GREATER BAY BANCORP
Form 10-Q
August 03, 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 June 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 July 31, 2001:
42,740,871

GREATER BAY BANCORP

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GREATER BAY BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	June 30, 2001 (unaudited)
ASSETS	
Cash and due from banks	$ 201,598
Federal funds sold	55,000
Other short term securities	58
Cash and cash equivalents	256,656
Investment securities:	
Available for sale, at fair value	1,913,990
Held to maturity, at amortized cost (fair value 2000: $364,787)	-
Other securities	68,449
Investment securities	1,982,439
Total loans:	

Commercial	1,620,541
Term real estate - commercial	1,041,530
Total commercial	2,662,071
Real estate construction and land	723,394
Real estate other	236,927
Consumer and other	204,939
Deferred loan fees and discounts	(13,759
Total loans, net of deferred fees	3,813,572
Allowance for loan losses	(88,190
Total loans, net	3,725,382
Property, premises and equipment, net	37,905
Interest receivable and other assets	222,595
Total assets	$ 6,224,977
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Demand, noninterest-bearing	$ 846,505
MMDA, NOW and savings	2,058,234
Time certificates, $100,000 and over	770,826
Other time certificates	641,187
Total deposits	4,316,752
Other borrowings	1,344,926
Other liabilities	92,157
Total liabilities	5,753,835
Company obligated mandatorily redeemable cumulative trust preferred securities of subsidiary trusts holding solely junior subordinated debentures	99,500
Commitments and contingencies	
SHAREHOLDERS' EQUITY	
Preferred stock, no par value: 4,000,000 shares authorized; none issued	-
Common stock, no par value: 80,000,000 shares authorized; 42,625,248 and 41,929,173 shares issued and outstanding as of June 30, 2001 and December 31, 2000, respectively	178,598
Accumulated other comprehensive income (loss)	3,227
Retained earnings	189,817
Total shareholders' equity	371,642
Total liabilities and shareholders' equity	$ 6,224,977

See notes to consolidated financial statements.

GREATER BAY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(Dollars in thousands, except per share amounts)	Three months ended June 30, 2001	2000*
INTEREST INCOME		
Interest on loans	$ 84,599	$ 69,006
Interest on investment securities:		
Taxable	23,127	12,901
Tax - exempt	1,653	2,225
Total interest on investment securities	24,780	15,126
Other interest income	2,428	3,406
Total interest income	111,807	87,538
INTEREST EXPENSE		
Interest on deposits	31,393	29,293
Interest on long term borrowings	3,159	353
Interest on other borrowings	8,514	1,330
Total interest expense	43,066	30,976
Net interest income	68,741	56,562
Provision for loan losses	9,849	8,312
Net interest income after provision for loan losses	58,892	48,250
OTHER INCOME		
Gain on sale of investments, net	3,944	58
Service charges and other fees	2,091	2,194
Loan and international banking fees	2,085	1,927
Trust fees	978	827
ATM network revenue	766	676
Gain on sale of SBA loans	375	753
Other income	1,588	1,482
Total recurring	11,827	7,917
Warrant income, net	504	740
Total	12,331	8,657
OPERATING EXPENSES		
Compensation and benefits	19,060	15,258
Occupancy and equipment	6,286	5,117
Trust Preferred Securities	2,454	1,783
Legal and other professional fees	1,532	1,199
Telephone, postage and supplies	1,382	1,182
Marketing and promotion	1,272	1,086
Client services	653	496
FDIC insurance and regulatory assessments	330	251
Directors fees	203	242
Other real estate owned	-	41
Other	4,200	2,840

Total, recurring	37,372	29,495
Merger and other related nonrecurring costs	-	10,203
Total operating expenses	37,372	39,698
Income before provision for income taxes	33,851	17,209
Provision for income taxes	12,703	6,784
Net income	$ 21,148	$ 10,425
Net income per share - basic**	$ 0.50	$ 0.25
Net income per share - diluted**	$ 0.48	$ 0.24

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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 Ended June	
(Dollars in thousands)	2001	
Net income	$ 21,148	$ 1
Other comprehensive income:		
Unrealized gains on securities:		
Unrealized holding gains arising during period (net of taxes of $34 and $(3,558) for the three months ended June 30, 2001 and 2000, and $5,783 and $(4,786) for the six months ended June 30, 2001 and 2000, respectively)	48	(
less: reclassification adjustment for gains included in net income	557	
Net change	605	(
Cash flow hedges:		
Net derivative gains arising during period (net of taxes of $734 and $(38) for the three months ended June 30, 2001 and 2000, and $48 and $139 for the six months ended June 30, 2001 and 2000, respectively)	1,050	
Less: reclassification adjustment for expenses		

included in income (net of taxes of $(16) and $(3) for the three months ended June 30, 2001 and 2000, and $(32) and $(5) for the six months ended June 30, 2001 and 2000, respectively)	(24)	
Net change	1,026	
Other comprehensive income	1,631	(
Comprehensive income	$ 22,779	$

See notes to consolidated financial statements.

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

(Dollars in thousands)	S 20
Cash flows - operating activities	
Net income	$ 42
Reconcilement of net income to net cash from operations:	
Provision for loan losses	17
Depreciation and amortization	5
Deferred income taxes	(1
(Gain) loss on sale of investments, net	3
Changes in:	
Accrued interest receivable and other assets	(9
Accrued interest payable and other liabilities	(20
Deferred loan fees and discounts, net	
Operating cash flows, net	37
Cash flows - investing activities	
Maturities and partial paydowns on investment securities:	
Held to maturity	
Available for sale	185
Other securities	
Purchase of investment securities:	
Held to maturity	
Available for sale	(1,341
Other securities	(38
Proceeds from sale of available for sale securities	190
Loans, net	(210
Loan acquired from business acquisition	(14
Payment for business acquisitions, net of cash acquired	(7
Sale of other real estate owned	
Purchase of property, premises and equipment	(7
Purchase of insurance policies	(4

Investing cash flows, net	(1,250
Cash flows - financing activities	
Net change in deposits	151
Net change in other borrowings - short term	851
Proceeds from other borrowings - long term	83
Principal repayment - long term borrowings	(21
Proceeds from company obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures	
Proceeds from sale of common stock	3
Cash dividends	(8
Financing cash flows, net	1,060
Net change in cash and cash equivalents	(152
Cash and cash equivalents at beginning of period	408
Cash and cash equivalents at end of period	$ 256
Cash flows - supplemental disclosures	
Cash paid during the period for:	
Interest	$ 73
Income taxes	$ 43
Non-cash transactions:	
Additions to other real estate owned	$
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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of June 30, 2001 and December 31, 2000 and for the
Three Months and Six Months Ended June 30, 2001 and 2000

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Balance Sheet as of June 30, 2001, the Consolidated Statements of Operations and Comprehensive Income for the three months and six months ended June 30, 2001, and the Consolidated Statements of Cash Flows for the six months ended June 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 six months ended June 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, 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 periods consolidated financial statements to conform to the current presentation. In the opinion of management such unaudited financial statements reflect all adjustments necessary for fair statement of the results of operations and balances for the interim period presented. Our accounting and reporting policies conform to generally accepted accounting principles and the prevailing practices within the banking industry.

We have completed six mergers and acquisitions since December 31, 1999. The mergers with Mt. Diablo Bancshares, Coast Bancorp, Bank of Santa Clara and Bank of Petaluma were accounted for as a pooling-of-interests and, accordingly, all of our financial information for the periods prior to the mergers has been restated as if the mergers had occurred at the beginning of the earliest period presented. The 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.

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

Comprehensive Income

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

(Dollars in thousands)	Unrealized gains on securities	Cash flow hedges	Accumulated other comprehensive income

Balance - December 31, 2000	$	(6,700)	$	148	$	(6,552)
Current period change		9,756		23		9,779
Balance - June 30, 2001	$	3,056	$	171	$	3,227
Balance - December 31, 1999	$	(10,662)	$	1,504	$	(9,158)
Current period change		(6,811)		192		(6,619)
Balance - June 30, 2000	$	(17,473)	$	1,696	$	(15,777)
Balance - March 31, 2001	$	2,451	$	(855)	$	1,596
Current period change		605		1,026		1,631
Balance - June 30, 2001	$	3,056	$	171	$	3,227
Balance - March 31, 2000	$	(12,418)	$	1,755	$	(10,663)
Current period change		(5,055)		(59)		(5,114)
Balance - June 30, 2000	$	(17,473)	$	1,696	$	(15,777)

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 June 25, 2001, we signed a definitive merger agreement with SJNB Financial Corp., the holding company for San Jose National Bank. The agreement provides for SJNB Financial Corp. shareholders to receive approximately 6.9 million shares of our stock subject to certain adjustments based on changes in our stock price in a tax-free exchange to be accounted for as a pooling-of-interest. The transaction is expected to be completed in the fourth quarter of 2001, subject to Greater Bay and SJNB Financial Corp. shareholders' and regulatory approvals. As of and for the six month ended June 30, 2001, SJNB Financial Corp. had $17.2 million in net interest income, $5.8 million in net income, $660.5 million in assets, $562.8 in deposits and $70.5 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 $42.3 million for a gain of $2.4 million.

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

NOTE 4--BORROWINGS

Other borrowings are detailed as follows:

(Dollars in thousands)	June 30, 2001	December 31, 2000
Other borrowings:		
Short term borrowings:		
Securities sold under agreements to repurchase	$ 186,050	$ 63,000
Other short term notes payable	-	15,419
FHLB advances	980,600	183,000
Advances under credit lines	48,000	15,000
Total short term borrowings	1,214,650	276,419
Long term borrowings:		
Other long term notes payable	27,276	51,809
FHLB advances	103,000	103,000

Total other long term borrowings	130,276	154,809
Total other borrowings	$ 1,344,926	$ 431,228

During the six months ended June 30, 2001 and the year ended December 31, 2000, the average balance of securities sold under short term agreements to repurchase was $84.2 million and $76.8 million, respectively, and the average interest rates during those periods were 4.17% and 6.05%, respectively. Securities sold under short term agreements to repurchase generally mature within 90 days of dates of purchase.

During the six months ended June 30, 2001 and the year ended December 31, 2000, the average balance of federal funds purchased was $97.8 million and $105.3 million, respectively, and the average interest rates during those periods were 5.78% and 6.49%, respectively. There was no such balance outstanding at June 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	$ 980,600	$ 103,000
Maturity	2001	2002 - 2003
Average rates	4.43%	5.92%

As of June 30, 2001, we had short-term, unsecured credit facilities from two financial institutions totaling $65.0 million. At June 30, 2001 and December 31, 2000, we had advances outstanding of $48.0 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--SUBSEQUENT EVENTS: ISSUANCE OF ADDITIONAL COMPANY OBLIGATED MANDITORILY REDEEMABLE CUMULATIVE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLEY 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, we expect that the trust preferred securities will 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 July 25, 2001, we filed a Registration Statement on Form S-3, plus a 15% over allotment option, with the Securities Exchange Commission relating to a proposed sale of $75.0 million, plus a 15% overallotment option, in trust preferred securities in an underwritten public offering. We expect the sale of these securities to occur during the third quarter of 2001.

NOTE 6--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 six months ended June 30, 2001 and 2000.

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

	For the three months ended	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominator)
Basic net income per share:		
Income available to common shareholders	$ 21,148	42,562,000
Effect of dilutive securities:		
Stock options	-	1,123,000
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 21,148	43,685,000

	For the three months end	
(Dollars in thousands, except per share amounts)	Income (numerator)	Shares (denominator)
Basic net income per share:		
Income available to common shareholders	$ 10,425	41,207,000
Effect of dilutive securities:		
Stock options	-	1,706,000
Diluted net income per share:		
Income available to common shareholders		

and assumed conversions	$ 10,425	42,913,000

(Dollars in thousands, except per share amounts)	For the six months ended	
	Income (numerator)	Shares (denominator)
Basic net income per share:		
Income available to common shareholders	$ 42,679	42,445,000
Effect of dilutive securities:		
Stock options	-	1,646,000
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 42,679	44,091,000

(Dollars in thousands, except per share amounts)	For the six months ended	
	Income (numerator)	Shares (denominator)
Basic net income per share:		
Income available to common shareholders	$ 27,721	40,752,000
Effect of dilutive securities:		
Stock options	-	1,805,000
Diluted net income per share:		
Income available to common shareholders and assumed conversions	$ 27,721	42,557,000

There were options to purchase 1,370,127 shares and 0 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 June 30, 2001 and 2000, respectively. There were options to purchase 1,311,947 shares and 2,156 shares that were considered anti-dilutive during the six months ended June 30, 2001 and 2000, respectively.

The three and six month periods ended June 30, 2000 has been retroactively restated to reflect the 2-for-1 stock split effective as of October 4, 2000.

Weighted average shares outstanding and all per share amounts included in the consolidated financial statements and notes thereto are based upon the increased number of shares giving retroactive effect to the 2000 mergers with Bank of Petaluma at a 0.5731 conversion ratio and Bank of Santa Clara at a 0.8499 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. Thirteen of the divisions have been aggregated into the "community banking" segment. Community banking provides a range of commercial banking services to small and medium-sized businesses, real estate developers, property managers, business executives, professionals and other individuals. The trust division has been shown as the "trust operations" segment. Our business is conducted in the U.S.

The following table shows each segment's key operating results and financial position for the six months ended June 30, 2001 and 2000:

	Six months ended June 30, 2001		Six months ended June 30, 2000	
(Dollars in thousands)	Community banking	Trust operations	Community banking	Tru opera
Net interest income	$ 134,755	$ 458	$ 105,010	$
Other income	20,242	2,083	23,904	1
Operating expenses	43,276	1,474	37,932	1
Net income before income taxes (1)	95,073	938	70,467	
Total assets	5,679,942	-	3,964,444	
Deposits	4,316,752	55,460	3,652,276	64
Assets under management	-	683,306	-	795

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

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 six months ended June 30, 2001 and 2000 is presented below.

(Dollars in thousands)	Six months ended June 30, 2001	Six Ju
Net interest income and other income		
Total segment net interest income and other income	$ 157,538	$ 1
Parent company net interest income and other income	511	
Consolidated net interest income and other income	$ 158,049	$ 1
Net income before taxes		
Total segment net income before income taxes	$ 96,011	$
Parent company net income before income taxes	(27,701)	(
Consolidated net income before income taxes	$ 68,310	$
Total assets		
Total segment assets	$ 5,679,942	$ 3,9
Parent company segment assets	545,035	3
Consolidated total assets	$ 6,224,977	$ 4,3

NOTE 8--CASH DIVIDEND

We declared a cash dividend of $0.10 cents per share payable on July 16, 2001 to shareholders of record as of June 29, 2001.

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

OVERVIEW

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

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

We also operate through the following divisions: CAPCO, Greater Bay Bank Contra Costa Region, Greater Bay Bank Fremont Region, Greater Bay Bank Marin, Greater Bay Bank Santa Clara Valley Commercial Banking Group, Greater Bay Bank SBA Lending Group, Greater Bay Corporate Finance Group, Greater Bay International Banking Division, Greater Bay Trust Company, Matsco, Pacific Business Funding and the Venture Banking Group.

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

At June 30, 2001, we had total assets of $6.2 billion, total loans, net, of $3.7 billion and total deposits of $4.3 billion.

We have completed six mergers and acquisitions since December 31, 1999. The mergers with Mt. Diablo Bancshares, Coast Bancorp, Bank of Santa Clara and Bank of Petaluma were accounted for as a pooling-of-interests and, accordingly, all of our financial information for the periods prior to the mergers has been restated as if the mergers had occurred at the beginning of the earliest period presented. The 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.

The three and six month periods ended June 30, 2000 have been retroactively 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 conditions, competition in the geographic and business areas in which we conduct our operations, fluctuation in interest rates, credit quality and government regulation and other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2000.

RESULTS OF OPERATIONS

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

	Core earnings (income before nonrecurring warrant income, merge other related nonrecurring costs, nonrecurring expenses and extraordinar	
(Dollars in thousands, except per share amounts)	Three months ended June 30, 2001	Three m June

Income	$ 20,856
Income per share:	
Basic	$ 0.49
Diluted	$ 0.48
Return on average assets	1.45%
Return on average shareholders' equity	23.00%

(Dollars in thousands, except per share amounts)	Income including nonrecurring war income and before merger and other r nonrecurring costs, other nonrecu expenses and extraordinary items	
	Three months ended June 30, 2001	Three m June
Income	$ 21,148	
Income per share:		
Basic	$ 0.50	
Diluted	$ 0.48	
Return on average assets	1.47%	
Return on average shareholders' equity	23.32%	

(Dollars in thousands, except per share amounts)	Net income (including non-recurri warrant income and merger and other r nonrecurring costs, other nonrecurr expenses and extraordinary items)	
	Three months ended June 30, 2001	Three m June
Income	$ 21,148	$
Income per share:		
Basic	$ 0.50	$
Diluted	$ 0.48	$
Return on average assets	1.47%	
Return on average shareholders' equity	23.32%	

(Dollars in thousands, except per share amounts)	Core earnings (income before nonrecurring warrant income, merger other related nonrecurring costs, o nonrecurring expenses and extraordinary	
	Six months ended June 30, 2001	Six mon June
Income	$ 42,387	$
Income per share:		
Basic	$ 1.00	$
Diluted	$ 0.96	$
Return on average assets	1.57%	
Return on average shareholders' equity	24.27%	

Income including nonrecurring warr
income and before merger and other re

(Dollars in thousands, except per share amounts)	nonrecurring costs, other nonrecur expenses and extraordinary items Six months ended June 30, 2001	Six month June 30
Income	$ 42,679	$
Income per share:		
Basic	$ 1.01	$
Diluted	$ 0.97	$
Return on average assets	1.58%	
Return on average shareholders' equity	24.43%	

(Dollars in thousands, except per share amounts)	Net income (including non-recurri warrant income and merger and other r nonrecurring costs, other nonrecurri expenses and extraordinary items) Six months ended June 30, 2001	Six month June 30
Income	$ 42,679	$
Income per share:		
Basic	$ 1.01	$
Diluted	$ 0.97	$
Return on average assets	1.58%	
Return on average shareholders' equity	24.43%	

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

Quarter to Date

Net income for the second quarter of 2001 increased 102.9% to $21.1 million, or $0.48 per diluted share, compared to net income of $10.4 million, or $0.24 per diluted share, for the second quarter of 2000.

The second quarter 2001 results included nonrecurring warrant income of $504,000 ($292,000 net of taxes) compared to $740,000 ($450,000, net of taxes) during the second quarter of 2000. In addition, for the second quarter of 2001 there were no merger and other related nonrecurring costs as compared to $10.2 million ($6.7 million, net of taxes) in the second quarter of 2000.

Income including nonrecurring warrant income and before nonrecurring merger and other related expenses and extraordinary items, increased 23.2% to $21.1 million, or $0.48 per diluted share, in the second quarter of 2001, compared to $17.2 million, or $0.40 per diluted share, in the second quarter of 2000.

Our core earnings for the second quarter of 2001 increased 24.7% to $20.9 million, or $0.48 per diluted share, compared to $16.7 million, or $0.39 per diluted share, in the second quarter of 2000. Based on our core earnings for second quarter of 2001, our return on average shareholders' equity was 23.00% and our return on average assets was 1.45%. During the second quarter of 2000, our core earnings resulted in a return on average shareholders' equity of 23.62%

and a return on average assets of 1.60%.

The 24.7% increase in core earnings during second quarter of 2001 as compared to second quarter of 2000 was the result of significant growth in loans and investments. For the second quarter of 2001, net interest income increased 21.5% as compared to the second quarter of 2000. This increase was primarily due to a 35.8% increase in average interest-earning assets for the second quarter of 2001 as compared to 2000. The increases in loans, trust assets, and deposits also contributed to the 4.2% increase in loan and international banking fees, service charges and other fees, and trust fees. Increases in operating expenses were required to service and support our growth. As a result, increases in revenue were partially offset for the second quarter of 2001 by a 26.7% increase in recurring operating expenses, as compared to second quarter of 2000.

Year to Date

Net income for the six months ended June 30, 2001 increased 54.0% to $42.7 million, or $0.97 per diluted share, compared to net income of $27.7 million, or $0.65 per diluted share, for the six months ended June 30, 2000.

The six months ended June 30, 2001 results included nonrecurring warrant income of $504,000 ($292,000 net of taxes) as compared to $9.3 million ($5.5 million, net of taxes) during the six months ended June 30, 2000. In addition, for the six months ended June 30, 2001 there were no merger and other related nonrecurring costs as compared to $14.1 million ($9.1 million, net of taxes) in the six months ended June 30, 2000.

Income including nonrecurring warrant income and before nonrecurring merger and other related expenses and extraordinary items, increased 15.8% to $42.7 million, or $0.97 per diluted share, for the six months ended June 30 2001, compared to $36.9 million, or $0.87 per diluted share, for the six months ended June 30, 2000.

Our core earnings for the six months ended June 30, 2001 increased 35.1% to $42.4 million, or $0.96 per diluted share, compared to $31.4 million, or $0.74 per diluted share, for the six months ended June 30, 2000. Based on our core earnings for the six months ended June 30, 2001, our return on average shareholders' equity was 24.27% and our return on average assets was 1.57%. During the six months ended June 30, 2000, our core earnings resulted in a return on average shareholders' equity of 22.78% and a return on average assets of 1.54%.

The 35.1% increase in core earnings for the six months ended June 30, 2001 as compared to the six months ended June 30, 2000 was the result of significant growth in loans and investments. For the six months ended June 30, 2001, net interest income increased 26.5% as compared to the six months ended June 30, 2000. This increase was primarily due to a 32.9% increase in average interest-earning assets during the six months ended June 30, 2001 as compared to the six months ended June 30, 2000. The increases in loans, trust assets, and deposits also contributed to the 16.2% increase in loan and international banking fees, service charges and other fees, and trust fees. Increases in operating expenses were required to service and support our growth. As a result, increases in revenue were partially offset for the six months ended June 30, 2001 by a 24.3% increase in recurring operating expenses, as compared to the six months ended June 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 June 30, 2001 and December 31, 2000:

Assets (Dollars in thousands)	June 30, 2001	December 31, 2000
Loans	60.4%	69.1%
Investments	31.4%	18.4%
Other assets	8.2%	12.5%
	100.0%	100.0%

Deposits (Dollars in thousands)	June 30, 2001	December 31, 2000
Demand, non-interest bearing	19.6%	24.1%
NOW, MMDA and savings	47.7%	50.0%
Time certificates	32.7%	25.9%
	100.0%	100.0%

Liabilities & Equity (Dollars in thousands)	June 30, 2001	December 31, 2000
Total deposits	68.4%	79.9%
Other borrowing	21.3%	8.3%
Other liabilities	2.9%	3.7%
Equity	7.4%	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 overall impact on our net interest income and interest rate risk profile has been positive, net interest income has increased, while the asset sensitive nature of the balance sheet has been slightly reduced.

Current modeling of our interest rate risk indicates that our net interest margin will contract approximately 5 to 7 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 when market interest rates begin their upward trend. For every 25 basis point increase in rates, it is anticipated that our net interest margin will increase by approximately 10 to 12 basis points. Again, this assumes a similar mix in loans and deposits. However, in an improving economy, 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".

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

Net Interest Income-Quarterly

Net interest income increased 21.5% to $68.7 million for the second quarter of 2001 from $56.6 million for the second quarter of 2000. This increase was primarily due to the $1.4 billion, or 35.8%, increase in average interest-earning assets which was partially offset by a 61 basis point decrease in our net yield on interest-earning assets. Net interest income increased 3.8% in the second quarter of 2001 from $66.2 million from the first quarter of 2001. This increase was primarily due to the $720.7 million, or 15.4%, increase in average interest-earning assets, which was partially offset by the 63 basis point decrease in our net yield on interest-earning assets.

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

	Three months ended June 30, 2001		
(Dollars in thousands)	Average balance (1)	Interest	Averag yield rate
INTEREST-EARNING ASSETS:			
Fed funds sold	$ 87,372	$ 942	4.3
Other short term securities	57	1	7.0

Investment securities:			
Taxable	1,422,065	24,612	6.9
Tax-exempt (2)	139,571	1,653	4.7
Loans (3)	3,759,151	84,599	9.0
Total interest-earning assets	5,408,216	111,807	8.2
Noninterest-earning assets	362,568		
Total assets	$ 5,770,784	111,807	
INTEREST-BEARING LIABILITIES:			
Deposits:			
MMDA, NOW and Savings	$ 2,080,286	15,492	2.9
Time deposits, over $100,000	649,212	7,870	4.8
Other time deposits	666,652	8,031	4.8
Total interest-bearing deposits	3,396,150	31,393	3.7
Other borrowings	957,798	11,673	4.8
Total interest-bearing liabilities	4,353,948	43,066	3.9
Noninterest-bearing deposits	859,178		
Other noninterest-bearing liabilities	94,373		
Trust Preferred Securities	99,500		
Shareholders' equity	363,785		
Total shareholders' equity and liabilities	$ 5,770,784	43,066	
Net interest income		$ 68,741	
Interest rate spread			4.3
Contribution of interest free funds			0.7
Net yield on interest-earnings assets(4)			5.1

(Dollars in thousands)	Interest	Average yield / rate	Average balance (1)
INTEREST-EARNING ASSETS:			
Fed funds sold	$ 1,117	5.67%	$ 212,49
Other short term securities	1	7.12%	17,02
Investment securities:			
Taxable	14,502	7.42%	758,60
Tax-exempt (2)	2,130	4.91%	166,70
Loans (3)	88,944	9.91%	2,826,61
Total interest-earning assets	106,694	9.23%	3,981,43
Noninterest-earning assets			231,76
Total assets	106,694		$ 4,213,20

INTEREST-BEARING LIABILITIES:			
Deposits:			
MMDA, NOW and Savings	19,303	3.63%	$ 2,088,10
Time deposits, over $100,000	8,677	5.58%	618,66
Other time deposits	6,498	5.87%	157,53
Total interest-bearing deposits	34,478	4.32%	2,864,31
Other borrowings	5,970	5.94%	108,22
Total interest-bearing liabilities	40,448	4.50%	2,972,53
Noninterest-bearing deposits			823,33
Other noninterest-bearing liabilities			54,35
Trust Preferred Securities			78,32
Shareholders' equity			284,65
Total shareholders' equity and liabilities	40,448		$ 4,213,20
Net interest income	$ 66,246		
Interest rate spread		4.73%	
Contribution of interest free funds		1.00%	
Net yield on interest-earnings assets(4)		5.73%	

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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 6.87%, 7.08% and 7.81% for the three months ended June 30, 2001, March 31, 2001, and June 30, 2000, respectively, using the federal statutory rate of 34%.
(3) Loan fees totaling $2.1 million, $3.3 million and $2.0 million are included in loan interest income for three months ended June 30, 2001, March 31, 2001 and June 31, 2000, respectively.
(4) Net yield on interest-earning assets during the period equals (a) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (b) average interest-earning assets for the period.

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

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

	Three months ended Ju compared with March favorable / (unfav	
(Dollars in thousands)	Volume	Rate
INTEREST EARNED ON INTEREST-EARNING ASSETS		
Federal funds sold	$ 558	$ (
Other short term investments	-	
Investment securities:		
Taxable	16,363	(6,
Tax-exempt	(414)	
Loans	16,228	(20,
Total interest income	32,735	(27,
INTEREST EXPENSE ON INTEREST-BEARING LIABILITIES		
Deposits:		
MMDA, NOW and savings	632	3,
Time deposits over $100,000	(1,548)	2,
Other time deposits	(7,965)	6,
Total interest-bearing deposits	(8,881)	11,
Other borrowings	(12,623)	6,
Total interest expense	(21,504)	18,
Net increase (decrease) in net interest income	$ 11,231	$ (8,

	Three months ended June compared with June 30 favorable / (unfavor	
(Dollars in thousands)	Volume	Rate
INTEREST EARNED ON INTEREST-EARNING ASSETS		
Federal funds sold	$ (1,513)	$ (719
Other short term investments	(592)	361
Investment securities:		
Taxable	11,515	196
Tax-exempt	(336)	(236
Loans	48,514	(32,921
Total interest income	57,588	(33,319
INTEREST EXPENSE ON INTEREST-BEARING LIABILITIES		
Deposits:		
MMDA, NOW and savings	70	3,482
Time deposits over $100,000	(2,105)	2,596
Other time deposits	(6,139)	(4
Total interest-bearing deposits	(8,174)	6,074
Other borrowings	(12,597)	2,607
Total interest expense	(20,771)	8,681
Net increase (decrease) in net interest income	$ 36,817	$(24,638

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

Interest income in the second quarter ended June 30, 2001 increased 27.7% to $111.8 million from $87.5 million in the quarter ended June 30, 2000. This was primarily due to the significant increase in loans and investment securities. Average interest-earning assets increased $1.4 billion, or 35.8%, to $5.4 billion in the three months ended June 30, 2001, compared to $4.0 billion in the same period of 2000. Average loans increased $932.5 million, or 33.0%, to $3.8 billion for the three months ended June 30, 2001 from $2.8 billion in the same period of 2000. Average investment securities, Federal funds sold and other short-term securities, increased 42.8% to $1.6 billion in the second 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 six months of 2001, interest rates declined, due to the Federal Reserve Board's reduction of the key Fed Funds Rate by 275 basis points. As a result, the average yield on interest-earning assets decreased 55 basis points to 8.29% in the second quarter of 2001 from 8.84% in the same period of 2000. The average yield on loans decreased 79 basis points to 9.03% in the same period of 2001 from 9.82% in the same period of 2000.

Interest expense in the second quarter of 2001 increased 39.0% to $43.1 million from $31.0 million in the same period of 2000. This increase was due to greater volumes of interest-bearing liabilities. Average interest-bearing liabilities increased 46.5% to $4.4 billion in the second 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-earning liabilities decreased 22 basis points to 3.97% in the second quarter of 2001 from 4.19% in the same period of 2000. The average yield on interest bearing deposits decreased 40 basis points to 3.71% in the same period of 2001 from 4.11% in the same period of 2000.

During the second quarter of 2001, average noninterest-bearing deposits increased to $859.2 million from $823.3 million in the same period of 2000.

As a result of the foregoing, our interest rate spread decreased to 4.32% in the second quarter of 2001 from 4.65% in the same period of 2000. The net yield on interest-earning assets decreased in the second quarter of 2001 to 5.10% from 5.71% in the same period of 2000.

The Quarter Ended June 30, 2001 Compared to March 31, 2001

Interest income in the second quarter ended June 30, 2001 increased 4.8% to $111.8 million from $106.7 million in the quarter ended March 31, 2001. This was primarily due to the significant increase in investment securities. Average interest-earning assets increased $720.7 million, or 15.4%, to $5.4 billion in the quarter ended June 30, 2001, compared to $4.7 billion in the previous quarter. Average loans increased $120.2 million, or 3.3%, to $3.8 billion for the quarter ended June 30, 2001 from $3.6 billion in the previous quarter. Average investment securities, Federal funds sold and other short-term securities, increased 57.3% to $1.6 billion in the second quarter of 2001 from $1.0 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 June 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 94 basis points to 8.29% in the second quarter of 2001 from 9.23% in the previous quarter. The average yield on loans decreased 88 basis points to 9.03% in second quarter of 2001 from 9.91% in the previous quarter.

Interest expense in the second quarter of 2001 increased 6.5% to $43.1 million from $40.4 million in the previous quarter. This increase was due to greater volumes of interest-bearing liabilities. Average interest-bearing liabilities increased 19.5% to $4.4 billion in the second quarter of 2001 from $3.6 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.

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

The average yield on interest-earning liabilities decreased 53 basis points to 3.97% in the second quarter of 2001 from 4.50% in the previous quarter of 2001. The average yield on interest bearing deposits decreased 61 basis points to 3.71% in the second quarter from 4.32% in the previous quarter.

During the second quarter of 2001, average noninterest-bearing deposits decreased to $859.2 million from $891.5 million in the previous quarter.

As a result of the foregoing, our interest rate spread decreased to 4.32% in the second quarter of 2001 from 4.73% in the previous quarter. The net yield on interest-earning assets decreased in the second quarter of 2001 to 5.10% from 5.73% in the previous quarter.

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

Net Interest Income-Year to Date

Net interest income increased 26.5% to $135.0 million for the six months ended June 30, 2001 from $106.7 million for the six months ended June 30,

2000. This increase was primarily due to the $1.3 billion, or 32.9%, increase in average interest-earning assets, which was partially offset by a 26 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.

	Six months ended June 30, 2001			
(Dollars in thousands)	Average balance (1)	Interest	Average yield / rate	ba
INTEREST-EARNING ASSETS:				
Fed funds sold	$ 83,665	$ 2,054	4.95%	$
Other short term securities	57	2	7.08%	
Investment securities:				
Taxable	1,109,048	39,119	7.11%	
Tax-exempt (2)	157,696	3,783	4.84%	
Loans (3)	3,700,410	173,543	9.46%	2
Total interest-earning assets	5,050,876	218,501	8.72%	3
Noninterest-earning assets	380,402			
Total assets	$ 5,431,278	218,501		$ 4
INTEREST-BEARING LIABILITIES:				
Deposits:				
MMDA, NOW and Savings	$ 2,118,027	34,787	3.31%	$ 2
Time deposits, over $100,000	640,603	16,549	5.21%	
Other time deposits	557,610	14,535	5.26%	
Total interest-bearing deposits	3,316,240	65,871	4.01%	2
Other borrowings	684,117	17,643	5.20%	
Total interest-bearing liabilities	4,000,357	83,514	4.21%	2
Noninterest-bearing deposits	875,264			
Other noninterest-bearing liabilities	103,913			
Trust Preferred Securities	99,500			
Shareholders' equity	352,244			
Total shareholders' equity and liabilities	$ 5,431,278	83,514		$ 4
Net interest income		$ 134,987		
Interest rate spread			4.51%	
Contribution of interest free funds			0.88%	
Net yield on interest-earnings assets(4)			5.39%	

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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 6.99% and 7.77% for the six months ended June 30, 2001 and June 30, 2000, respectively, using the federal statutory rate of 34%.
(3) Loan fees totaling $5.4 million and $4.1 million are included in loan interest income for six months ended June 30, 2001, and June 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 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).

	Six months ended Jun compared with June favorable / (unfav	
(Dollars in thousands)	Volume	Rate
INTEREST EARNED ON INTEREST-EARNING ASSETS		
Federal funds sold	$ (4,174)	$ (1,
Other short term investments	(1,045)	
Investment securities:		
Taxable	13,737	
Tax-exempt	(46)	(
Loans	59,665	(16,
Total interest income	68,136	(17,
INTEREST EXPENSE ON INTEREST-BEARING LIABILITIES		
Deposits:		
MMDA, NOW and savings	(3,863)	7,
Time deposits over $100,000	(1,359)	(
Other time deposits	(10,347)	(
Total interest-bearing deposits	(15,569)	6,
Other borrowings	(15,415)	1,
Total interest expense	(30,984)	8,
Net increase (decrease) in net interest income	$ 37,152	$ (8,

The Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

Interest income in the six months ended June 30, 2001 increased 30.5% to $218.5 million from $167.4 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 $1.3 billion, or 32.9%, to $5.1 billion in the six months ended June 30, 2001, compared to $3.8 billion in the same period of 2000. Average loans increased $1.0 billion, or 39.5%, to $3.7 billion for the six months ended June 30, 2001 from $2.7 billion in the same period of 2000. Average investment securities, Federal funds sold and other short-term securities, increased 17.8% to $1.4 billion in the six months ended 2001 from $1.1 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 six months of 2001, interest rates declined, due to the Federal Reserve Board's reduction of the key Fed Funds Rate by 275 basis points. As a result, the average yield on interest-earning assets decreased 14 basis points to 8.72% in the six months ended June 30, 2001 from 8.86% in the same period of 2000 primarily due to lower interest rate. The average yield on loans decreased 44 basis points to 9.46% in the same period of 2001 from 9.90% for the same period of 2000.

Interest expense in the six months ended June 30, 2001 increased 37.7% to $83.5 million from $60.7 million for the same period of 2000. This increase was due to greater volumes of interest-bearing liabilities. Average interest-bearing liabilities increased 37.9% to $4.0 billion in the six months ended June 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 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 average yield on interest-bearing liabilities did not change for the six months ended June 30, 2001, as compared to the same period of 2000. The average yield on interest bearing deposits decreased 12 basis points to 4.01% in the same period of 2001 from 4.13% for the same period in 2000.

During the six months ended June 30, 2001, average noninterest-bearing deposits increased to $875.3 million from $797.1 million in the same period of 2000.

As a result of the foregoing, our interest rate spread decreased to 4.51% in the six months ended June 30, 2001 from 4.65% in the same period of 2000. The net yield on interest-earning assets decreased in the six months ended June 30, 2001 to 5.39% from 5.65% 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.

(Dollars in thousands)	Three months ended June 30, 2001	2000	2
Average noninterest bearing demand deposits	$ 859,178	$ 823,334	$
Client service expenses	653	496	
Client service expenses, as a percentage of average noninterest bearing demand deposits	0.30%	0.24%	
IMPACT ON NET YIELD ON INTEREST-EARNING ASSETS:			
Net yield on interest-earning assets	5.10%	5.71%	
Impact of client service expense	(0.05)%	(0.05)%	
Adjusted net yield on interest-earning assets	5.05%	5.66%	

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.

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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 second quarter of 2001 was $9.8 million, compared to $6.9 million for the first quarter of 2001 and $8.3 million for the second quarter of 2000. The provision for loan losses for the six months ended June 30, 2001 was $16.8 million as compared to $13.9 million for the six months ended June 30, 2000. In addition, in connection with the Coast Bancorp merger and the Mt. Diablo Bancshares merger, we made an additional provision for loan losses of $1.5 million in the second quarter of 2000 and $2.4 million for the six months ended June 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 $11.8 million in the second quarter of 2001, compared to $10.7 million for the first quarter of 2001 and $7.9 million for the second 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 ended		
(Dollars in thousands)	June 30, 2001	March 31, 2001	December 31, 2000
Loan and international banking fees	$ 2,085	$ 2,541	$ 2,562
Service charges and other fees	2,091	2,013	2,034
Gain on sale of investments, net	3,944	1,578	21
Trust fees	978	886	954
Gain on sale of SBA loans	375	835	312
ATM network revenue	766	662	748
Other income	1,588	2,216	1,289
Total, recurring	11,827	10,731	7,920
Warrant income	504	-	870
Total	$ 12,331	$ 10,731	$ 8,790

The increase in recurring income in the second quarter of 2001 as compared to the first quarter of 2001 and second quarter of 2000 was primarily the result of gain on sale of investments which increased to $3.9 million during the second quarter of 2001. That increase during the second quarter of 2001 compared to the first quarter of 2001 was partially offset by a decrease in loan and international banking fees, gain on sales of loans and other income.

During the second quarter of 2001, we recorded a $3.9 million gain on the sale of investments, as compared to $1.6 million during the first quarter of 2001 and $58,000 during the second quarter of 2000.

The gain on sale of investments allowed us to postpone the planned sale of Matsco loans. Our future plans would indicate selling approximately 20% to 40% of Matsco's loan production. By retaining all of Matsco's loan production during the six months ended June 30, 2001, we have retained higher yielding assets with an increase in net interest income and greater flexibility for future Matsco loan sales.

During the second quarter of 2001, we recorded $2.1 million of loan and international banking fees, as compared to $2.5 million in the first quarter of 2001 and to $1.9 million in the second quarter of 2000. Approximately $788,000 of this increase in the second quarter of 2001, as compared to the second quarter of 2000, relates to fee income earned by Matsco and CAPCO. A significant portion of the remaining growth from the second quarter of 2001 as compared to the second quarter of 2000 is a result of the growth in our overall loan portfolio.

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

During the second quarter of 2001, we recorded a $375,000 gain on sale of SBA loans, as compared to $835,000 in the first quarter of 2001, and $753,000 in the second 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.

Other income in the second quarter of 2001 and the second quarter of 2000 included warrant income of $504,000 and $740,000, which is net of related employee incentives of $216,000 and $668,000, respectively. At June 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.

	At and for the three mont		
(Dollars in thousands)	June 30, 2001	March 31, 2001	December 3 2000
Compensation and benefits	$ 19,060	$ 18,405	$ 17,449
Occupancy and equipment	6,286	5,863	5,711
Trust Preferred Securities	2,454	2,458	2,412
Legal and other professional fees	1,532	1,387	1,083
Client service expenses	653	644	563
FDIC insurance and regulatory assessments	330	273	356
Expenses on other real estate owned	-	-	5
Other	7,057	6,560	5,770
Total operating expenses excluding nonrecurring costs	$ 37,372	35,590	33,349
Mergers and other related nonrecurring costs	-	-	4,606
Total operating expenses	$ 37,372	$ 35,590	$ 37,955
Efficiency ratio	46.10%	46.23%	51.15
Efficiency ratio (before merger, nonrecurring and extraordinary items)	46.39%	46.23%	45.47
Efficiency ratio (excluding Matsco)	45.77%	44.67%	50.66
Efficiency ratio (excluding Matsco and before merger, nonrecurring and extraordinary items)	46.08%	44.67%	44.84
Total operating expenses to average assets	2.60%	2.84%	3.16

Total operating expenses to average assets (before merger, nonrecurring and extraordinary items)	2.60%	2.84%	2.77

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

Operating expenses totaled $37.4 million for the second quarter of 2001, compared to $35.6 million for the first quarter of 2001 and $36.5 million for the second quarter of 2000. The ratio of operating expenses to average assets was 2.60% in the second quarter of 2001, 2.84% in the first quarter of 2001, and 3.79% in the second 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 second quarter of 2001 was 46.39%, compared to 46.23% for the first quarter of 2001 and 45.74% for the second quarter of 2000.

Compensation and benefits expenses increased in the second quarter of 2001 to $19.1 million, compared to $18.4 million in the first quarter of 2001 and $15.3 million in the second quarter of 2000. The increase in the second quarter of 2001, as compared to the first quarter is the result of an increase in full time equivalent employees from 1,023 to 1,047 during that period, which equates to an annualized growth rate in staffing of less than 10%. We believe future growth will be less in subsequent quarters. An additional contributing factor to the increase in compensation and benefits for the second quarter of 2001 as compared to the same period in 2000 is due to the addition of Matsco and CAPCO in our results. The remainder of the increase is due to additions in personnel made during the prior twelve months.

Trust Preferred Securities expense was $2.5 million for the first and second quarters of 2001 compared to $1.8 million for the second quarter of 2000. The increase in this expense was the result of the $50.5 million in Trust Preferred Securities issued in 2000.

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

Our goodwill amortization for the second quarter of 2001 was $272,000, compared to $199,000 in the first quarter of 2001. Our diluted earnings per share excluding goodwill amortization was $0.49 for the second quarter of 2001.

Income Taxes

Our effective income tax rate for the second quarter of 2001 was 37.5%, compared to 37.5% in the first quarter of 2001 and 39.4% in the second 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.

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

FINANCIAL CONDITION

Total assets increased 21.3% to $6.2 billion at June 30, 2001, compared to $5.1 billion at December 31, 2000. The increase in the six months ended June 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 $2.0 billion at June 30, 2001 compared to $962.3 million at December 31, 2000. The increase is a result of the shift in our 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 ten subsidiary banks. As a result of this program, we liquidated a number of our smaller investment positions. We anticipate that this will result in improved operating efficiencies as well as improving the overall yield, as our average block sizes increase. During the first quarter of 2001, we sold 51 securities with an amortized cost of $64.3 million for a recognized gain of $1.6 million. Those sales include 22 securities previously classified as held to maturity with an amortized cost of $20.4 million for a gain of $1.1 million. During the second quarter of 2001, we sold 73 securities with an amortized cost of $69.3 million for a recognized gain of $1.6 million. Those sales include 30 securities previously classified as held to maturity with an amortized cost of $21.9 million for a gain of $1.3 million. In total, these sales resulted in an insignificant reduction in the yield on our investment portfolio. 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 $3.8 billion at June 30, 2001, compared to $3.6 billion at December 31, 2000 and $2.9 billion at June 30, 2000. While 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 June 26, 2001) indicated a target loan growth rate of 10% to 15%. At June 30, 2001, our loan pipeline was approximately $630 million. Historically, we have funded between 65% and 70% of our pipeline. Although historical experience is not a guarantee of future performance, our relationship officers who work with individual clients are cautiously optimistic that there will continue to be a demand for credits without requiring us to sacrifice credit quality.

We have continued to see strong loan demand during the second quarter of 2001, as evidenced by May 2001 being the most active month in our history in new loan documents processed. However, even with the significant volume increase, 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.

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

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 Marin County is now operational as a loan production office and our Carmel office is targeted to open in September of this year. 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.

	June 30, 2001		December 31, 2000	
(Dollars in thousands)	Amount	%	Amount	%
Commercial	$ 1,620,541	43.5%	$1,562,712	44.
Term real estate - commercial	1,041,530	28.0	967,428	27.
Total Commercial	2,662,071	71.5	2,530,140	71.
Real estate construction and land	723,394	19.4	691,912	19.
Real estate other	236,927	6.4	176,568	5.
Consumer and other	204,939	5.5	216,459	6.
Total loans, gross	3,827,331	102.8	3,615,079	102.
Deferred fees and discounts, net	(13,759)	(0.4)	(13,657)	(0.
Total loans, net of deferred fees	3,813,572	102.4	3,601,422	102.
Allowance for loan losses	(88,190)	(2.4)	(84,014)	(2.
Total loans, net	$ 3,725,382	100.0%	$3,517,408	100.

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 decreasing our net interest margin.

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 June 30, 2001.

(Dollars in thousands)	Commercial	Term real estate- commercial	Real estat constructi and land
Loans maturing in:			
One year or less:			
Fixed rate	$ 254,703	$ 32,784	$ 34,0
Variable rate	259,828	29,780	497,8
One to five years:			
Fixed rate	186,050	129,024	1,9
Variable rate	417,053	136,430	175,4
After five years:			
Fixed rate	348,481	370,005	3,4
Variable rate	154,426	343,507	10,6
Total	$1,620,541	$1,041,530	$ 723,3

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 the Banks have granted a concession on the interest paid or original repayment terms due to financial difficulties of the borrower. Other real estate owned ("OREO") consists of real property acquired through foreclosure on the related collateral underlying defaulted loans.

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

(Dollars in thousands)	June 30, 2001	March 31, 2001	December 3 2000
Nonperforming loans:			
Nonaccrual loans	$ 7,221	$ 17,874	$ 12,5
Restructured loans	-	-	
Total nonperforming loans	7,221	17,874	12,5
OREO	-	259	
Total nonperforming assets	$ 7,221	$ 18,133	$ 12,5
Accruing loans past due 90 days or more	$ 833	$ 1,307	$ 7
Nonperforming assets to total loans and OREO	0.19%	0.49%	0.3
Nonperforming assets to total assets	0.12%	0.34%	0.2
Nonperforming assets and accruing loans past due 90 days or more to total loans and OREO	0.21%	0.52%	0.3
Nonperforming assets and accruing loans past due 90 days or more to total assets	0.13%	0.36%	0.2

At June 30, 2001, we had $7.2 million in nonperforming assets, as compared to $12.6 million at December 31, 2000 and $9.4 million at June 30, 2000. Our ratio of nonperforming assets to total assets at June 30, 2001 was 0.12%, as compared to 0.25% at December 31, 2000 and 0.22% at June 30, 2000. Our ratios compare favorably to the industry average ratio of nonperforming assets to total assets of 0.83% at December 31, 2000, which represents the most recently available data.

In addition to the loans disclosed above as nonaccrual or restructured, management has also identified approximately $16.5 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 have on our borrowers and on our loan portfolio. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured loans, or other real estate owned in the future.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of risk inherent in our loan portfolio. The allowance is increased by provisions charged against current

earnings and reduced by net charge-offs. Loans are charged off when they are deemed to be uncollectable; recoveries are generally recorded only when cash payments are received.

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

	At and for the three month per			
(Dollars in thousands)	June 30, 2001	March 31, 2001	December 31, 2000	
Period end loans outstanding	$ 3,813,572	$ 3,725,625	$ 3,601,422	$
Average loans outstanding	$ 3,759,151	$ 3,638,946	$ 3,326,505	$
Allowance for loan losses:				
Balance at beginning of period	$ 85,914	$ 84,014	$ 67,637	$
Allowance of entities acquired through mergers accounted for under purchase accounting method	-	320	10,927	
Charge-offs:				
Commercial	(7,757)	(6,008)	(2,987)	
Term Real Estate - Commercial	-	-	-	
Total Commercial	(7,757)	(6,008)	(2,987)	
Real estate construction and land	-	-	-	
Real estate other	-	-	-	
Consumer and other	(109)	(46)	(67)	
Total charge-offs	(7,866)	(6,054)	(3,054)	
Recoveries:				
Commercial	273	683	386	
Term Real Estate - Commercial	-	-	-	
Total Commercial	273	683	386	
Real estate construction and land	-	-	-	
Real estate other	-	-	-	
Consumer and other	20	23	37	
Total recoveries	293	706	423	
Net charge-offs	(7,573)	(5,348)	(2,631)	
Provision charged to income (1)	9,849	6,928	8,081	
Balance at end of period	$ 88,190	$ 85,914	$ 84,014	$
Quarterly net charge-offs to average loans outstanding during the period, annualized	0.79%	0.59%	0.31%	
Year to date net charge-offs to average loans outstanding during the period, annualized	0.69%	0.59%	0.38%	
Allowance as a percentage of average loans outstanding	2.34%	2.35%	2.52%	
Allowance as a percentage of period end loans outstanding	2.30%	2.30%	2.32%	
Allowance as a percentage of non-performing loans	1221.30%	473.80%	667.15%	

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

During the second quarter of 2001, our ratio of net charge-offs to average loans outstanding increased to 0.79%, as compared to 0.59% for the first quarter of 2001 and 0.58% for the second quarter of 2000.

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 feels that the allowance for loan losses is adequate as of June 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 June 30, 2001, the allowance for loan losses was $88.2 million, consisting of a $63.8 million allocated allowance and a $24.4 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 June 30, 2001, compared to $4.2 billion at December 31, 2000 and $3.7 billion at June 30, 2000. While continue to anticipate strong 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 June 26, 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, 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 June 30, 2001, the Banks had approximately $112.2 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 June 30, 2001, Greater Bay did not have any material commitments for capital expenditures.

Net cash provided by operating activities, consisting primarily of net income, totaled $37.5 million for second quarter of 2001 and $35.1 million for the same period of 2000. Cash used for investing activities totaled $1.3 billion in the second quarter of 2001 and $650.6 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 six months ended June 30, 2001, net cash provided by financing activities was $1.1 billion, compared to $556.2 million in the same period of 2000. Historically, our primary financing activity has been through deposits. For the six months ended June 30, 2001 and 2000, deposit gathering activities generated cash of $151.7 million and $453.6 million, respectively. This represents a total of 14.3% and 81.6% of the financing cash flows for the six months ended June 30, 2001 and 2000, respectively. As a result of our wholesale funding strategy, the increase in borrowings generated cash of $913.8 million during the six months ended 2001, as compared to $39.0 million for the same period in 2000.

Capital Resources

Shareholders' equity at June 30, 2001 increased to $371.6 million from $322.4 million at December 31, 2000. Greater Bay paid dividends of $0.10, and $0.35 per share during the three months ended June 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 June 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 June 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	7.76%	9.19%	10.46%
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 placement on July 16, 2001. On July 25, 2001, we filed a Registration Statement on Form S-3 with the Securities Exchange Commission relating to a proposed sale of $75.0 million, plus a 15% overallotment option, in trust preferred securities in an underwritten public offering. We expect the sale of these securities to occur during the third quarter of 2001. If these trust preferred securities had been issued prior to quarter end, our June 30, 2001 proforma capital positions would have been as follows:

	Leverage ratio	Tier 1 risk-based capital ratio	Total risk-based capital ratio
Proforma capital ratios including $15.0 million in trust preferred securities			

issued July 16, 2001	8.03%	9.47%	10.73%

In addition, at June 30, 2001, each of our subsidiary banks had levels of capital that exceeded the well-capitalized guidelines.

Quantitative and Qualitative Disclosures about Market Risk

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

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

Our exposure to interest rate risk is reviewed on at least a quarterly basis by the Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board, the Board may direct management to adjust our asset and liability mix to bring interest rate risk within Board-approved limits.

In order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet. We 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 the trust preferred securities, offerings issued August 12, 1998 and July 16, 2001. 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 as of June 30, 2001.

Change in interest rates (Dollars in millions)	Net portfolio value	Projected change	
		Dollars	Percentage
100 basis point rise	$ 791.1	$ (33.7)	-4.09%
Base scenario	824.7	-	-
100 basis point decline	797.7	(27.0)	-3.28%

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 June 30, 2001, the analysis indicates that our net interest income for the next 12 months would increase 6.7% if rates increased 200 basis points, and decrease by 4.6% if rates decreased 200 basis points.

This analysis indicates the impact of change in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet grows modestly, but that our structure is to remain similar to the structure created during the second 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 our portfolio could decrease in future periods if market interest rates remain at or decrease below current levels. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

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

Gap Analysis

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

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

(Dollars in thousands)	Immediate or one day	2 days To 6 months	7 months to 12 months	1 Year to 3 yea
Assets:				
Cash and due from banks	$ -	$ 723	$ -	$
Federal Funds Sold	55,058	-	-	
Investment securities	61,932	271,269	215,186	589
Loans	1,879,475	784,847	258,090	558
Loan losses/unearned fees	-	-	-	
Other assets	-	562	562	2
Total assets	$ 1,996,465	$ 1,057,401	$ 473,838	$ 1,149
Liabilities and Equity:				
Deposits	$ 2,051,652	$ 1,132,279	$ 255,162	$ 26
Other borrowings	-	920,896	296,200	103
Trust preferred securities	-	-	-	
Other liabilities	-	-	-	
Shareholders' equity	-	-	-	
Total liabilities and equity	$ 2,051,652	$ 2,053,175	$ 551,362	$ 129
Gap	$ (55,187)	$ (995,774)	$ (77,524)	$ 1,019
Cumulative Gap	$ (55,187)	$ (1,050,961)	$ (1,128,485)	$ (108
Cumulative Gap/total assets	-0.89%	-16.88%	-18.13%	-

(Dollars in thousands)	More than 5 years	Total rate sensitive	Total non-rate sensitive	Tota
Assets:				
Cash and due from banks	$ -	$ 723	$ 200,875	$ 201
Federal Funds Sold	-	55,058	-	55
Investment securities	532,322	1,976,420	6,019	1,982
Loans	68,657	3,813,576	(4)	3,813
Loan losses/unearned fees	-	-	(88,190)	(88
Other assets	16,167	21,789	238,711	260
Total assets	$ 617,146	$ 5,867,566	$ 357,411	$ 6,224

Liabilities and Equity:

Deposits	$ 1,072	$ 3,470,247	$ 846,505	$ 4,316
Other borrowings	-	1,344,926	-	1,344
Trust preferred securities	99,500	99,500	-	99
Other liabilities	-	-	92,157	92
Shareholders' equity	-	-	371,642	371
Total liabilities and equity	$ 100,572	$ 4,914,673	$ 1,310,304	$ 6,224
Gap	$ 516,574	$ 952,893	$ (952,893)	$
Cumulative Gap	$ 952,893	$ 952,893	$ -	$
Cumulative Gap/total assets	15.31%	15.31%	0.00%	

The foregoing table indicates that we had a one year negative gap of $(1.1) billion, or (18.13)% of total assets, at June 30, 2001. In theory, this would indicate that at June 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 assets sensitive than is indicated in the Gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the Gap analysis. In fact, during the recent period of declines in interest rates, our net interest earning assets has declined. See "Results of Operations Net Interest Income - The Quarter Ended June 30, 2001 Compared to March 31, 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.

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 June 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 require us to account for that 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 a negative 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.

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

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
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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 general accept accounting principals. 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. None-the-less, in light of SAB No. 102, our methodology and documentation is currently in the process of review. However, 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 -

(a) Greater Bay Bancorp held its annual meeting of shareholders on May 15, 2001.

(b) The following directors were elected at the annual meeting to serve for a three-year term:

James E. Jackson
Stanley A. Kangas

George M. Marcus
Duncan L. Matteson
Rebecca Q. Morgan

The following directors continued in office after the annual meeting:

John M. Gatto
John J. Hounslow
David L. Kalkbrenner
Daniel G. Libarle
Rex D. Lindsay
George M. Marcus
Glen McLaughlin
Linda R. Meier
James C. Thompson
Warren R. Thoits
Dick J. Randall
Donald H. Seiler
T. John Whalen

(c) At the annual meeting, shareholders voted on (1) the election of Greater Bay Bancorp's Class I directors; (2) the amendment of Greater Bay Bancorp's Bylaws to increase the range of authorized directors; and (3) the ratification of the selection of PricewaterhouseCoopers LLP as Greater Bay Bancorp's independent public accountants for the fiscal year ending December 31, 2001. The results of the voting were as follows:

Matter	Votes For	Votes Against	Withheld	Abstentions	Broke Non-V
Election of Directors					
James E. Jackson	35,933,579	--	522,597	--	-
Stanley A. Kangas	35,957,448	--	498,728	--	-
George M. Marcus	35,944,465	--	461,771	--	-
Duncan L. Matteson	35,525,982	--	930,194	--	-
Rebecca Q. Morgan	36,003,041	--	453,135	--	-
Bylaws Amendment	33,885,168	2,371,788	--	199,220	
Independent Public Accountants	36,132,844	203,871	--	119,461	

(d) Not applicable.

ITEM 5. Other Information -- Not applicable

ITEM 6. Exhibits and Reports on Form 8-K

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

Report.

(a) Exhibits

EXHIBIT NO.	EXHIBITS
2	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 from Registrant's Current Report on Form 8-K dated as of June 25, 2001).
10.1	Stock Option Agreement dated as of June 25, 2001, by and between Greater Bay Bancorp and SJNB Financial Corp. (incorporated by reference to Exhibit 10.1 from Registrant's Current Report on Form 8-K dated June 25, 2001).
10.2	Employment Agreement, dated as of March 26, 2001 (effective as of May 15, 2001), by and between Greater Bay Bancorp and Byron Scordelis.
99.1	Press release issued by July 25, 2001 re trust preferred securities offering.

(b) Reports on Form 8-K

During the quarter ended June 30, 2001, the Registrant filed the following Current Reports on Form 8-K: (1) Form 8-K dated March 30, 2001 (reporting completion of the Registrant's acquisition of CAPCO Financial Company, Inc.); (2) Form 8-K dated April 16, 2001 (containing press releases regarding first quarter earnings and appointment of Chief Operating Officer); (3) Form 8-K dated April 26, 2001 (containing first quarter 2001 slide presentation); and (4) Form 8-K dated June 25, 2001 (reporting the proposed merger with SJNB Financial Corp. and updated guidance.)

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: August 2, 2001