

CONSOLIDATED BALANCE SHEET

(unaudited)

(in thousands)

December 31,	2011	2010
Assets		
Cash and due from banks	\$ 5,348	\$ 5,831
Interest-bearing deposits in other banks	4,575	4,821
Total cash and cash equivalents	9,923	10,652
Investment securities available for sale	95,619	79,655
Loans (net of unearned income of \$3 and \$25)	447,254	425,069
Less allowance for loan losses	8,316	7,741
Net loans	438,938	417,328
Premises and equipment	9,997	10,572
Accrued interest receivable	1,805	1,888
Bank-owned life insurance	10,060	9,545
Other real estate owned	3,467	960
Prepaid FDIC insurance	1,093	1,615
Other assets	10,992	9,999
TOTAL ASSETS	\$ 581,894	\$ 542,214
Liabilities		
Deposits:		
Noninterest-bearing	\$ 52,217	\$ 43,067
Interest-bearing	432,067	411,667
Total deposits	484,284	454,734
Short-term borrowings	20,686	13,006
Other borrowed funds	17,618	19,552
Accrued interest payable	542	679
Other liabilities	3,664	3,564
TOTAL LIABILITIES	526,794	491,535
Stockholders' Equity		
Common stock, \$.50 par value; 5,000,000 shares authorized; 1,653,746 and 1,652,318 shares issued	827	826
Capital surplus	6,451	6,273
Retained earnings	48,193	45,177
Accumulated other comprehensive income	1,696	470
Treasury stock, at cost (54,100 shares)	(2,067)	(2,067)
TOTAL STOCKHOLDERS' EQUITY	55,100	50,679
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 581,894	\$ 542,214

CONSOLIDATED STATEMENT OF INCOME (unaudited)

(in thousands, except per share)

	Three months ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	\$ 5,754	\$ 5,697	\$ 22,435	\$ 22,221
Investment securities:				
Taxable	329	294	1,266	1,336
Exempt from federal income tax	311	281	1,209	1,049
Other	4	5	12	34
Total interest income	6,398	6,277	24,922	24,640
Interest Expense				
Deposits	992	1,249	4,213	6,215
Short-term borrowings	18	29	108	142
Other borrowed funds	192	226	831	963
Total interest expense	1,202	1,504	5,152	7,320
Net Interest Income	5,196	4,773	19,770	17,320
Provision for loan losses	875	650	2,875	1,750
Net Interest Income, After Provision for Loan Losses	4,321	4,123	16,895	15,570
Noninterest Income				
Service charges on deposit accounts	234	297	1,022	1,292
Mortgage loans held for sale gains, net	83	183	306	354
Investment securities losses	(2)	(31)	(16)	(13)
Brokerage commissions	226	164	720	742
Earnings on bank-owned life insurance	111	105	439	423
Debit card fees	157	138	608	523
Other income	221	143	826	773
Total noninterest income	1,030	999	3,905	4,094
Noninterest Expense				
Salaries and employee benefits	1,609	1,620	6,981	6,667
Occupancy expense, net	290	275	1,143	1,117
Furniture and equipment expense	102	125	427	483
Professional fees	181	212	818	780
Data processing expense	173	186	703	713
FDIC insurance	127	177	565	742
Other expense	1,347	545	3,448	2,345
Total noninterest expense	3,829	3,140	14,085	12,847
Income before income taxes	1,522	1,982	6,715	6,817
Income taxes	304	385	1,379	1,658
NET INCOME	\$ 1,218	\$ 1,597	\$ 5,336	\$ 5,159
Earnings per Share - basic	\$.76	\$ 1.00	\$ 3.34	\$ 3.24
Earnings per Share - diluted	\$.76	\$ 1.00	\$ 3.31	\$ 3.24
Average shares outstanding - basic	1,624,106	1,598,218	1,611,171	1,592,038
Average shares outstanding - diluted	1,624,363	1,599,933	1,611,778	1,593,035

This statement has not been reviewed or confirmed for accuracy or relevance by the FDIC.

INVESTOR INFORMATION

Stock Listing – DIMC

Transfer Agent

Registrar and Transfer Company
10 Commerce Drive 800-368-5948
Cranford, New Jersey 07016-3572
E-mail: info@rtco.com
Internet address: www.rtco.com

Dividend Reinvestment Plan

The Company offers a plan for stockholders to automatically reinvest their dividends in shares of common stock along with the opportunity to purchase additional stock. There are no brokerage commissions or fees imposed. For more information, contact the Transfer Agent listed above.

Firms Known to Handle

Dimeco, Inc. Stock Transactions

Boenning & Scattergood, Inc.*
800-842-8928
Raymond James*
888-239-4463
RBC Wealth Management
866-604-1471
Stifel Nicolaus*
800-793-7226

*Market Maker

Directors

William E. Schwarz, Chairman
John S. Kiesendahl, Vice Chairman
Gary C. Beilman, President
John F. Spall, Secretary
Robert E. Genirs
Barbara J. Genzlinger
Thomas A. Peifer
Henry M. Skier
Todd J. Stephens

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888-4MY-DIME



Fourth Quarter

2011

Dear Shareholders:

It is my pleasure to present this report of Dimeco, Inc. for the fourth quarter of 2011. As you read through this statement, you will see that in many ways, 2011 was a year of steady progression for your company. Loans, deposits, and total assets all grew over the same timeframe last year, with increases ranging from 5.2% to 7.3%. We ended the year with total assets of \$582 million. From a revenue generation perspective, net income came in at \$5.3 million, an expansion of 3.4% from the year earlier. For 2011, our return on average assets was .96% and our return on average equity was 10.04%. Given that we dealt with several troubled loans during the year, we are pleased with the overall results.

Despite the continuation of a sluggish national economy, our Board continued payment of quarterly dividends of \$.36 per share which produced a dividend yield of 4.3%. As of the end of 2011 the book value of your Dimeco, Inc. stock rose to \$34.45 per share, an uptick of 8.6% over that of last year. Finally, stockholders' equity grew by 8.7% to end the year at slightly over \$55 million. Each of these items speaks to the enhancement of your investment.

That is not to say, however, that our languishing economy is without challenges. Every day we listen to comments from our customers on both sides of the balance sheet. Depositors lament

about the low interest rate environment, while borrowers comment about restricted cash flows and limited employment opportunities. In all cases, our staff continues to be proactive, giving suggestions and advice, and providing guidance wherever possible.

On the loan side especially, we continue our efforts to monitor our portfolio and to meet directly with borrowers, all in an effort to manage and control this important asset class. Our goal is to maintain delinquencies at reasonable levels, and reduce troubled credits as quickly as possible. The results of our efforts to maintain or improve credit quality will be reported to you in subsequent quarterly reports.

As we end one year, and begin another, it is a fitting time to thank all of you for your continued loyalty and support. We wish you happiness, health, and prosperity in 2012. We ask that you continue to refer others to our institution, both from banking and investment perspectives. As always, your comments and questions are welcome.

Sincerely,

Gary C. Beilman
President and Chief Executive Officer

CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited)

(amounts in thousands, except per share)

Performance for the year ended December 31,

	2011	2010	% Increase (decrease)
Interest income	\$ 24,922	\$ 24,640	1.1%
Interest expense	\$ 5,152	\$ 7,320	(29.6%)
Net interest income	\$ 19,770	\$ 17,320	14.1%
Net income	\$ 5,336	\$ 5,159	3.4%

Shareholders' Value (per share)

Net income – basic	\$ 3.34	\$ 3.24	3.1%
Net income – diluted	\$ 3.31	\$ 3.24	2.2%
Dividends	\$ 1.44	\$ 1.44	–
Book value	\$ 34.45	\$ 31.71	8.6%
Market value	\$ 33.50	\$ 36.10	(7.2%)
Market value/book value ratio	97.2%	113.8%	(14.6%)
Price/earnings multiple	10.0X	11.1X	(9.9%)
Dividend yield	4.30%	3.99%	7.8%

Financial Ratios

Return on average assets	.96%	.94%	2.1%
Return on average equity	10.04%	10.43%	(3.7%)
Shareholders' equity/asset ratio	9.47%	9.35%	1.3%
Dividend payout ratio	43.11%	44.44%	(3.0%)
Nonperforming assets/total assets	4.00%	3.47%	15.3%
Allowance for loan loss as a % of loans	1.86%	1.82%	2.2%
Net charge-offs/average loans	.53%	.06%	783.3%
Allowance for loan loss/nonaccrual loans	61.5%	49.4%	24.5%
Allowance for loan loss/non-performing loans	42.0%	43.5%	(3.4%)

Financial Position at December 31,

Assets	\$ 581,894	\$ 542,214	7.3%
Loans	\$ 447,254	\$ 425,069	5.2%
Deposits	\$ 484,284	\$ 454,734	6.5%
Stockholders' equity	\$ 55,100	\$ 50,679	8.7%