GREATER BAY BANCORP
Form 10-Q
November 14, 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 September 30, 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 ______________.

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 October 26, 2001: 49,744,042

GREATER BAY BANCORP

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GREATER BAY BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	September 30, 200 (unaudited)
ASSETS	
Cash and due from banks	$ 212,811
Federal funds sold	117,000
Other short term securities	--
Cash and cash equivalents	329,811
Investment securities:	
Available for sale, at fair value	2,338,251
Held to maturity, at amortized cost (fair value 2000: $364,787)	--
Other securities	83,250
Investment securities	2,421,501

Total loans:	
Commercial	1,645,159
Term real estate - commercial	1,177,058
Total commercial	2,822,217
Real estate construction and land	675,527
Real estate other	226,553
Consumer and other	184,458
Deferred loan fees and discounts	(14,075
Total loans, net of deferred fees	3,894,680
Allowance for loan losses	(90,414
Total loans, net	3,804,266
Property, premises and equipment, net	43,174
Interest receivable and other assets	244,772
Total assets	$ 6,843,524
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Demand, noninterest-bearing	$ 851,708
MMDA, NOW and savings	2,018,214
Time certificates, $100,000 and over	593,536
Other time certificates	850,893
Total deposits	4,314,351
Other borrowings	1,770,519
Other liabilities	133,994
Total liabilities	6,218,864
Company obligated mandatorily redeemable cumulative trust preferred securities of subsidiary trusts holding solely junior subordinated debentures	218,000
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; 42,774,660 and 41,929,173 shares issued and outstanding as of September 30, 2001 and December 31, 2000, respectively	180,651
Accumulated other comprehensive income (loss)	19,749
Retained earnings	206,260
Total shareholders' equity	406,660
Total liabilities and shareholders' equity	$ 6,843,524

See notes to consolidated financial statements.

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

	Three months ended September 30,		Nine mo Septe
(Dollars in thousands, except per share amounts)	2001	2000*	2001
INTEREST INCOME			
Interest on loans	$ 82,727	$ 74,716	$256,266
Interest on investment securities:			
Taxable	33,829	14,978	71,457
Tax - exempt	1,472	2,185	5,254
Total interest on investment securities	35,301	17,163	76,711
Other interest income	1,678	4,733	5,230
Total interest income	119,706	96,612	338,207
INTEREST EXPENSE			
Interest on deposits	29,766	34,780	95,636
Interest on long term borrowings	3,794	175	9,093
Interest on other borrowings	13,394	1,842	25,739
Total interest expense	46,954	36,797	130,468
Net interest income	72,752	59,815	207,739
Provision for loan losses	7,880	7,844	24,657
Net interest income after provision for loan losses	64,872	51,971	183,082
OTHER INCOME			
Service charges and other fees	2,192	2,219	6,296
Loan and international banking fees	1,987	2,497	3,833
Gain on sale of loans	1,684	429	2,894
Trust fees	865	822	2,729
Gain on sale of investments, net	819	3	6,341
ATM network revenue	803	817	2,231
Other income	1,538	1,288	8,122
Total recurring	9,888	8,075	32,446
Warrant income, net	77	2,767	581
Total	9,965	10,842	33,027
OPERATING EXPENSES			
Compensation and benefits	19,680	15,792	57,145
Occupancy and equipment	6,597	5,575	18,746
Trust Preferred Securities	3,724	2,585	8,636
Legal and other professional fees	2,324	1,312	5,243
Telephone, postage and supplies	1,232	1,040	3,937
Marketing and promotion	1,272	935	3,779
Client services	548	477	1,845
FDIC insurance and regulatory assessments	406	379	1,009
Directors fees	336	302	804

Other real estate owned	-	-	-
Other	4,321	2,173	12,258
Total, recurring	40,440	30,570	113,402
Merger and other related nonrecurring costs	-	11,412	-
Total operating expenses	40,440	41,982	113,402
Income before provision for income taxes	34,397	20,831	102,707
Provision for income taxes	13,037	7,962	38,668
Net income	$ 21,360	$ 12,869	$ 64,039
Net income per share - basic**	$ 0.50	$ 0.31	$ 1.51
Net income per share - diluted**	$ 0.49	$ 0.29	$ 1.46

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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 months September	
(Dollars in thousands)	2001	
Net income	$ 21,360	$
Other comprehensive income (loss):		
Unrealized gains on securities:		
Unrealized holding gains (losses) arising during period (net of taxes of $11.9 million and $1.7 million for the three months ended September 30, 2001 and 2000, respectively) (net of taxes of $16.5 million and $(3.1) million for the nine months ended September 30, 2001 and 2000, respectively)	17,100	
Reclassification adjustment for gains (losses) included in net income	482	
Net change	17,582	

Cash flow hedge:		
Net derivative gains (losses) arising during period (net of taxes of $(758,000) and $(398,000) for the three months ended September 30, 2001 and 2000, respectively) (net of taxes of $(775,000) and $(269,000) for the nine months ended September 30, 2001 and 2000, respectively)	(1,084)	
Reclassification adjustment for income included in net income (net of taxes of $24,000 and $24,000 for the three months ended September 30, 2001 and 2000, respectively) in net income (net of taxes of $72,000 and $31,000 for the nine months ended September 30, 2001 and 2000, respectively)	24	
Net change	(1,060)	
Other comprehensive income (loss)	16,522	
Comprehensive income	$ 37,882	$

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

	Nine months ended Septe	
(Dollars in thousands)	2001	2
Cash flows - operating activities		
Net income	$ 64,039	$
Reconcilement of net income to net cash from operations:		
Provision for loan losses	24,977	
Depreciation and amortization	9,197	
Deferred income taxes	(2,633)	
(Gain) loss on sale of investments, net	4,043	
Changes in:		
Accrued interest receivable and other assets	(19,300)	
Accrued interest payable and other liabilities	20,008	
Deferred loan fees and discounts, net	418	
Operating cash flows, net	100,749	
Cash flows - investing activities		
Maturities and partial paydowns on investment securities:		
Held to maturity	-	
Available for sale	239,832	

Other securities	-	
Purchase of investment securities:		
Held to maturity	-	
Available for sale	(2,028,141)	
Other securities	(53,599)	
Proceeds from sale of available for sale securities	406,169	
Loans, net	(297,841)	
Loan acquired from business acquisition	(14,671)	
Payment for business acquisitions, net of cash acquired	(7,983)	
Sale of other real estate owned	259	
Sale of bank building	-	
Purchase of property, premises and equipment	(15,642)	
Purchase of insurance policies	(7,811)	
Investing cash flows, net	(1,779,428)	
Cash flows - financing activities		
Net change in deposits	149,290	
Net change in other borrowings - short term	1,277,592	
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	118,500	
Proceeds from sale of common stock	6,012	
Cash dividends	(13,433)	
Financing cash flows, net	1,599,660	
Net change in cash and cash equivalents	(79,019)	
Cash and cash equivalents at beginning of period	408,830	
Cash and cash equivalents at end of period	$ 329,811	$
Cash flows - supplemental disclosures		
Cash paid during the period for:		
Interest	$ 114,075	$
Income taxes	$ 55,391	$
Non-cash transactions:		
Additions to other real estate owned	$ 259	$
Transfer of appreciated securities to GBB Foundation	$ -	$

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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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2001 and December 31, 2000 and for the
Three Months and Nine Months Ended September 30, 2001 and 2000

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Balance Sheets as of September 30, 2001, the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2001, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 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 and nine months ended September 30, 2001 are not necessarily indicative of the results expected for any subsequent quarter or for the entire year ended December 31, 2001.

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, CNB Investment Trust I, GBB Capital I, GBB Capital II, GBB Capital III, GBB Capital IV, GBB Capital V, GBB Capital VI, 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 period's 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.

We have completed six mergers and acquisitions from December 31, 1999 through September 30, 2001. 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 acquisitions of 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 acquisition.

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:

Nine months ended (Dollars in thousands)	Unrealized gains (losses) on securities	Cash flow hedges	Accumulated other comprehensive income (loss)
Balance - December 31, 2000	$ (6,700)	$ 148	$ (6,552)
Current period change	27,338	(1,037)	26,301
Balance - September 30, 2001	$ 20,638	$ (889)	$ 19,749
Balance - December 31, 1999	$ (10,662)	$ 1,504	$ (9,158)
Current period change	(4,387)	(353)	(4,740)
Balance - September 30, 2000	$ (15,049)	$ 1,151	$ (13,898)
Balance - June 30, 2001	$ 3,056	$ 171	$ 3,227
Current period change	17,582	(1,060)	16,522
Balance - September 30, 2001	$ 20,638	$ (889)	$ 19,749
Balance - June 30, 2000	$ (17,473)	$ 1,696	$ (15,777)
Current period change	2,424	(545)	1,879
Balance - September 30, 2000	$ (15,049)	$ 1,151	$ (13,898)

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 the acquisition 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 acquisition 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 acquisition. The source of funds for the acquisition was a $6.9 million advance on an existing credit line, with the remainder paid from 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 is being amortized on the straight-line method over twenty years.

On October 23, 2001, SJNB Financial Corp., the holding company for San Jose National Bank merged with and into Greater Bay. Upon consummation of the merger, the outstanding shares of SJNB Financial Corp. were converted into an aggregate of approximately 6,944,000 shares of Greater Bay's common stock. SJNB Financial Corp's results are not included in these fiancial statetments because the merger was completed after September 30, 2001. The merger will be accounted for as a pooling-of-interests. As of and for the nine months ended September 30, 2001, SJNB Financial Corp. had approximately $25.4 million in net interest income, $8.3 million in net income, $661.4 million in assets, $559.0 million in deposits and $73.9 million in shareholders' equity.

NOTE 3--INVESTMENT SECURITIES

During the first quarter of 2001, we transferred our entire portfolio of 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 $43.2 million for a gain of $2.5 million.

NOTE 4--BORROWINGS

Other borrowings are detailed as follows:

(Dollars in thousands)	September 30, 2001	December 31, 2000
Other borrowings:		
Short term borrowings:		
Securities sold under agreements to repurchase	$ 337,250	$ 63,000

Other short term notes payable	4,201	15,419
FHLB advances	1,199,000	183,000
Advances under credit lines	23,000	15,000
Total short term borrowings	1,563,451	276,419
Long term borrowings:		
Securities sold under agreements to repurchase	24,700	-
Other long term notes payable	24,368	51,809
FHLB advances	158,000	103,000
Total other long term borrowings	207,068	154,809
Total other borrowings	$ 1,770,519	$ 431,228

During the nine months ended September 30, 2001 and the year ended December 31, 2000, the average balance of securities sold under short term agreements to repurchase was $158.5 million and $76.8 million, respectively, and the average interest rates during those periods were 3.96% and 6.05%, respectively. Securities sold under short term agreements to repurchase generally mature within 90 days of the dates of purchase.

During the nine months ended September 30, 2001 and the year ended December 31, 2000, the average balance of federal funds purchased was $102.5 million and $105.3 million, respectively, and the average interest rates during those periods were 5.25% and 6.49%, respectively. There was no such balance outstanding at September 30, 2001 and December 31, 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	$ 1,199,000	$ 158,000
Maturity	2001	2002-2003
Average rates	4.20%	5.52%

As of September 30, 2001, we had short-term, unsecured credit facilities from two financial institutions totaling $65.0 million. At September 30, 2001 and December 31, 2000, we had advances outstanding of $23.0 million and $15.0 million, respectively, under these facilities. The average rate paid on these advances was approximately LIBOR + 0.50%. In addition, we were in compliance with all related financial covenants for these credit facilities.

NOTE 5--ISSUANCE OF ADDITIONAL COMPANY OBLIGATED MANDITORILY REDEEMABLE CUMULATIVE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES

On July 16, 2001, we completed a $15.0 million trust preferred securities private offering. We issued the trust preferred securities through a newly

created trust subsidiary, GBB Capital VI, to a qualified institutional buyer. The trust preferred securities bear an interest rate of 6-month LIBOR plus 3.75% payable semi-annually. GBB Capital VI used the proceeds from the sale of the trust preferred securities to purchase junior subordinated deferrable interest debentures of Greater Bay. Greater Bay intends to invest a portion of the net proceeds in one or more of our subsidiary banks to increase their capital levels and intends to use the remaining net proceeds for general corporate purposes. Under applicable regulatory guidelines, all of the trust preferred securities qualify as Tier I Capital. In connection with this transaction, we concurrently entered into an interest rate swap agreement to cap the cost of the offering at 8.75% for 10 years.

On August 20, 2001, we completed a $103.5 million trust preferred securities underwritten public offering. We issued the trust preferred securities through a newly created trust subsidiary, GBB Capital V. The trust preferred securities bear an interest rate of 9.00% payable quarterly. GBB Capital V used the proceeds from the sale of the trust preferred securities to purchase junior subordinated deferrable interest debentures of Greater Bay. Greater Bay intends to invest a portion of the net proceeds in one or more of our subsidiary banks to increase their capital levels and intends to use the remaining net proceeds for general corporate purposes. Under applicable regulatory guidelines, $14.5 million of the trust preferred securities qualify as Tier I Capital and $89.0 million of the trust preferred securities qualify as Tier II Capital.

NOTE 6--FORMATION OF CNB INVESTMENT TRUST I

During the third quarter of 2001, we formed and funded CNB Investment Trust I ("CNBIT I"), a Maryland real estate investment trust, as a wholly owned subsidiary of Cupertino National Bank ("CNB"). CNBIT I provides CNB with flexibility in raising capital. CNB contributed loans and corporate securities with a net book value of $311.3 million, and $500,000 in cash to CNBIT I, in exchange for 100% of the common and preferred stock of CNBIT I. As of September 30, 2001, the net income, assets and equity of CNBIT I are eliminated in consolidation.

NOTE 7--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 and nine months ended September 30, 2001 and 2000.

	For the three months ende	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominat

Basic net income per share:		
Income available to common shareholders	$ 21,360	42,652,0
Effect of dilutive securities:		
Stock options	-	1,331,0
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 21,360	43,983,0

	For the three months ended	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominat
Basic net income per share:		
Income available to common shareholders	$ 12,869	41,448,0
Effect of dilutive securities:		
Stock options	-	2,228,0
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 12,869	43,676,0

	For the nine months ended	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominat
Basic net income per share:		
Income available to common shareholders	$ 64,039	42,515,0
Effect of dilutive securities:		
Stock options	-	1,335,0
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 64,039	43,850,0

	For the nine months ended	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominat
Basic net income per share:		
Income available to common shareholders	$ 40,590	40,996,0
Effect of dilutive securities:		
Stock options	-	1,985,0
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 40,590	42,981,0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
As of September 30, 2001 and December 31, 2000 and for the
Three Months and Nine Months Ended September 30, 2001 and 2000

There were options to purchase 1,475,000 shares and 1,000 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 September 30, 2001 and 2000, respectively. There were options to purchase 1,409,000 shares and 14,000 shares that were considered anti-dilutive during the nine months ended September 30, 2001 and 2000, respectively.

The three and nine month periods ended September 30, 2000 have been 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 interim consolidated financial statements and notes thereto are based upon the increased number of shares giving retroactive effect to the October 13, 2000 merger with Bank of Petaluma at a 0.5731 conversion ratio.

NOTE 7--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. Twenty 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, professionals and other individuals. The GBB 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 nine months ended September 30, 2001 and 2000:

	Nine months ended September 30, 2001		Nin Sept
(Dollars in thousands)	Community banking	Trust operations	Communit banking
Net interest income	$ 206,754	$ 727	$ 168,58
Other income	29,077	3,039	33,62
Operating expenses	64,795	2,228	62,04
Net income before income taxes (1)	110,591	1,319	128,57
Total assets	6,161,017	-	4,139,84
Deposits	4,263,794	50,557	3,864,65
Assets under administration	-	633,783	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
As of September 30, 2001 and December 31, 2000 and for the
Three Months and Nine Months Ended September 30, 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 nine months ended September 30, 2001 and 2000 is presented below.

(Dollars in thousands)	Nine months ended September 30, 2001
Net interest income and other income	
Total segment net interest income and other income	$ 239,597
Parent company net interest income and other income	1,169
Consolidated net interest income and other income	$ 240,766
Net income before taxes	
Total segment net income before income taxes	$ 111,910
Parent company net income before income taxes	(9,203)
Consolidated net income before income taxes	$ 102,707
Total assets	
Total segment assets	$ 6,161,017
Parent company segment assets	682,507
Consolidated total assets	$ 6,843,524

NOTE 8--CASH DIVIDEND

We declared a cash dividend of $0.115 cents per share payable on October 15, 2001 to shareholders of record as of September 28, 2001.

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

OVERVIEW

Greater Bay is a bank holding company with 11 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, Peninsula Bank of Commerce, and San Jose National Bank which was acquired on October 23, 2001.

As of September 30, 2001, we owned GBB Capital I, GBB Capital II, GBB Capital III, GBB Capital IV, GBB Capital V and GBB Capital VI, which are Delaware statutory business trusts formed for the exclusive purpose of issuing and selling Cumulative Trust Preferred Securities. We also owned CNB Investment Trust I, a Maryland real estate investment trust, formed for the purpose of providing CNB with flexibility in raising additional capital.

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 Carmel, 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, Marin and Sonoma Counties, with 39 offices located in Aptos, Blackhawk, Capitola, Carmel, 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 September 30, 2001, we had total assets of $6.8 billion, total loans, net, of $3.8 billion and total deposits of $4.3 billion.

We have completed six mergers and acquisitions from December 31, 1999 through September 30, 2001. 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 acquisitions of 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 acquisition. On October 23, 2001, we completed the acquisition of SJNB Financial. See Note 2 of Notes to Consolidated Financial Statements.

The three and nine month periods ended September 30, 2000 have been restated to reflect the 2-for-1 stock split effective October 4, 2000.

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, political, and global changes arising from the terrorist attacks of September 11, 2001 and their aftermath, 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:

(Dollars in thousands, except per share amounts)	Core earnings (income before nonrecurring warrant income, merger and other related nonrecurring costs, other nonrecurring expenses and extraordinary items) Three months ended September 30, 2001	Three months ended September 30, 2000	Nine Septe
Income	$ 21,315	$ 18,303	$
Income per share:			
Basic	$ 0.50	$ 0.44	$
Diluted	$ 0.48	$ 0.42	$
Return on average assets	1.30%	1.61%	
Return on average shareholders' equity	21.68%	24.14%	

(Dollars in thousands, except per share amounts)	Income including nonrecurring warrant income and before merger and other related nonrecurring costs, other nonrecurring expenses and extraordinary items Three months ended September 30, 2001	Three months ended September 30, 2000	Nine Septe
Income	$ 21,360	$ 19,906	$
Income per share:			
Basic	$ 0.50	$ 0.48	$
Diluted	$ 0.49	$ 0.46	$
Return on average assets	1.31%	1.75%	
Return on average shareholders' equity	21.73%	26.25%	

Net income (including non-recurring warrant income and   Net

(Dollars in thousands, except per share amounts)	merger and other related nonrecurring costs, other nonrecurring expenses and extraordinary items) Three months ended September 30, 2001	Three months ended September 30, 2000	Nine Septe
Income	$ 21,360	$ 12,869	$
Income per share:			
Basic	$ 0.50	$ 0.31	$
Diluted	$ 0.49	$ 0.29	$
Return on average assets	1.31%	1.13%	
Return on average shareholders' equity	21.73%	16.97%	

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

Quarter to Date

Net income for the third quarter of 2001 increased 66.0% to $21.4 million, or $0.49 per diluted share, compared to net income of $12.9 million, or $0.29 per diluted share, for the third quarter of 2000.

The third quarter 2001 results included nonrecurring warrant income of $77,000 ($45,000 net of taxes) compared to $2.8 million ($1.6 million, net of taxes) during the third quarter of 2000. In addition, for the third quarter of 2001, there were no merger and other related nonrecurring costs as compared to $11.4 million ($7.0 million, net of taxes) in the third quarter of 2000.

Income including nonrecurring warrant income and before nonrecurring merger and other related expenses and extraordinary items, increased 7.30% to $21.4 million, or $0.49 per diluted share, in the third quarter of 2001, compared to $19.9 million, or $0.46 per diluted share, in the third quarter of 2000.

Our core earnings (income before nonrecurring warrant income, merger and other related nonrecurring costs, other nonrecurring expenses and extraordinary items) for the third quarter of 2001 increased 16.5% to $21.3 million, or $0.48 per diluted share, compared to $18.3 million, or $0.42 per diluted share, in the third quarter of 2000. Based on our core earnings for the third quarter of 2001, our return on average shareholders' equity was 21.68% and our return on average assets was 1.30%. During the third quarter of 2000, our core earnings resulted in a return on average shareholders' equity of 24.14% and a return on average assets of 1.61%.

The 16.5% increase in core earnings during the third quarter of 2001 as compared to the third quarter of 2000 was the result of significant growth in loans and investments. For the third quarter of 2001, net interest income increased 21.6% as compared to the third quarter of 2000. This increase was primarily due to a 46.6% increase in average interest-earning assets for the third quarter of 2001 as compared to 2000. Increases in operating expenses were required to service and support our growth. As a result, increases in revenue were partially offset for the third quarter of 2001 by a 32.3% increase in recurring operating expenses, as compared to the third quarter of 2000.

Year to Date

Net income for the nine months ended September 30, 2001 increased 57.8% to $64.0 million, or $1.46 per diluted share, compared to net income of $40.6 million, or $0.94 per diluted share, for the nine months ended September 30, 2000.

The nine months ended September 30, 2001 results included nonrecurring warrant income of $581,000 ($337,000 net of taxes) as compared to $12.1 million ($7.1 million, net of taxes) during the nine months ended September 30, 2000. In addition, for the nine months ended September 30, 2001, there were no merger and other related nonrecurring costs as compared to $25.5 million ($16.2 million, net of taxes) in the nine months ended September 30, 2000.

Income including nonrecurring warrant income and before nonrecurring merger and other related expenses and extraordinary items, increased 12.8% to $64.0 million, or $1.46 per diluted share, for the nine months ended September 30 2001, compared to $56.8 million, or $1.32 per diluted share, for the nine months ended September 30, 2000.

Our core earnings for the nine months ended September 30, 2001 increased 28.2% to $63.7 million, or $1.45 per diluted share, compared to $49.7 million, or $1.16 per diluted share, for the nine months ended September 30, 2000. Based on our core earnings for the nine months ended September 30, 2001, our return on average shareholders' equity was 23.30% and our return on average assets was 1.47%. During the nine months ended September 30, 2000, our core earnings resulted in a return on average shareholders' equity of 23.25% and a return on average assets of 1.57%.

The 28.2% increase in core earnings for the nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000 was the result of significant growth in loans and investments. For the nine months ended September 30, 2001, net interest income increased 24.7% as compared to the nine months ended September 30, 2000. This increase was primarily due to a 37.3% increase in average interest-earning assets during the nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000. Increases in operating expenses were required to service and support our growth. As a result, increases in revenue were partially offset for the nine months ended September 30, 2001 by a 27.1% increase in recurring operating expenses, as compared to the nine months ended September 30, 2000.

Net Interest Income-Overview

We are subject to continued pressure on our net interest margin, primarily attributable to the rapidly declining interest rate environment, our asset sensitive balance sheet, slowdown in loan and deposit growth, combined with a shift in the mix of our interest earning assets and interest bearing liabilities. In response to those conditions, during the second quarter of 2001, we changed our balance sheet mix and composition as we have shifted the funding source of our specialty finance businesses from a core deposit base to a wholesale funding strategy. This shift in funding corresponds with our original strategy for financing these niche specialty finance businesses. The impact of this change has allowed us to also restructure and increase the size of our investment portfolio by funding it with the deposits which previously supported the specialty finance business units. The overall impact of this funding change has been threefold. First, it has increased the overall net interest income from

operations, second it has allowed us to improve liquidity and reduce the duration of our investment portfolio and third it has slightly reduced our asset sensitive balance sheet. On a combined basis, this change has positioned us to slightly reduce our exposure to declining interest rates, while also effectively restructuring our balance sheet to take advantage of market interest rates when they move upward.

The following table highlights the change in composition of our balance sheet at September 30, 2001 and December 31, 2000:

Assets	September 30, 2001	December 31, 2000
Loans	56.9%	69.1%
Investments	37.1%	18.4%
Other assets	6.0%	12.5%
	100.0%	100.0%

Deposits	September 30, 2001	December 31, 2000
Demand, non-interest bearing	19.7%	24.1%
NOW, MMDA and savings	46.8%	50.0%
Time certificates	33.5%	25.9%
	100.0%	100.0%

Liabilities & Equity	September 30, 2001	December 31, 2000
Total deposits	63.0%	79.9%
Other borrowing	25.9%	8.3%
Other liabilities	5.1%	3.7%
Equity	5.9%	8.1%
	100.0%	100.0%

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

The impact on our net interest margin from this change in balance sheet mix has been a reduction in the net interest margin, offset by an increase in average earning assets. The net interest margin based on ending assets and liabilities at September 30, 2001 was 4.77% with interest earning assets of $6.4 billion. If we had not undertaken the change to our balance sheet mix, our net interest margin would have been 4.97% with interest earning assets of $6.0 billion. The overall impact on our net interest income and interest rate risk profile has been positive. Net interest income has increased, and the asset sensitive nature of the balance sheet has been slightly reduced. Our pro forma annualized net interest income based upon our September 30, 2001 balance sheet is $306.8 million. If we had not undertaken the change to our balance sheet mix, our pro forma annualized net interest income would have been $297.0 million.

Current modeling of our interest rate risk indicates that our net interest margin would contract approximately 10 to 15 basis points for every 25 basis point reduction in market interest rates. This relationship is estimated to be reasonable through an additional 50 basis point decline in market interest rates, assuming the mix and composition of our balance sheet remains similar.

The restructuring of the balance sheet has reduced a small portion of the downward pressure on our net interest margin, but it has not substantially reduced the upside if and when market interest rates begin their upward trend. For every 25 basis point increase in rates, it is anticipated that our net interest margin would increase by approximately 10 to 12 basis points. Again, this assumes a similar mix in loans and deposits. However, in an improving economy, we believe that our clients' demand for loans should increase, thus having the effect of increasing the net interest margin at a more rapid pace. For further information regarding our interest rate risk, see "Quantitative and Qualitative Disclosures about Market Risk".

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

Net Interest Income-Quarterly

Net interest income increased 21.6% to $72.8 million for the third quarter of 2001 from $59.8 million for the third quarter of 2000. This increase was primarily due to the $2.0 billion, or 46.6%, increase in average interest-earning assets which was partially offset by a 98 basis point decrease in our net yield on interest-earning assets. Net interest income increased 5.8% in the third quarter of 2001 from $68.7 million from the second quarter of 2001. This increase was primarily due to the $732.0 million, or 13.5%, increase in average interest-earning assets, which was partially offset by the 40 basis point decreases 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 September 30, 2001		
(Dollars in thousands)	Average balance (1)	Interest	Average yield / rate
INTEREST-EARNING ASSETS:			
Fed funds sold	$ 82,065	$ 1,673	8.09%
Other short term securities	321	5	6.18%
Investment securities:			
Taxable	2,095,101	33,829	6.40%
Tax-exempt (2)	123,637	1,472	4.72%
Loans (3)	3,838,288	82,727	8.55%
Total interest-earning assets	6,140,411	119,706	7.73%
Noninterest-earning assets	350,591		
Total assets	$ 6,490,768	119,706	
INTEREST-BEARING LIABILITIES:			
Deposits:			

MMDA, NOW and Savings	$ 2,051,106	14,078	2.72%	$
Time deposits, over $100,000	572,314	6,306	4.37%	
Other time deposits	865,166	9,382	4.30%	
Total interest-bearing deposits	3,488,586	29,766	3.39%	
Other borrowings	1,516,153	17,188	4.50%	
Total interest-bearing liabilities	5,004,739	46,954	3.72%	
Noninterest-bearing deposits	842,983			
Other noninterest-bearing liabilities	97,218			
Trust Preferred Securities	155,811			
Shareholders' equity	390,017			
Total shareholders' equity and liabilities	$ 6,490,768	46,954		$
Net interest income		$ 72,752		
Interest rate spread			4.01%	
Contribution of interest free funds			0.69%	
Net yield on interest-earnings assets(4)			4.70%	

(Dollars in thousands)	Three months ended September 30, 2000		
	Average balance (1)	Interest	Avera yield rate
INTEREST-EARNING ASSETS:			
Fed funds sold	$ 194,890	$ 4,334	
Other short term securities	26,649	399	
Investment securities:			
Taxable	826,183	14,978	
Tax-exempt (2)	177,876	2,185	
Loans (3)	2,962,402	74,716	1
Total interest-earning assets	4,188,000	96,612	
Noninterest-earning assets	344,392		
Total assets	$ 4,532,392	96,612	
INTEREST-BEARING LIABILITIES:			
Deposits:			
MMDA, NOW and Savings	$ 2,069,924	22,590	
Time deposits, over $100,000	686,354	9,614	
Other time deposits	156,828	2,576	
Total interest-bearing deposits	2,913,106	34,780	
Other borrowings	131,236	2,017	

Total interest-bearing liabilities	3,044,342	36,797
Noninterest-bearing deposits	859,293	
Other noninterest-bearing liabilities	227,613	
Trust Preferred Securities	99,500	
Shareholders' equity	301,644	
Total shareholders' equity and liabilities	$ 4,532,392	36,797
Net interest income		$ 59,815
Interest rate spread		
Contribution of interest free funds		
Net yield on interest-earnings assets(4)		

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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 6.84%, 6.87% and 6.60% for the three months ended September 30, 2001, June 30, 2001 and September 30, 2000, respectively, using the federal statutory rate of 34%.
(3) Loan fees totaling $2.3 million, $2.1 million and $1.3 million are included in loan interest income for three months ended September 30, 2001, June 30, 2001 and September 30, 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 September 30, 2001 compared with June 30, 2001 favorable / (unfavorable)			Th
(Dollars in thousands)	Volume	Rate	Net	Vo
INTEREST EARNED ON INTEREST-EARNING ASSETS				
Federal funds sold	$ (381)	$ 1,112	$ 731	$

Other short term investments	6	(2)	4	
Investment securities:				
Taxable	21,091	(11,874)	9,217	
Tax-exempt	(173)	(8)	(181)	
Loans	9,674	(11,546)	(1,872)	
Total interest income	30,216	(22,317)	7,899	
INTEREST EXPENSE ON INTEREST-BEARING LIABILITIES				
Deposits:				
MMDA, NOW and savings	194	1,220	1,414	
Time deposits over $100,000	845	719	1,564	
Other time deposits	(6,149)	4,798	(1,351)	(
Total interest-bearing deposits	(5,111)	6,738	1,627	(
Other borrowings	(11,432)	5,917	(5,515)	(
Total interest expense	(16,543)	12,655	(3,888)	(
Net increase (decrease) in net interest income	$ 13,674	$ (9,663)	$ 4,011	$

The Quarter Ended September 30, 2001 Compared to September 30, 2000

Interest income in the third quarter ended September 30, 2001 increased 23.9% to $119.7 million from $96.6 million in the quarter ended September 30, 2000. This was primarily due to the significant increase in loans and investment securities. Average interest-earning assets increased $2.0 billion, or 46.6%, to $6.1 billion in the three months ended September 30, 2001, compared to $4.2 billion in the same period of 2000. Average loans increased $875.9 million, or 29.6%, to $3.8 billion for the three months ended September 30, 2001 from $3.0 billion in the same period of 2000. Average investment securities, Federal funds sold and other short-term securities, increased 87.8% to $2.3 billion in the third quarter of 2001 from $1.2 billion in the same period of 2000. The impact of the increase in average assets was partially offset by a decrease in the yield earned on interest-earning assets.

During the first nine months of 2001, interest rates declined, due to the Federal Reserve Board's reduction of the key Fed Funds Rate by 400 basis points. As a result, the average yield on interest-earning assets decreased 145 basis points to 7.73% in the third quarter of 2001 from 9.18% in the same period of 2000. The average yield on loans decreased 148 basis points to 8.55% in the same period of 2001 from 10.03% in the same period of 2000.

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

Interest expense in the third quarter of 2001 increased 27.6% to $47.0 million from $36.8 million in the same period of 2000. This increase was due to greater volumes of interest-bearing liabilities. Average interest-bearing liabilities increased 64.4% to $5.0 billion in the third quarter of 2001 from $3.0 billion in the same period of 2000. The increase was due primarily to the increase in other borrowings which was a result of the implementation of our

wholesale funding strategy, described above. The increase in borrowings was augmented by deposit growth resulting from 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. The impact of the increase in average liabilities was partially offset by a decrease in the rate paid on interest bearing liabilities.

The average yield on interest-bearing liabilities decreased 109 basis points to 3.72% in the third quarter of 2001 from 4.81% in the same period of 2000. The average yield on interest bearing deposits decreased 136 basis points to 3.39% in the same period of 2001 from 4.75% in the same period of 2000.

During the third quarter of 2001, average noninterest-bearing deposits decreased to $843.0 million from $859.3 million in the same period of 2000.

As a result of the foregoing, our interest rate spread decreased to 4.01% in the third quarter of 2001 from 4.37% in the same period of 2000. The net yield on interest-earning assets decreased in the third quarter of 2001 to 4.70% from 5.68% in the same period of 2000.

The Quarter Ended September 30, 2001 Compared to June 30, 2001

Interest income in the third quarter ended September 30, 2001 increased 7.1% to $119.7 million from $111.8 million in the quarter ended June 30, 2001. This was primarily due to the significant increase in investment securities. Average interest-earning assets increased $731.9 million, or 13.5%, to $6.1 billion in the quarter ended September 30, 2001, compared to $5.4 billion in the previous quarter. Average loans increased $79.1 million, or 2.1%, to $3.8 billion for the quarter ended September 30, 2001 from $3.8 billion in the previous quarter. Average investment securities, Federal funds sold and other short-term securities, increased 39.6% to $2.3 billion in the third quarter of 2001 from $1.6 billion in the previous quarter. The impact of the increase in average assets was partially offset by a decrease in the yield earned on interest-earning assets.

During the quarter ended September 30, 2001, interest rates declined, due to the Federal Reserve Board's reduction of the key Fed Funds Rate by 125 basis points. As a result, the average yield on interest-earning assets decreased 56 basis points to 7.73% in the third quarter of 2001 from 8.29% in the previous quarter. The average yield on loans decreased 48 basis points to 8.55% in third quarter of 2001 from 9.03% in the previous quarter.

Interest expense in the third quarter of 2001 increased 9.0% to $47.0 million from $43.1 million in the previous quarter. This increase was due to greater volumes of interest-bearing liabilities. Average interest-bearing liabilities increased 14.9% to $5.0 billion in the third quarter of 2001 from $4.4 billion in the previous quarter. The increase was due primarily to the increase in other borrowings which was a result of the implementation of our wholesale funding strategy, described above. The impact of the increase in average liabilities was partially offset by a decrease in the rate paid on interest bearing liabilities.

The average yield on interest-bearing liabilities decreased 25 basis points to 3.72% in the third quarter of 2001 from 3.97% in the previous quarter

of 2001. The average yield on interest bearing deposits decreased 32 basis points to 3.39% in the third quarter of 2001 from 3.71% in the previous quarter.

During the third quarter of 2001, average noninterest-bearing deposits decreased to $843.0 million from $859.2 million in the previous quarter.

As a result of the foregoing, our interest rate spread decreased to 4.01% in the third quarter of 2001 from 4.32% in the previous quarter. The net yield on interest-earning assets decreased in the third quarter of 2001 to 4.70% from 5.10% in the previous quarter.

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

Net Interest Income-Year to Date

Net interest income increased 24.7% to $207.7 million for the nine months ended September 30, 2001 from $166.5 million for the nine months ended September 30, 2000. This increase was primarily due to the $1.5 billion, or 37.3%, increase in average interest-earning assets, which was partially offset by a 51 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.

	Nine months ended September 30, 2001			
(Dollars in thousands)	Average balance (1)	Interest	Average yield / rate	ba
INTEREST-EARNING ASSETS:				
Fed funds sold	$ 83,125	$ 5,216	8.39%	$
Other short term securities	271	14	6.91%	
Investment securities:				
Taxable	1,441,602	71,457	6.63%	
Tax-exempt (2)	146,218	5,254	4.80%	
Loans (3)	3,746,475	256,266	9.15%	
Total interest-earning assets	5,417,691	338,207	8.35%	
Noninterest-earning assets	370,756			
Total assets	$ 5,788,447	338,207		$
INTEREST-BEARING LIABILITIES:				
Deposits:				
MMDA, NOW and Savings	$ 2,098,777	48,939	3.12%	$
Time deposits, over $100,000	563,347	20,540	4.87%	
Other time deposits	715,494	26,157	4.89%	
Total interest-bearing deposits	3,377,618	95,636	3.79%	

Other borrowings	964,511	34,832	4.83%
Total interest-bearing liabilities	4,342,129	130,468	4.02%
Noninterest-bearing deposits	864,390		
Other noninterest-bearing liabilities	101,777		
Trust Preferred Securities	115,175		
Shareholders' equity	364,976		
Total shareholders' equity and liabilities	$ 5,788,447	130,468	
Net interest income		$ 207,739	
Interest rate spread			4.33%
Contribution of interest free funds			0.80%
Net yield on interest-earnings assets(4)			5.13%

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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 6.94% and 7.13% for the nine months ended September 30, 2001 and September 30, 2000, respectively, using the federal statutory rate of 34%.

(3) Loan fees totaling $7.7 million and $5.3 million are included in loan interest income for nine months ended September 30, 2001, and September 30, 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.

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

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).

	Nine months ended Septemb compared with September favorable / (unfavo	
(Dollars in thousands)	Volume	Rate
INTEREST EARNED ON INTEREST-EARNING ASSETS		
Federal funds sold	$ (10,041)	$ 3,631
Other short term investments	(1,345)	260

Investment securities:		
Taxable	35,563	(3,656)
Tax-exempt	(721)	(438)
Loans	75,917	(24,950)
Total interest income	99,373	(25,153)
INTEREST EXPENSE ON INTEREST-BEARING LIABILITIES		
Deposits:		
MMDA, NOW and savings	(2,421)	14,477
Time deposits over $100,000	2,164	1,939
Other time deposits	(20,754)	892
Total interest-bearing deposits	(21,011)	17,308
Other borrowings	(31,261)	1,943
Total interest expense	(52,272)	19,251
Net increase (decrease) in net interest income	$ 47,101	$ (5,902)

The Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Interest income in the nine months ended September 30, 2001 increased 28.1% to $338.2 million from $264.0 million in the same period of 2000. This was primarily due to the significant increase in loans and investment securities. Average interest-earning assets increased $1.5 billion, or 37.3%, to $5.4 billion in the nine months ended September 30, 2001, compared to $3.9 billion in the same period of 2000. Average loans increased $973 million, or 35.1%, to $3.7 billion for the nine months ended September 30, 2001 from $2.8 billion in the same period of 2000. Average investment securities, Federal funds sold and other short-term securities, increased 42.5% to $1.7 billion in the nine months ended 2001 from $1.2 billion in the same period of 2000. The impact of the increase in average assets was offset by a decrease in the yield earned on average interest-earning assets.

During the first nine months of 2001, interest rates declined, due to the Federal Reserve Board's reduction of the key Fed Funds Rate by 400 basis points. As a result, the average yield on interest-earning assets decreased 59 basis points to 8.35% in the nine months ended September 30, 2001 from 8.94% in the same period of 2000 primarily due to lower interest rates. The average yield on loans decreased 74 basis points to 9.15% in the same period of 2001 from 9.89% for the same period of 2000.

Interest expense in the nine months ended September 30, 2001 increased 33.9% to $130.5 million from $97.4 million for the same period of 2000. This increase was due to greater volumes of interest-bearing liabilities. Average interest-bearing liabilities increased 47.3% to $4.3 billion in the nine months ended September 30, 2001 from $2.9 billion in the same period of 2000. The increase was due primarily to the increase in other borrowings which was a

result of the implementation of our wholesale funding strategy, described above. The increase in borrowing was augmented by deposit growth resulting from 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.

The average yield on interest-bearing liabilities decreased 39 basis points to 4.02% for the nine months ended September 30, 2001, as compared from 4.41% for the same period of 2000. The average yield on interest bearing deposits decreased 114 basis points to 3.79% in the same period of 2001 from 4.35% for the same period in 2000.

During the nine months ended September 30, 2001, average noninterest-bearing deposits increased to $864.4 million from $818.4 million in the same period of 2000.

As a result of the foregoing, our interest rate spread decreased to 4.33% in the nine months ended September 30, 2001 from 4.52% in the same period of 2000. The net yield on interest-earning assets decreased in the nine months ended September 30, 2001 to 5.13% from 5.64% in the same period of 2000.

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 periods presented.

	Three months ended September 30,		Nine months
(Dollars in thousands)	2001	2000	2001
Average noninterest bearing demand deposits	$ 842,983	$ 859,293	$ 864,390
Client service expenses	548	477	1,845
Client service expenses, as a percentage of average noninterest bearing demand deposits	0.26%	0.22%	0.29%
IMPACT ON NET YIELD ON INTEREST-EARNING ASSETS:			
Net yield on interest-earning assets	4.70%	5.68%	5.13%
Impact of client service expense	(0.03)%	(0.04)%	(0.05)
Adjusted net yield on interest-earning assets	4.67%	5.64%	5.08%

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.

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

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 third quarter of 2001 was $7.9 million, compared to $9.8 million for the second quarter of 2001 and $7.8 million for the third quarter of 2000. The provision for loan losses for the nine months ended September 30, 2001 was $24.7 million as compared to $21.8 million for the nine months ended September 30, 2000. In addition, in connection with the Bank of Santa Clara, Coast Bancorp, and the Mt. Diablo Bancshares mergers, we made an additional provision for loan losses of $3.9 million in the third quarter of 2000 and $6.3 million for the nine months ended September 30, 2000, respectively, to conform to our allowance methodology.

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

Other Income

Total recurring income increased to $9.9 million in the third quarter of 2001, compared to $11.8 million for the second quarter of 2001 and $8.1 million for the third quarter of 2000. The following table sets forth information by category of other income for the periods indicated.

	At and for the three month periods en			
(Dollars in thousands)	September 30, 2001	June 30, 2001	March 31, 2001	Decemb 20
Service charges and other fees	$ 2,192	$ 2,091	$ 2,013	$
Loan and international banking fees	1,987	2,085	2,541	
Gain on sale of loans	1,684	375	835	
Trust fees	865	978	886	
Gain on sale of investments, net	819	3,944	1,578	
ATM network revenue	803	766	662	
Other income	1,538	1,588	2,216	
Total, recurring	9,888	11,827	10,731	
Warrant income	77	504	-	
Total	$ 9,965	$ 12,331	$ 10,731	$

The decrease in recurring income in the third quarter of 2001 as compared to the second quarter of 2001 and third quarter of 2000 was primarily the result of gain on sale of investments which decreased from $3.9 million during the

second quarter of 2001 to $819,000 during the third quarter of 2001. That decrease during the third quarter of 2001 compared to the second quarter of 2001 was partially offset by a $1.3 million increase in the gain on sale of loans.

During the third quarter of 2001, we recorded an $819,000 gain on the sale of investments, as compared to $3.9 million during the second quarter of 2001 and $3,000 during the third quarter of 2000. During the first two quarters of 2001, we undertook a program to consolidate the investment portfolios of our subsidiary banks (see " - FINANCIAL CONDITION - Investment Securities" below for further details). During the third quarter of 2001, sales of appreciated securities under this program slowed, resulting in the decline in the gain on sale of investments as compared to the second quarter.

During the third quarter of 2001, we recorded a $1.7 million gain on sale of loans, as compared to $375,000 in the second quarter of 2001, and $429,000 in the third quarter of 2000. $1.2 million of the gain for the third quarter of 2001 relates to the sale of $15.0 in Matsco's loan production. There were no such gains recorded during the first two quarters on 2001. Our future plans would indicate selling approximately 20% to 40% of Matsco's loan production. During the first two quarters of 2001, the gain on sale of investments allowed us to postpone the planned sale of Matsco loans. With the slowing of investment sales during the third quarter of 2001, we began to increase the sales of Matsco's loan production.

The gain on sale of loans includes gains on the sale of SBA loans of $439,000 for the third quarter of 2001, as compared to $375,000 in the second quarter of 2001, and $429,000 in the third 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 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. In the second quarter of 2001, originations declined and market conditions continued to weaken and as a result, our pace of sales declined.

During the third quarter of 2001, we recorded $2.0 million of loan and international banking fees, as compared to $2.1 million in the second quarter of 2001 and to $2.5 million in the third quarter of 2000. The decline during the third quarter of 2001 as compared to the third quarter of 2000 is a result of the slowing growth rate in our overall loan portfolio.

Other income in the third quarter of 2001, the second quarter of 2001 and the third quarter of 2000 included warrant income of $77,000, $504,000 and $2.8 million, which is net of related employee incentives of $33,000, $216,000 and $759,000, respectively. At September 30, 2001, we held approximately 135 warrant positions for which we do not have a significant recorded investment. 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 periods indicated.

(Dollars in thousands)	At and for the three mon		
	September 30, 2001	June 30, 2001	March 31, 2001
Compensation and benefits	$ 19,680	$ 19,060	$ 18,405
Occupancy and equipment	6,597	6,286	5,863
Trust Preferred Securities	3,724	2,454	2,458
Legal and other professional fees	2,324	1,532	1,387
Client service expenses	548	653	644
FDIC insurance and regulatory assessments	406	330	273
Expenses on other real estate owned	--	--	--
Other	7,161	7,057	6,560
Total operating expenses excluding nonrecurring costs	40,440	37,372	35,590
Mergers and other related nonrecurring costs	--	--	--
Total operating expenses	$ 40,440	$ 37,372	$ 35,590
Efficiency ratio	48.89%	46.10%	46.23
Efficiency ratio (before merger and nonrecurring items)	48.94%	46.39%	46.23
Efficiency ratio (excluding Matsco)	49.92%	45.77%	44.67
Efficiency ratio (excluding Matsco and before merger and nonrecurring items)	49.97%	46.08%	44.67
Total operating expenses to average assets	2.47%	2.60%	2.84
Total operating expenses to average assets (before merger and nonrecurring)	2.47%	2.60%	2.84

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

Operating expenses totaled $40.4 million for the third quarter of 2001, compared to $37.4 million for the second quarter of 2001 and $42.0 million for the third quarter of 2000. The ratio of operating expenses to average assets was 2.47% in the third quarter of 2001, 2.60% in the second quarter of 2001, and 3.68% in the third quarter of 2000. 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 third quarter of 2001 was 48.94%, compared to 46.39% for the second quarter of 2001 and 45.03% for the third quarter of 2000.

Compensation and benefits expenses increased in the third quarter of 2001

to $19.7 million, compared to $19.1 million in the second quarter of 2001 and $15.8 million in the third quarter of 2000. The increase in the third quarter of 2001, as compared to the second quarter is the result of increased incentive accruals as we neared our annual incentive targets. This increase was also impacted by an increase in full time equivalent employees from 1,047 to 1,060 during that period, which equates to an annualized growth rate in staffing of less than 10%. We believe future growth in the employee base will be less in subsequent quarters. An additional contributing factor to the increase in compensation and benefits for the third quarter of 2001 as compared to the same period in 2000 is due to the addition of Matsco and CAPCO in our results.

Trust Preferred Securities expense was $3.7 million for the third quarter of 2001, compared to $2.5 million for the second quarter of 2001 and $2.6 million for the third quarter of 2000. The increase in this expense was the result of the $118.5 million in Trust Preferred Securities issued in the third quarter of 2001.

During the third quarter of 2001, legal and other professional fees increased to $2.3 million as compared to $1.5 million for the quarter ended June 30, 2001. This increase relates primarily to consulting projects underway which are designed to improve the efficiency of back office operations.

The increases in occupancy and equipment, 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 third quarter of 2001 and the second quarter of 2001 was $272,000. Our diluted earnings per share excluding goodwill amortization was $0.50 for the third quarter of 2001.

Income Taxes

Our effective income tax rate for the third quarter of 2001 was 37.9%, compared to 37.5% in the second quarter of 2001 and 38.2% in the third quarter of 2000. The effective rates were lower than the statutory rate of 42% due to 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 33.4% to $6.8 billion at September 30, 2001, compared to $5.1 billion at December 31, 2000. The increase in the nine months ended September 30, 2001 was primarily due to increases in our investment and loan portfolios funded by growth in deposits and other borrowings.

Investment Securities

Investment securities increased to $2.4 billion at September 30, 2001 compared to $962.3 million at December 31, 2000. The increase is a result of the shift to wholesale funding sources for our specialty finance divisions. This change allowed us to increase the size of the investment portfolio by funding it with deposits which previously supported our specialty finance units. For further information see "Net Interest Income - Overview" above.

During the first quarter of 2001, we began a program to consolidate the investment portfolios of our 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 three quarters of 2001, we sold securities with an amortized cost of $201.5 million for a recognized gain of $3.8 million. Those sales include securities previously classified as held to maturity with an amortized cost of $43.2 million for a gain of $2.4 million. In total, these sales resulted in an insignificant reduction in the yield on our investment portfolio despite the declining interest rate environment. We anticipate making further investment securities sales under this program in subsequent quarters. The average life of the portfolio has declined from approximately 7 to approximately 3 1/2 years. Shortening the duration of the investment portfolio will result in an increase in the proceeds from maturities and prepayments in the next year which will provide additional funding for loan growth when the economy begins its recovery.

Loans

Total gross loans increased to $3.9 billion at September 30, 2001, compared to $3.6 billion at December 31, 2000 and $3.1 billion at September 30, 2000. While we continue to anticipate loan growth, we do not 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 October 17, 2001) indicated a target loan growth rate in the range of 10%.

We have continued to see strong loan demand during the third quarter of 2001. However, even with the significant volume, we are seeing a change in our corporate borrowers' usage of their lines of credit and we are also seeing a slowing in the commercial construction market, as builders postpone or delay projects that have been in process for several months. We continue to take a conservative posture related to credit underwriting, which we believe is a prudent course of action, especially during slowing economic times. We believe it is in the best interest of Greater Bay Bancorp and its shareholders to focus attention on our quality client relationships and avoid growth on the fringe during these uncertain times. Both of these factors have combined to cause a slowing in the growth of our loan portfolio.

While the short-term outlook for loan growth has slowed from late 2000 and early 2001, we are optimistic about the future, as we have continued to invest in new businesses that we believe will bring excellent opportunities for growth and expansion. Our acquisitions of Matsco, a dental equipment lease financing company, at the end of 2000 and CAPCO, an asset-based financing and factoring company, at the end of the first quarter of this year, are showing excellent growth opportunities as they become fully integrated into the our organization. Our new office in Carmel is now operational and will focus on large depositors, lending and cash management. In addition, the four banks that joined us last year are now fully integrated, both operationally and culturally into our organization. We expect solid growth from all of these sources in the latter part of 2001 and into 2002.

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

(Dollars in thousands)	September 31, 2001 Amount	%	December 31, 2000 Amount	%
Commercial	$ 1,645,159	43.2%	$ 1,562,712	44.4%
Term real estate - commercial	1,177,058	30.9	967,428	27.5
Total Commercial	2,822,217	74.1	2,530,140	71.9
Real estate construction and land	675,527	17.8	691,912	19.7
Real estate other	226,553	6.0	176,568	5.0
Consumer and other	184,458	4.8	216,459	6.2
Total loans, gross	3,908,755	102.7	3,615,079	102.8
Deferred fees and discounts, net	(14,075)	(0.4)	(13,657)	(0.4)
Total loans, net of deferred fees	3,894,680	102.3	3,601,422	102.4
Allowance for loan losses	(90,414)	(2.3)	(84,014)	(2.4)
Total loans, net	$ 3,804,266	100.0%	$ 3,517,408	100.0%

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

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 adversely impacting our net interest margin and results of operations.

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 September 30, 2001.

(Dollars in thousands)	Commercial	Term real estate- commercial	Real estate construction and land	Real estate other
Loans maturing in:				
One year or less:				
Fixed rate	$ 213,899	$ 28,103	$ 33,215	$ 11,770
Variable rate	163,712	20,327	307,993	15,387
One to five years:				
Fixed rate	214,885	170,819	11,680	3,801

Variable rate	530,850	167,673	303,288	33,956
After five years:				
Fixed rate	342,685	389,757	5,051	36,109
Variable rate	179,128	400,379	14,300	125,530
Total	$1,645,159	$ 1,177,058	$ 675,527	$ 226,553

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

Nonperforming 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 we 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.

(Dollars in thousands)	September 30, 2001	June 30, 2001	March 31 2001
Nonperforming loans:			
Nonaccrual loans	$ 21,620	$ 7,221	$ 17,87
Restructured loans	-	-	
Total nonperforming loans	21,620	7,221	17,87
OREO	-	-	25
Total nonperforming assets	$ 21,620	$ 7,221	$ 18,13
Accruing loans past due 90 days or more	$ 5,213	$ 833	$ 1,30
Nonperforming assets to total loans and OREO	0.56%	0.19%	0.4
Nonperforming assets to total assets	0.32%	0.12%	0.3
Nonperforming assets and accruing loans past due 90 days or more to total loans and OREO	0.69%	0.21%	0.5
Nonperforming assets and accruing loans past due 90 days or more to total assets	0.39%	0.13%	0.3

At September 30, 2001, we had $21.6 million in nonperforming assets, as compared to $12.6 million at December 31, 2000 and $15.7 million at September 30, 2000. Our ratio of nonperforming assets to total assets at September 30, 2001 was 0.32%, as compared to 0.25% at December 31, 2000 and 0.35% at September 30, 2000. Our ratios compare favorably to the industry average ratio of nonperforming assets to total assets of 0.62% at June 30, 2001, which represents the most recently available data.

The balance of loans past due 90 days or more and accruing increased to $5.2 million at September 30, 2001, as compared to $833,000 at June 30, 2001. Three loans included in the September 30, 2001, balance totaling $2.3 million were either paid off or were brought current including a substantial principal pay down after quarter end. A fourth loan with a balance of $2.1 million was brought current with respect to principal and interest in the first week of October.

In addition to the loans disclosed above as nonaccrual or restructured, management has also identified approximately $7.3 million in loans that, on the basis of information known to us, were judged to have a higher than normal risk of becoming nonperforming. Management cannot, however, predict the extent to which economic conditions may worsen or other factors may impact on our borrowers and 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.

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

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 periods indicated.

	At and for the three mo		
(Dollars in thousands)	September 30, 2001	June 30, 2001	March 3 2001
Period end loans outstanding	$ 3,894,680	$ 3,813,572	$ 3,725,
Average loans outstanding	$ 3,838,288	$ 3,759,151	$ 3,638,
Allowance for loan losses:			
Balance at beginning of period	$ 88,190	$ 85,914	$ 84,
Allowance of entities acquired through mergers accounted for under purchase accounting method	--	--	
Charge-offs:			
Commercial	(6,636)	(7,757)	(6,
Term Real Estate - Commercial	--	--	

Total Commercial	(6,636)	(7,757)	(6,
Real estate construction and land	--	--	
Real estate other	--	--	
Consumer and other	(83)	(109)	
Total charge-offs	(6,719)	(7,866)	(6,
Recoveries:			
Commercial	1,011	273	
Term Real Estate - Commercial	--	--	
Total Commercial	1,011	273	
Real estate construction and land	--	--	
Real estate other	--	--	
Consumer and other	52	20	
Total recoveries	1,063	293	
Net charge-offs	(5,656)	(7,573)	(5,
Provision charged to income (1)	7,880	9,849	6,
Balance at end of period	$ 90,414	$ 88,190	$ 85,
Quarterly net charge-offs to average loans outstanding during the period, annualized	0.58%	0.79%	0
Year to date net charge-offs to average loans outstanding during the period, annualized	0.66%	0.69%	0
Allowance as a percentage of average loans outstanding	2.34%	2.34%	2
Allowance as a percentage of period end loans outstanding	2.31%	2.30%	2
Allowance as a percentage of non-performing loans	418.20%	1221.30%	473

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

During the third quarter of 2001, our ratio of net charge-offs to average loans outstanding declined to 0.58%, as compared to 0.79% for the second quarter of 2001 and 0.37% for the third quarter of 2000.

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

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 a normal part of our ongoing analysis of loans in our real estate loan portfolio, we request and review on an annual basis updated financial and other information from the borrower, including updated rent rolls and lease rates.

In addition, as 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 whom they believe could suffer significant adverse effects from either increasing energy costs or periodic power outages. We have not to date identified 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, increase in complexity, and expand 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 believes that the allowance for loan losses is adequate as of September 30, 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 September 30, 2001, the allowance for loan losses was $90.4 million, consisting of an $84.2 million allocated allowance and a $6.2 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:

- Business cycles 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.

Deposits

Total deposits increased to $4.3 billion at September 30, 2001, compared to $4.2 billion at December 31, 2000 and $3.9 billion at September 30, 2000. While we continue to anticipate deposit growth, we do not expect the growth rate experienced during the last three years to continue. Our performance goals for 2001 (included in a Current Report on Form 8-K filed on October 17, 2001) indicated a target deposit growth rate of 5% to 10%.

In this economic environment, we believe our clients are more likely to utilize deposits and cash- on-hand rather than other funding sources. This is particularly evidenced in our venture banking unit, as our business clients focus more on managing current operations rather than business expansion, which has resulted in a reduction in their borrowing needs. The economic slowdown has also impacted our Trust unit as the general market conditions have reduced investments in our money market accounts.

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, obtain FHLB advances or purchase overnight Federal Funds.

Greater Bay is a company separate and apart from the banks. It must provide for its 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 September 30, 2001, the banks had approximately $124.4 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 its ongoing cash obligations. As of September 30, 2001, Greater Bay did not have any material commitments for capital expenditures.

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

Net cash provided by operating activities, consisting primarily of net income, totaled $100.7 million for the first nine months of 2001 and $61.1 million for the same period of 2000. Cash used for investing activities totaled $1.8 billion in the first nine month of 2001 and $884.7 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 nine months ended September 30, 2001, net cash provided by financing activities was $1.6 billion, compared to $742.7 million in the same period of 2000. Historically, our primary financing activity has been through deposits. For the nine months ended September 30, 2001 and 2000, deposit gathering activities generated cash of $149.3 million and $662.5 million, respectively. This represents a total of 9.3% and 89.2% of the financing cash flows for the nine months ended September 30, 2001 and 2000, respectively. As a result of our wholesale funding strategy, the increase in borrowings generated cash of $1.3 billion during the nine months ended 2001, as compared to $18.3 million for the same period in 2000.

Capital Resources

Shareholders' equity at September 30, 2001 increased to $406.7 million from $322.4 million at December 31, 2000. Greater Bay paid dividends of $0.115, and $0.35 per share during the three months ended September 30, 2001 and the twelve months ended December 31, 2000, respectively, excluding dividends paid by subsidiaries prior to the completion of their mergers.

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 (subject to regulatory limitations) 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 September 30, 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 September 30, 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	7.64%	9.83%	12.86%
Well-capitalized	5.00%	6.00%	10.00%
Adequately capitalized	4.00%	4.00%	8.00%

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

In order to strengthen our capital position, we issued $15.0 million in trust preferred securities in a private offering on July 16, 2001. On August 20, 2001 we completed a $103.5 million trust preferred securities public offering.

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, the ALCO, and the Asset Liability Management Committee of the Board of Directors 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 are currently focusing our investment activities on securities with terms or average lives between three and six years to shorten 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 interest rate swaps to manage the interest rate risk of certain liabilities. These interest rate swaps are not an "ineffective hedge" and are 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 and the resulting ratio of net portfolio value to net book value as of September 30, 2001.

Change in interest rates (dollars in millions)	Net portfolio value ("NPV")	Projected change of net portfolio value		Net book value ("NBV")
		Dollars	Percentage	
100 basis point rise	$ 808.8	$ 22.2	2.82%	$ 406.6
Base scenario	786.6			406.6
100 basis point decline	765.3	(21.3)	-2.71%	406.6

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

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 foregoing analysis attributes significant value to our non-interest-bearing deposit balances. 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 September 30, 2001, the analysis indicates that our net interest income for the next 12 months would increase 2.12% if rates increased 200 basis points, and decrease by 1.45% if rates decreased 200 basis point

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 created during the third quarter of 2001. 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 in 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.

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

The following table shows interest sensitivity gaps for different intervals as of September 30, 2001:

(Dollars in thousands)	Immediate or one day	2 days To 6 months	7 months to 12 months	1 Ye to 3
Assets:				
Cash and due from banks	$ --	$ 31,687	$ --	$
Federal Funds Sold	117,000	--	--	
Investment securities	76,044	424,025	331,570	784
Loans	1,889,922	776,437	266,609	681
Loan losses/unearned fees	--	--	--	
Other assets	--	558	558	2
Total assets	$ 2,082,966	$ 1,232,707	$ 598,737	$ 1,468
Liabilities and Equity:				
Deposits	$ 2,018,224	$ 1,198,156	$ 217,253	$ 24
Other borrowings	--	1,112,751	452,200	205
Trust preferred securities	--	--	--	
Other liabilities	--	--	--	
Shareholders' equity	--	--	--	
Total liabilities and equity	$ 2,018,224	$ 2,310,907	$ 669,453	$ 230
Gap	$ 64,742	$(1,078,200)	$ (70,716)	$ 1,238
Cumulative Gap	$ 64,742	$(1,013,458)	$(1,084,174)	$ 153
Cumulative Gap/total assets	0.95%	-14.81%	-15.84%	

	More than 5 years	Total rate sensitive	Total non-rate sensitive	Total
Assets:				
Cash and due from banks	$ --	$ 31,687	$ 181,124	$ 212,811
Federal Funds Sold	--	117,000	--	117,000
Investment securities	464,007	2,414,795	6,706	2,421,501
Loans	17,852	3,894,680	--	3,894,680
Loan losses/unearned fees	--	--	(90,414)	(90,414)
Other assets	15,901	21,481	266,465	287,946
Total assets	$ 497,760	$ 6,479,643	$ 363,881	$ 6,843,524
Liabilities and Equity:				
Deposits	$ 1,062	$ 3,462,780	$ 851,570	$ 4,314,350
Other borrowings	--	1,770,519	--	1,770,519
Trust preferred securities	218,000	218,000	--	218,000
Other liabilities	--	--	133,995	133,995
Shareholders' equity	--	--	406,660	406,660
Total liabilities and equity	$ 219,062	$ 5,451,299	$ 1,392,225	$ 6,843,524
Gap	$ 278,698	$ 1,028,344	$(1,028,344)	$ --
Cumulative Gap	$ 1,028,344	$ 1,028,344	$ --	$ --
Cumulative Gap/total assets	15.03%	15.03%	0.00%	0.00%

The foregoing table indicates that we had a one year negative gap of $(1.1) billion, or (15.84)% of total assets, at September 30, 2001. In theory, this would indicate that at September 30, 2001, $1.1 billion 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 increase 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 asset 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 interest earning assets has declined. See "Results of

Operations Net Interest Income - The Quarter Ended September 30, 2001 Compared to June 30, 2001". 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

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

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 September 30, 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

On July 20, 2001, the FASB issued SFAS No. 141 "Business Combinations" ("SFAS No. 141"). The standard concludes that all business combinations within the scope of the statement will be accounted for using the purchase method. Previously, the pooling-of-interests method was required whenever certain criteria were met. Because those criteria did not distinguish economically dissimilar transactions, similar business combinations were accounted for using different methods that produced dramatically different financial statement results. SFAS No. 141 requires separate recognition of intangible assets apart from goodwill if they meet one of two criteria, the contractual-legal criterion or the separability criterion. SFAS No. 141 also requires the disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption.

The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. SFAS No. 141 also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. Our definitive merger agreement with SJNB Financial Corp. was signed on June 25, 2001, before the required implementation date, and therefore SFAS No. 141 will not affect our ability to account for the merger as

a pooling of interests.

As a portion of our business strategy is to pursue acquisition opportunities so as to expand our market presence and maintain growth levels, the change in accounting could have an impact on our ability to realize those business strategies. As SFAS No. 141 has just been released, the impact of these changes has yet to be fully determined.

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

Goodwill and Other Intangible Assets

On July 20, 2001, the FASB also issued SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"). It addressed how intangible assets that are acquired individually or within a group of assets (but not those acquired in a business combination) should be accounted for in the financial statements upon their acquisition. SFAS No.142 adopts a more aggregate view of goodwill and bases the accounting on the units of the combined entity into which an acquired entity is aggregated. SFAS No. 142 also prescribes that goodwill and intangible assets that have indefinite useful lives will not be amortized but rather tested at least annually for impairment. Intangible assets that have definite lives will continue to be amortized over their useful lives, but no longer with the constraint of the 40 year ceiling. SFAS No. 142 provides specific guidance for the testing of goodwill for impairment which may require re-measurement of the fair value of the reporting unit. Additional ongoing financial statement disclosures are also required.

The provisions of the statement are required to be applied starting with fiscal years beginning after December 15, 2001. The statement is required to be applied at the beginning of the fiscal year and applied to all goodwill and other intangible assets recognized in the financials at that date. Impairment losses are to be reported as resulting from a change in accounting principle.

As SFAS No. 142 has just been released, the impact of these changes has yet to be fully determined.

Selected Loan Loss Allowance Methodology and Documentation Issues

A Staff Accounting Bulletin No. 102 "Selected Loan Loss Allowance Methodology and Documentation Issues" ("SAB No. 102") was released on July 10, 2001. It expresses certain of the staff's views on the development, documentation and application of a systematic methodology as required by Financial Reporting Release No. 28, Accounting for Loan Losses by Registrants Engaged in Lending Activities, for determining allowances for loan and lease losses in accordance with generally accepted accounting principles. In particular, SAB No. 102 focuses on the documentation the staff normally would expect registrants to prepare and maintain in support of their allowances for loan losses. We have a systematic methodology for determining an appropriate allowance for loan losses, consistently followed and supported by written documentation and policies and procedures. In light of SAB No. 102, however, our methodology and documentation is currently in the process of review. Any resulting changes are not expected to have a material impact on the financial statements.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings -- Not applicable

ITEM 2. Changes in Securities and Use of Proceeds -- Not applicable

ITEM 3. Defaults Upon Senior Securities - Not applicable

ITEM 4. Submission of Matters to a Vote of Security 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

2.1 Agreement and Plan of Reorganization, dated as of June 25, 2001 by and between Greater Bay Bancorp and SJNB Financial Corp. (Incorporated by reference to Exhibit 2 of the Current Report on Form 8-K filed on June 26, 2001).

2.2 Amendment No. 1, dated as of September 5, 2001, to the Agreement and Plan of Reorganization, dated as of June 25, 2001, by and between SJNB Financial Corp. and Greater Bay Bancorp (Incorporated by reference to Exhibit 2.3 of the Amendment No. 1 to the Registration Statement on Form S-4 (Reg. No. 333-68336) filed by Greater Bay Bancorp on September 13, 2001.

10.1 Stock Option agreement, dated as of June 25, 2001, by and between Greater Bay Bancorp and SJNB Financial Corp. (Incorporated by references to exhibit 10.1 of the Current Report on Form 8-K filed on June 26, 2001).

(b) Reports on Form 8-K

During the quarter ended September 30, 2001, the Registrant filed the following Current Reports on Form 8-K: (1) Form 8-K filed July 18, 2001 (containing press releases regarding second quarter earnings and completion of a $15 million trust preferred securities private offering.)

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: November 14, 2001