, as compared to 0.31% for the fourth quarter of 2000 and 0.26% for the first quarter of 2000. However, 40% of the charge-off is related to a single computer education training company, which had been in business since 1974. We do not have any additional loans in this market segment and the issues surrounding the charge-off is not related specifically to current economic conditions. Excluding this charge-off, our ratio of net charge-offs to average loans outstanding during the quarter would have been 0.34%.

We employ a systematic methodology for determining our allowance for loan losses, which includes a monthly review process and monthly adjustment of the allowance. Our process includes a periodic loan by loan review for loans that are individually evaluated for impairment as well as detailed reviews of other loans (either individually or in pools). This includes an assessment of known problem loans, potential problem loans, and other loans that exhibit indicators of deterioration.

Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Quantitative factors also incorporate known information about individual loans including borrowers' sensitivity to interest rate movements and borrowers' sensitivity to quantifiable external factors including commodity and finished goods prices as well as acts of nature (earthquakes, fires, etc.) that occur in a particular period.

In view of the increasing uncertainties regarding general economic and business conditions in our primary market areas, and in particular with respect to the real estate and technology industries, and uncertainties specifically related to the impact of the California energy crisis, we instituted additional review procedures during the first quarter of 2001. As an integral part of our ongoing analysis of loans in our real estate loan portfolio, we obtain and review on an annual basis updated appraisals and financial and other information from the borrower, including updated rent rolls and lease rates. In February 2001, we commenced a special review, update and evaluation of all real estate loans with a principal amount outstanding of more than $1 million. This special update covers real estate loans which comprise 67% of the principal amount outstanding in our real estate portfolio. We have not to date identified any significant adverse trends or weakness in our real estate portfolio as a result of this ongoing special review.

In addition, as an integral part of our ongoing analysis of commercial and real estate loans, we perform stress tests on the financial condition of the borrower to determine what magnitude of change in income or expenses of the borrower could impact the borrower's ability to service the debt. To supplement this analysis, we have requested our loan officers to review their loan portfolios to identify borrowers who they believe could suffer significant adverse effects from either increasing energy costs or periodic power outages. We have not to date indentified any such borrowers.

Qualitative factors include the general economic environment in our marketplace, and in particular, the state of the technology industries based in

the Silicon Valley and other key industries in the San Francisco Bay Area. Size and complexity of individual credits in relation to lending officers' background and experience levels, loan structure, extent and nature of waivers of existing loan policies and pace of portfolio growth are other qualitative factors that are considered in our methodology.

Our methodology is, and has been, consistently followed. However, as we add new products, increases in complexity, and expands our geographic coverage, we will enhance our methodology to keep pace with the size and complexity of the loan portfolio. In this regard, we have periodically engaged outside firms to independently assess our methodology, and on an ongoing basis we engage outside firms to perform independent credit reviews of our loan portfolio. Management believes that our systematic methodology continues to be appropriate given our size and level of complexity.

While this methodology utilizes historical and other objective information, the establishment of the allowance for loan losses and the classification of loans, is to some extent, based on the judgment and experience of management. In general, management feels that the allowance for loan losses is adequate as of March 31, 2001. However, future changes in circumstances, economic conditions or other factors could cause management to increase or decrease the allowance for loan losses as necessary.

At March 31, 2001, the allowance for loan losses was $85.9 million, consisting of a $63.8 million allocated allowance and a $22.1 million unallocated allowance. The unallocated allowance recognizes the model and estimation risk associated with the allocated allowances, and management's evaluation of various conditions, the effects of which are not directly measured in determining the allocated allowance. The evaluation of the inherent loss regarding these conditions involves a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the unallocated allowance include the following at the balance sheet date:

- The strength and duration of the current business cycle and existing general economic and business conditions affecting our key lending areas; economic and business conditions affecting our key lending portfolios;

- Seasoning of the loan portfolio, growth in loan volumes and changes in loan terms; and

- The results of bank regulatory examinations.

Liquidity and Cash Flow

The objective of our liquidity management is to maintain each Bank's ability to meet the day-to-day cash flow requirements of our clients who either wish to withdraw funds or require funds to meet their credit needs. We must manage our liquidity position to allow the Banks to meet the needs of their clients while maintaining an appropriate balance between assets and liabilities to meet the return on investment expectations of our shareholders. We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. In addition to liquidity from core deposits and repayments and maturities of loans and investments, the Banks can utilize brokered deposit lines, sell securities under agreements to repurchase, FHLB advances or purchase overnight Federal Funds.

Greater Bay is a company separate and apart from the Banks. It must provide for our own liquidity. Substantially all of Greater Bay's revenues are obtained from management fees, interest received on our investments and dividends declared and paid by the Banks. There are statutory and regulatory provisions that could limit the ability of the Banks to pay dividends to Greater Bay. At March 31, 2001, the Banks had approximately $106.0 million in the aggregate available to be paid as dividends to Greater Bay. Management of Greater Bay believes that such restrictions will not have an impact on the ability of Greater Bay to meet our ongoing cash obligations. As of March 31, 2001, Greater Bay did not have any material commitments for capital expenditures.

Net cash provided by operating activities, consisting primarily of net income, totaled $24.8 million for first quarter of 2001 and $12.8 million for the same period in 2000. Cash used for investing activities totaled $393.5 million in the first quarter of 2001 and $317.5 million in the same period of 2000. The funds used for investing activities primarily represent increases in loans and investment securities for each year reported.

For the quarter ended March 31, 2001, net cash provided by financing activities was $251.1 million, compared to $408.6 million in the same period of 2000. Historically, our primary financing activity has been through deposits. For the three months ended March 31, 2001 and 2000, deposit gathering activities generated cash of $108.6 million and $389.3 million, respectively. This represents a total of 43.2% and 95.3% of the financing cash flows for the first quarter of 2001 and 2000, respectively.

Capital Resources

Shareholders' equity at March 31, 2001 increased to $354.4 million from $322.4 million at December 31, 2000. Greater Bay paid dividends of $0.10, and $0.35 per share during the three months ended March 31, 2001 and the twelve months ended December 31, 2000, respectively, excluding dividends paid by subsidiaries prior to the completion of their mergers.

Subsequent to the end of the first quarter of 2001, our Board of Directors authorized a share repurchase program of up to 5% of our outstanding common stock. The Company intends to repurchase shares from time to time in the open market as conditions warrant. We expect that such purchases would be accretive to earnings, while also maintaining capital ratios that exceed the regulatory guidelines for a well-capitalized financial institution.

Subsequent to the announcement of the share repurchase program and through the date of this filing, we have repurchased 85,000 shares for a price of $2.2 million.

A banking organization's total qualifying capital includes two components: core capital (Tier 1 capital) and supplementary capital (Tier 2 capital). Core capital, which must comprise at least half of total capital, includes common shareholders' equity, qualifying perpetual preferred stock, trust preferred securities and minority interests, less goodwill. Supplementary capital includes the allowance for loan losses (subject to certain limitations), other perpetual preferred stock, trust preferred securities, certain other capital instruments and term subordinated debt. Our major capital components are shareholders' equity and Trust Preferred Securities in core capital, and the

allowance for loan losses in supplementary capital.

At March 31, 2001, the minimum risk-based capital requirements to be considered adequately capitalized were 4.0% for core capital and 8.0% for total capital. Federal banking regulators have also adopted leverage capital guidelines to supplement risk-based measures. The leverage ratio is determined by dividing Tier 1 capital as defined under the risk-based guidelines by average total assets (not risk-adjusted) for the preceding quarter. The minimum leverage ratio is 3.0%, although certain banking organizations are expected to exceed that amount by 1.0% or more, depending on their circumstances.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991, the Federal Reserve, the Office of the Comptroller of the Currency and the FDIC have adopted regulations setting forth a five-tier system for measuring the capital adequacy of the financial institutions they supervise. Our capital levels at March 31, 2001 and the two highest levels recognized under these regulations are as follows:

	Leverage ratio	Tier 1 risk-based capital ratio	Total risk-based capital ratio
Company	8.52%	9.14%	10.42%
Well-capitalized	5.00%	6.00%	10.00%
Adequately capitalized	4.00%	4.00%	8.00%

In addition, at March 31, 2001, each of our subsidiary banks had levels of capital that exceeded the well-capitalized guidelines.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Quantitative and Qualitative Disclosures about Market Risk

Our financial performance is impacted by, among other factors, interest rate risk and credit risk. We utilize no derivatives to mitigate our credit risk, relying instead on an extensive loan review process and our allowance for loan losses. See "--Allowance for Loan Losses" herein.

Interest rate risk is the change in value due to changes in interest rates. This risk is addressed by our Asset & Liability Management Committee "ALCO", which includes senior management representatives. The ALCO monitors interest rate risk by analyzing the potential impact to the net portfolio of equity value and net interest income from potential changes to interest rates and considers the impact of alternative strategies or changes in balance sheet structure. The ALCO manages our balance sheet in part to maintain the potential impact on net portfolio value and net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed on at least a quarterly basis by the Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net

portfolio value in the event of hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board, the Board may direct management to adjust our asset and liability mix to bring interest rate risk within Board-approved limits.

In order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet. We have generally focused our investment activities on securities with terms or average lives between five and eight years to lengthen the average duration of our assets. We have utilized short-term borrowings and deposit marketing programs to shorten the effective duration of our liabilities. In addition, we have utilized an interest rate swap to manage the interest rate risk of the Floating Rate Trust Preferred Securities, Series B issued August 12, 1998. This interest rate swap is not an "ineffective hedge" and is accounted for under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133 and 138").

Market Value of Portfolio Equity

Interest rate sensitivity is computed by estimating the changes in net portfolio of equity value, or market value over a range of potential changes in interest rates. The market value of equity is the market value of our assets minus the market value of our liabilities plus the market value of any off-balance sheet items. The market value of each asset, liability, and off-balance sheet item is our net present value of expected cash flows discounted at market rates after adjustment for rate changes. We measure the impact on market value for an immediate and sustained 100 basis point increase and decrease (shock) in interest rates. The following table shows our projected change in net portfolio value for this set of rate shocks as of March 31, 2001.

Change in interest rates	Net portfolio	Projected change	
(Dollars in millions)	value	Dollars	Percentage
100 basis point rise	$ 774.4	$ 6.2	0.81%
Base scenario	768.2	-	-
100 basis point decline	738.8	(31.4)	-4.09%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The preceding table indicates that as of March 31, 2001 an immediate and sustained 100 basis point decrease in interest rates would decrease our net portfolio value by approximately 5.6%. The foregoing analysis attributes significant value to our non-interest-bearing deposit balances.

The market value of portfolio equity is based on the net present values of each product in the portfolio, which in turn is based on cash flows factoring in recent market prepayment estimates from public sources. The discount rates are based on recently observed spread relationships and adjusted for the assumed

interest rate changes. Some valuations are provided directly from independent broker quotations.

Net Interest Income Simulation

The impact of interest rate changes on net interest income and net income are measured using income simulation. The various products in our balance sheet are modeled to simulate their income (and cash flow) behavior in relation to interest rates. Income for the next 12 months is calculated for current interest rates and for immediate and sustained rate shocks.

The income simulation model includes various assumptions regarding the repricing relationships for each product. Many of our assets are floating rate loans, which are assumed to reprice immediately, and to the same extent as the change in market rates according to their contracted index. Our non-term deposit products reprice more slowly, usually changing less than the change in market rates and at our discretion. As of March 31, 2001, the analysis indicates that our net interest income for the next 12 months would increase 7.07% if rates increased 200 basis points, and decrease by 10.91% if rates decreased 200 basis points.

This analysis indicates the impact of change in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet grows modestly, but that our structure is to remain similar to the structure at year-end. It does not account for all the factors that impact this analysis including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change. Furthermore loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in the analysis. In addition, the proportion of adjustable-rate loans our portfolio could decrease in future periods if market interest rates remain at or decrease below current levels. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

The results of this sensitivity analysis should not be relied upon as indicative of actual future results.

Gap Analysis

In addition to the above analysis, we also perform a Gap analysis as part of the overall interest rate risk management process. This analysis is focused on the maturity structure of assets and liabilities and their repricing characteristics over future periods. An effective interest rate risk management strategy seeks to match the volume of assets and liabilities maturing or repricing during each period. Gap sensitivity is measured as the difference between the volume of assets and liabilities in our current portfolio that is subject to repricing at various time horizons. The main focus is usually for the one-year cumulative gap. The difference is known as interest sensitivity gaps.

The following table shows interest sensitivity gaps for different intervals as of March 31, 2001:

(Dollars in thousands)	Immediate or one day	2 days To 6 months	7 months to 12 months	1 Year to 3 years
Assets:				
Cash and due from banks	$ -	$ -	$ -	$ -
Federal Funds Sold	85,057	-	-	-
Investment securities	35,357	132,006	111,908	324,300
Loans	1,913,371	730,733	225,319	534,227
Loan losses/unearned fees	-	-	-	-
Other assets	-	550	550	2,201
Total assets	$2,033,785	$ 863,289	$ 337,777	$860,728
Liabilities and Equity:				
Deposits	$2,113,822	$ 953,601	$ 279,631	$ 31,175
Other borrowings	15,570	79,252	263,000	186,200
Trust preferred securities	-	-	-	-
Other liabilities	-	-	-	-
Shareholders' equity	-	-	-	-
Total liabilities and equity	$2,129,392	$1,032,853	$ 542,631	$217,375
Gap	$ (95,607)	$ (169,564)	$(204,854)	$643,353
Cumulative Gap	$ (95,607)	$ (265,171)	$(470,025)	$173,328
Cumulative Gap/total assets	-1.77%	-4.90%	-8.69%	3.21%

(Dollars in thousands)	Total rate sensitive	Total non-rate sensitive	Total
Assets:			
Cash and due from banks	$ -	$ 206,156	$ 206,156
Federal Funds Sold	85,057	-	85,057
Investment securities	1,211,998	4,915	1,216,913
Loans	3,725,625	-	3,725,625
Loan losses/unearned fees	-	(85,914)	(85,914)
Other assets	21,731	236,678	258,409
Total assets	$5,044,411	$ 361,835	$5,406,246
Liabilities and Equity:			
Deposits	$3,382,646	$ 890,985	$4,273,631
Other borrowings	572,827	-	572,827
Trust preferred securities	99,500	-	99,500
Other liabilities	-	105,922	105,922
Shareholders' equity	-	354,366	354,366
Total liabilities and equity	$4,054,973	$1,351,273	$5,406,246
Gap	$ 989,438	$ (989,438)	$ -
Cumulative Gap	$ 989,438	$ -	$ -
Cumulative Gap/total assets	18.30%	0.00%	0.00%

The foregoing table indicates that we had a one year negative gap of $(470.0) million, or (8.7)% of total assets, at March 31, 2001. In theory, this would indicate that at March 31, 2001, $470.0 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to decline, the gap would indicate a resulting decrease in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the asset and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposit.

Gap analysis has certain limitations. Measuring the volume of repricing or maturing assets and liabilities does not always measure the full impact on the portfolio value of equity or net interest income. Gap analysis does not account for rate caps on products; dynamic changes such as increasing prepay speeds as interest rates decrease, basis risk, or the benefit of non-rate funding sources. The relation between product rate repricing and market rate changes (basis risk) is not the same for all products. The majority of our loan portfolio reprices quickly and completely following changes in market rates, while non-term deposit rates in general move more slowly and usually incorporate only a fraction of the change in rates. Products categorized as non-rate sensitive, such as our noninterest-bearing demand deposits, in the Gap analysis behave like long term fixed rate funding sources. Both of these factors tend to make our actual behavior more assets sensitive than is indicated in the Gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the Gap analysis. In fact, during the recent period of declines in interest rates, our net yield on interest earning assets has declined. See "Results of Operations Net Interest Income - The Quarter Ended March 31, 2001 Compared to The Quarter Ended December 31, 2000". Therefore, management uses income simulation, net interest income rate shocks and market value of portfolio equity as our primary interest rate risk management tools.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Recent Accounting Developments

New Accounting Pronouncement

In September 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140". SFAS No. 140 replaces SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 125"), issued in June 1996. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration.

SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. SFAS No. 140 is effective for recognition and reclassification of collateral and for

disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Disclosures about securitizations and collateral accepted need not be reported for periods ending on or before December 15, 2000, for which financial statements are presented for comparative purposes. SFAS No. 140 is to be applied prospectively with certain exceptions.

Implementation of SFAS No. 140 is not expected to have a material effect on our financial position or results of operations.

Business Combinations

In September 1999, the FASB issued an Exposure Draft of a proposed SFAS, "Business Combinations and Intangible Assets". In December 2000, the Board tentatively concluded that upon the effective date of the final statement on business combinations and intangible assets, goodwill would no longer be amortized. This conclusion includes existing goodwill as well as goodwill arising subsequent to the effective date of the final statement. Goodwill must be reviewed for impairment upon the occurrence of certain triggering events. The FASB has also reached tentative conclusions on the future of the pooling-of-interest method of accounting for business combinations. These tentative decisions include the decision that the pooling-of-interests method of accounting will no longer be an acceptable method to account for business combinations between independent parties and that there should be a single method of accounting for all business combinations, and that method is the purchase method. The FASB agreed that the purchase method should be applied prospectively to business combination transactions that are initiated after the final standard is issued. The FASB is currently redeliberating its position as to retaining the pooling method and expects to issue a final statement in June 2001.

A portion of our business strategy is to pursue acquisition opportunities so as to expand our market presence and maintain growth levels. A change in accounting for business combinations could have a negative impact on our ability to realize those business strategies.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings -- Not applicable

ITEM 2. Changes in Securities and Use of Proceeds

On March 30, 2001, the Registrant acquired all the outstanding capital stock of CAPCO for a purchase price of $8.5 million in cash and 44,820 shares of common stock with a fair value of $1.4 million. The shares of common stock were issued in a private placement pursuant to Section 4(2) of the Securities Act of 1933.

The purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. The excess of purchase price over the estimated fair values of the net assets acquired, totaling $5.7 million, has been recorded as goodwill and will be amortized on the straight-line method over twenty years.

ITEM 3. Default Upon Senior Securities -- Not applicable

ITEM 4. Submission of Matters to a Vote of Securities Holders - Not applicable

ITEM 5. Other Information -- Not applicable

ITEM 6. Exhibits and Reports on Form 8-K

The Exhibits listed below are filed or incorporated by reference as part of this Report.

(a) Exhibits

EXHIBIT NO.	EXHIBITS
2.1	Stock Purchase Agreement, dated as of March 14, 2001, by and among Greater Bay Bancorp, CAPCO Financial Company, Inc. and the shareholders thereof (incorporated by reference to Exhibit 2 from Registrant's Current Report on Form 8-K dated March 15, 2001)

(b) Reports on Form 8-K

During the quarter ended March 31, 2001, the Registrant filed the following Current Reports on Form 8-K: (1) Form 8-K dated January 16, 2001 (containing press release regarding year end earnings conference call); (2) Form 8-K dated January 19, 2001 (containing press release regarding year end earnings); (3) Form 8-K dated March 6, 2001 (containing slide presentation for analysts' conference); and (4) Form 8-K dated March 15, 2001 (reporting the completion of the acquisition of CAPCO Financial Company, Inc.)

SIGNATURES

IN ACCORDANCE WITH THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THE REGISTRANT HAS CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

GREATER BAY BANCORP
(Registrant)

By:

/s/ Steven C. Smith

Steven C. Smith
Executive Vice President, Chief Administrative Officer and
Chief Financial Officer

Date: May 7, 2001