

# DIMECO & YOU

**Stronger Together.**



2018 ANNUAL REPORT

# DIMECO & OUR CUSTOMERS.



Dear Shareholders,

It is with pleasure that I present this report of your company, Dimeco, Inc., for the year 2018. As you read this annual report, I think you will be pleased with the accomplishments that were achieved.

2018 began, like most years, with great anticipation. A new federal income tax plan was just rolled out. The stock market was showing a great deal of promise. Consumer sentiment was on the rise and expectations for our local economy were upbeat. We were encouraged by this enthusiasm and we coupled it with our ongoing focus to do the right thing for all concerned. The end result produced positive enhancement for you, our shareholders, as well as for our customers, our staff and the community at large.

As we finished 2018, our total assets grew from \$655 million to \$695 million, an increase of 6% over 2017. Each year we achieved higher balances than the previous year. By continuing this trend, we believe improved profitability and greater efficiencies can be accomplished. Rest assured that we are focused on growing each year.

2018 was an interesting year on the loan side. Early on, we experienced some unanticipated loan payoffs. These same types of occurrences happened in the past few years, and while challenging to predict, we continued our efforts to grow the loan portfolio. During the year, we saw heightened competition for good solid credits. Certain institutions made loan offerings with

underwriting standards less than we deemed prudent including lower rates, longer repayment terms and the elimination of historical borrowing covenants. We welcome competition. It's usually a healthy force in our industry. When faced with competition that we felt was unreasonable, we chose not to compete as aggressively. Instead, we followed our guidelines, making decisions for the long term and not taking unnecessary risks. As the year drew to a close, our loan portfolio grew from \$510 million to \$523 million. Although we originated many different types of loans throughout the year, the largest increases were concentrated in municipal and residential real estate loans. We successfully bid on several large municipal loans resulting in \$5.7 million of new originations during 2018. In addition, a municipal customer continued drawing on its construction line. Furthermore, many small business owners negotiated commercial loans using single family homes as collateral. These loan originations totaled \$5.3

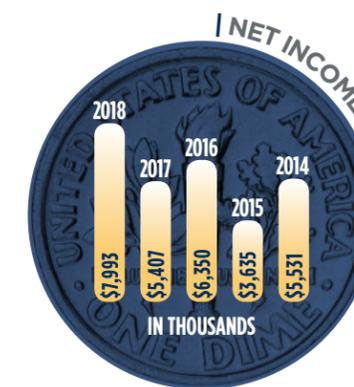


million. Gratifying to us was a sizeable uptick in loan activity towards the end of the year. We are hopeful that this increased loan demand will carry into 2019.

Throughout the year, we continued to talk about efforts to improve our asset quality. To that end, I am happy to report that we made many positive advances in 2018. Through diligent efforts we greatly decreased our delinquency ratio to .72% from a high of 2.55% in late 2017. Additionally, we significantly reduced our nonperforming assets to total assets ratio by almost 30% from year end 2017. Perhaps most notable was that our ratio of net charge-offs to average loans was negative for 2018, showing that our loan recoveries during the year were greater than our loan charge-offs. These were great strides in the right direction.

As a key basis for our business, deposit growth and composition are always a focus. In 2018, we saw deposits expand from \$498 million to \$532 million at year end, up almost 7%. That growth, while satisfying, revealed that there were some interesting elements at play during the year. A number of customers stayed relatively liquid with their deposits, possibly looking for their best opportunity to enter the securities market or awaiting interest rate increases. At the same time commercial deposits were growing, a sign that our local economy remains strong and that businesses seem to find our product mix appropriate for their needs. As deposit competition heightened within our market area, the bank introduced certificates of deposit specials to enable cross selling opportunities with both existing and new depositors. These specials added \$10.5

million in new certificates of deposit. Our growth also included the addition of \$8.0 million in money market deposits through a new brokered relationship. These



funds were used to assist in meeting liquidity goals. At the end of 2018, we began transitioning customers from our financial manager short-term borrowings to interest-bearing demand deposits totaling \$2.1 million. Considering these factors, we are pleased with the 2018 deposit growth.

As the yield curve flattened over the year, we thought it prudent to lock in interest rates with the Federal Home Loan Bank of Pittsburgh as part of our asset/liability strategy. We added \$15.9 million of fixed rate long-term borrowings and decreased overnight borrowings by \$9.6 million. These borrowings were used to supplement deposit growth, purchase new investments and fund loan originations during the year.

Our overall performance perspective offers more great news. Net income expanded by almost 48%, rising from \$5.4 million in 2017 to \$8.0 million for 2018. The largest component of this increase is related to the change in the federal income tax rate that was enacted in December 2017 requiring the recording of a one-time expense of \$1.4 million at that time. The new corporate income tax rate of 21% served to lower income tax



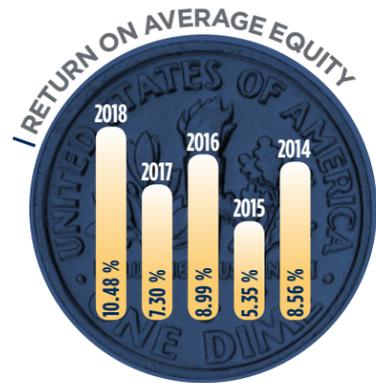
# DIMECO & OUR COMMUNITY.



expense in 2018. We maintained a net interest spread above 4.0% in 2018 allowing for \$919 thousand greater income than the previous year. As the quality of our loan portfolio improved over the past year, the provision for loan losses declined by \$200 thousand from a year earlier. Expenses related to carrying other real estate owned continued to be a challenge and were 22% greater than the year before. Management places great emphasis on improving asset quality and continues to work at reducing these expenses.

Our return on average assets was 1.21%, and our return on average equity was 10.48%, expansions of 46% and 44% respectively over what we posted in 2017. From your perspective as shareholders, that translates into increases of 6.0% in per-share book value and 6.7% in stockholders' equity. Based on this year's solid performance, your Board of Directors voted to increase your 2018 dividends by 8.6% to \$1.14 per share. Responding to these factors, the market value of Dimeco stock grew from \$35.49 to \$40.75 per share at year-end, an impressive growth of 14.8% in the value of your investment. Our primary goal is to enhance your investment in Dimeco, Inc. and for 2018, we certainly did just that.

Customers are obviously essential to our business. To achieve mutual success, we strive to do the right thing for existing and prospective customers alike. A major component of enhancing our customers' experience is our continual introduction of new technology. This results in adding efficiency, speed and convenience to



their banking transactions. In 2018, we rolled out several new technology initiatives. To better handle telephone inquiries, we introduced our customer service center. Not only does this service center respond to a multitude of informational and service requests, but this service is available at times that extend beyond our traditional lobby hours. Additionally, to boost the effectiveness and security of our customers' debit card transactions, we added mobile wallet tokenization. Finally, as the usage of our electronic bill payment grows and evolves, we issued enhancements to make this an even greater convenience. No doubt that additional technology will be an integral part of our future.

Always grateful to the communities where we operate, we firmly believe that supporting them is the right thing to do. Each year we continue to do just that. In 2018, through our continued participation in the Pennsylvania Educational Improvement Tax Credit Program we were able to donate \$210 thousand to over 25 worthy organizations. Their mission it is to make the next generation the best that it can be. In addition, the Company contributed over \$200 thousand to local charities with a combination of direct gifts, sponsorship or advertisements for their fund-raising activities and

attendance at their events. Beyond what we do at the corporate level, our entire team, including directors, participate at a high degree of personal engagement to enhance our marketplace, collectively assisting over 100 organizations. In addition, during 2018 our staff conducted 22 employee fund-raising events that produced over \$25 thousand for local charities. These engagements were done to recognize and assist the worthwhile organizations operating in our marketplace, whose mission it is to make life a little better for everyone. No doubt, we'll do even more in the future.

The successes we achieved are carried out by a dedicated team. Our mission each year is always focused on providing the best results. Our staff delivers the best possible service to customers. They continually make efforts to enhance the communities that we serve by their actions. We are blessed to have such a dedicated workforce. Their knowledge and desire to do the right thing makes the staff so special. Each year, we give recognition to those among us who have devoted significant portions of their career to our bank. This year we feted 32 of our employees who attained employment milestones. In addition to 5, 10 and 15 year anniversaries, we also celebrated two with 20 years, six with 30 years and one with 35 years of employment. We believe this longevity demonstrates that not only does our staff enjoy working here, but they also draw upon these years of experience to provide the utmost service to customers. Rightfully, we are thankful for our entire team.

Leadership on the Board of Directors is evolving as well. During the year, Gregory J. Frigoletto and Brian T. Kelly joined as the newest members of the Board. Greg is superintendent of the Wayne Highlands School District. Brian is the owner of Brian T. Kelly CPA and Associates with offices in Lackawanna County and Honesdale. Both bring new and exciting perspectives to the philosophy and guidance of the Board. The entire complement of directors uses their respective experiences, expertise and viewpoints to lead our institution.

We eagerly look to the future as we continue to follow our enhanced strategic plan. We pledge to remain passionate about growing our institution to greater heights by being innovative, responsive, timely and responsible.

Thankful does not express enough, our gratitude to you, our shareholders. We encourage you to recommend us to others for investment in our stock and to utilize our many banking and wealth management products and services. As always, we welcome your comments.

Sincerely,



# DIMECO & OUR TEAM.

## DIMECO, INC. AND THE DIME BANK BOARD OF DIRECTORS



**JOHN S. KIESENDAHL**  
President & Chief Executive Officer  
Woodloch Pines, Inc.



**TODD J. STEPHENS**  
Chief Operating Officer  
Medical Shoppe, Ltd.



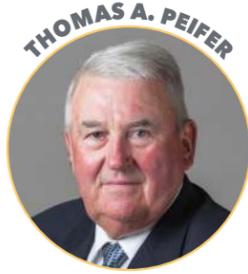
**GARY C. BEILMAN**  
President & Chief Executive Officer  
Dimeco, Inc. and The Dime Bank



**JOHN F. SPALL**  
Attorney-at-Law



**HENRY M. SKIER**  
President  
A.M. Skier Agency, Inc.



**THOMAS A. PEIFER**  
Retired Superintendent  
Wallenpaupack Area  
School District



**BARBARA J. GENZLINGER**  
Board Co-Chair  
Settlers Hospitality, LLC



**DAVID D. REYNOLDS, M.D.**  
President & Chief Executive Officer,  
Northeastern Gastroenterology  
Associates and Medical Director,  
Mountain Laurel Surgical Center  
and Maple City Anesthesia



**GREGORY J. FRIGOLETTO**  
Superintendent  
Wayne Highlands  
School District



**BRIAN T. KELLY**  
Owner  
Brian T. Kelly  
CPA & Associates, LLC

**ROBERT E. GENIRS**  
Director Emeritus

## DIMECO, INC. OFFICERS

**JOHN S. KIESENDAHL**  
Chairman of the Board

**GARY C. BEILMAN**  
President and Chief Executive Officer

**MAUREEN H. BEILMAN**  
Chief Financial Officer and Treasurer,  
and Assistant Secretary

**TODD J. STEPHENS**  
Vice Chairman of the Board

**JOHN F. SPALL**  
Secretary

**PETER BOCHNOVICH**  
Executive Vice President

## THE DIME BANK OFFICERS

### SENIOR OFFICERS

**GARY C. BEILMAN**  
President and Chief Executive Officer

**PETER BOCHNOVICH**  
Executive Vice President,  
Chief Lending Officer and Assistant Secretary

**MAUREEN H. BEILMAN**  
Senior Vice President,  
Chief Financial Officer and Treasurer

**WILLIAM R. BOYLE**  
Senior Vice President and Chief Credit Officer

**LISA M. CAVAGE**  
Senior Vice President,  
Chief Operating Officer and Corporate Secretary

**L. JILL GEORGE**  
Senior Vice President,  
Human Resources and Assistant Secretary

**JOHN S. KIESENDAHL**  
Chairman of the Board

**TODD J. STEPHENS**  
Vice Chairman of the Board

**JOHN F. SPALL**  
Assistant Secretary

**RUTH E. DANIELS**  
Vice President, Credit Administration

**JANETTE M. DAVIS**  
Vice President, Information Security Officer

**ROBERT F. DAVIS**  
Vice President, Special Assets

**THOMAS M. DIDATO**  
Vice President, Commercial Lending

**JAMES M. GARDAS**  
Vice President, Wealth Management

**MARY CAROL HANIS**  
Vice President, Retail Banking

**PAULA A. RALSTON NENISH**  
Vice President, Compliance and CRA

**CATHY REIMER**  
Vice President, Deposit Operations

**JEFFREY J. ROCHE**  
Vice President, Controller

**BRYAN G. RUPP**  
Vice President, Credit Analysis

**CHERYL A. SMITH**  
Vice President, Operations Administration  
and Security Officer

**JEROME D. THEOBALD**  
Vice President, Retail Lending

**DEBORAH L. UNFLAT**  
Vice President, Marketing

**MICHELLE E. URBAN**  
Vice President, Internal Risk

**D. JEAN BIRMELIN**  
Assistant Vice President, Branch Manager

**CYNTHIA D. BURDICK**  
Assistant Vice President,  
Bank Secrecy Act / Anti-Money Laundering

**AMY L. BURKE**  
Assistant Vice President, Branch Manager

**ARLYCE M. DEGNAN**  
Assistant Vice President, Branch Manager

**PAMELA M. KERBER GEHMAN**  
Assistant Vice President, Mortgage Originator

**CHASE L. HOLL**  
Assistant Vice President, Commercial Lending

**ROBERT F. KAROSCIK**  
Assistant Vice President, Branch Manager

**NANCY M. LAVENDUSKI**  
Assistant Vice President, Commercial  
Lending Administration Specialist

**RORY S. MCGHIE**  
Assistant Vice President, Branch Manager

**JANET SALKOSKAS**  
Assistant Vice President, Electronic Banking

**MELANIE F. SEAGRAVES**  
Assistant Vice President, Branch Manager

**IRENE J. SELVAGGI**  
Assistant Vice President, Training

**LAURA L. STARR**  
Assistant Vice President,  
Bank Secrecy Act / Anti-Money Laundering

**MELISSA L. WILKINS**  
Assistant Vice President, Retail Operations



# THE DIME BANK LOCATIONS

## CARBONDALE OFFICE

570-281-3330 | carbondale@thedimebank.com

## DAMASCUS OFFICE

570-224-6300 | damascus@thedimebank.com

## DINGMANS FERRY OFFICE

570-828-1200 | dingmansferry@thedimebank.com

## GREENTOWN OFFICE

570-676-8390 | greentown@thedimebank.com

## HAWLEY OFFICE

570-226-3506 | hawley@thedimebank.com

## HONESDALE OFFICE

570-253-1902 | honesdale@thedimebank.com

## LAKE REGION OFFICE

570-226-3600 | lakeregion@thedimebank.com

## OPERATIONS CENTER

570-253-1970 | operations@thedimebank.com

## INVESTOR INFORMATION

### CORPORATE HEADQUARTERS

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820 Church Street  
Honesdale, PA 18431  
570-253-1970  
e-mail: dimeco@thedimebank.com  
www.thedimebank.com

### AMERICAN STOCK TRANSFER & TRUST COMPANY, LLC

6201 15th Avenue  
Brooklyn, NY 11219  
718-921-8200  
www.astfinancial.com

### DIMECO, INC. STOCK MARKET MAKERS

#### Boening & Scattergood, Inc.

Four Tower Bridge  
200 Barr Harbor Drive, Suite 300  
West Conshohocken, PA 19428-2979  
610-862-5368 | 800-842-8928

### ANNUAL MEETING

Shareholders are cordially invited to attend the Annual Meeting of Shareholders, which will be held at The Community Room of the Chamber of Northern Poconos Building, 32 Commercial Street, Honesdale, PA on Thursday, April 25, 2019 at 2:00 p.m.

### 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.

Contact the transfer agent to enroll in the dividend reinvestment plan, replace lost stock certificates or to change name and address.

### FIG Partners

1475 Peachtree Street NE, Suite 800  
Atlanta, GA 30309  
404-601-7225

### Raymond James & Associates

222 South Riverside Plaza, 7th Floor  
Chicago, IL 60606  
800-800-4693

### INDEPENDENT AUDITORS

S.R. Snodgrass, P.C.  
2009 Mackenzie Way, Suite 340  
Cranberry Township, PA 16066  
724-934-0344  
www.srsnodgrass.com

### Stifel, Nicholas & Company, Inc.

670 N. River Street  
Wilkes-Barre, PA 18705  
570-200-3060  
800-233-8602

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