DIMECO INC.

NEWS RELEASE
TO BUSINESS EDITOR

DIMECO, INC. ANNOUNCES EARNINGS AT JUNE 30, 2014

Honesdale, PA, August 1, 2014/ Dimeco, Inc. (DIMC), parent company of The Dime Bank, reported net income of $2.9 million for the first six months of 2014. This resulted in a return on average assets of .97%, a return on average shareholders' equity of 9.20%, and earnings per share of $1.81. Dimeco's Board of Directors declared dividends totaling $.76 per share for the first half of 2014 which produced a dividend yield of 3.85% at the market price of $39.50 at June 30, 2014. Shareholders' equity expanded $3.9 million, or 6.4%, from one year ago, mainly the result of earnings over the period.

Total assets were $608 million at June 30, 2014, up $5 million from one year earlier. Total loans decreased $3 million or .7%. While the Company continued to originate loans during this period, we received several large line of credit paydowns in the past six months along with $3.6 million in early prepayments. Among the prepayments was a payoff of $855 thousand on a substandard-graded loan. In addition, loans of $4 million were transferred to other real estate owned and loans of $2.9 million were charged off over the past year. Asset quality remains a primary focus of management's attention. On a positive note, based on management's analysis of risk in the loan portfolio, the provision for loan losses expense decreased $625 thousand for the six months ended June 30, 2014 compared to the same period in 2013.

Total deposits declined $2 million or .4% from balances a year earlier. Non-interest bearing deposits grew by $11 million, while interest-bearing deposits decreased $13 million. The increase in non-interest bearing funds is a mix of temporary and long term deposits, coming from a variety of sources. The interest bearing deposit decline was primarily due to Dimeco management tapering the level of brokered deposit purchases to match slower loan growth.

With the extended low interest rate environment, interest income and interest expense both showed a marginal decrease for the first six months of the year, $254 thousand and $286 thousand, respectively, from one year earlier. Net income declined $162 thousand, or 5.3% in the first half of 2014 compared to the same period in 2013. Management feels the slow start to the economy due to the tough winter affected this pace. Banking activity has increased as the summer progresses.

The Dime Bank, a wholly owned subsidiary of Dimeco, Inc., has been helping customers meet their financial needs since 1905. Serving its primary market of Northeast Pennsylvania, the bank offers a full array of financial services ranging from traditional products to electronic banking and wealth management services. For more information on The Dime Bank and Dimeco, Inc., visit www.thedimebank.com.

Source: Dimeco, Inc. / August 1, 2014/ Deborah Unflat

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.

Dimeco, Inc. Stock Market Makers

Boenning & Scattergood, Inc.
800-842-8928

Raymond James & Associates, Inc.
800-647-7378

Stifel Nicolaus
800-793-7226

Directors

John S. Kiesendahl, Chairman
Thomas A. Peifer, Vice Chairman
Gary C. Beilman, President
John F. Spall, Secretary

Robert E. Genirs
Barbara J. Genzlinger
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DIMECO INC.

SECOND QUARTER 2014

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Dear Shareholders:

I am pleased to deliver this report of Dimeco, Inc. for the quarter ended June 30, 2014. When looking at our balance sheet, you will note that total assets are up $5 million from the same period in 2013. Total loans have actually decreased $3 million from last year. Due to normal seasonality in our marketplace, we received approximately $1.8 million in line of credit paydowns along with $3.6 million in early prepayments during the first six months of 2014. Of particular note, one of the early loan prepayments was a credit of $855 thousand which had been graded as substandard and paid in full as a result of our efforts to improve asset quality. In addition, we transferred $4 million of loans to other real estate owned and charged off $2.9 million over the past year. While we continued to originate loans during this period, we believe that the unusually hard winter we experienced, along with customer concerns in the current economy may have contributed to fewer originations.

Other assets increased $5 million over the past twelve months. We purchased $2.6 million of bank-owned life insurance to provide benefits for certain officers. The interest earned on these purchases offers an attractive rate of return compared to other investments. In addition, at the end of June 2014, we booked a $2.4 million receivable for proceeds of the sale of bonds.

Deposits as of June 30, 2014 are down $2 million from the level a year earlier. Non-interest bearing deposits actually grew by $11 million, while interest bearing deposits decreased by $13 million. We welcome the increase in non-interest bearing funds which come from quite a few different types of customers, some of which will be used to operate summer business and the remainder from customers with various income sources. The decline in interest-bearing deposits was primarily the result of management tapering our level of CDARS purchases during the past year. With slower loan growth, we did not need to maintain these balances.

The most dramatic increase in the balance sheet, and that which should be great news for you, our shareholders, is the expansion in stockholders' equity, which grew $3.9 million, mainly the result of earnings over the period. We are pleased to produce this level of growth for you.

Interest income for the first six months of this year is about equal from that of one year ago, having a decrease of only $254 thousand, due primarily to the extended low interest rate environment. The interest that we earn on loans was 12 basis points lower in the first six months of 2014 than the same time frame in 2013 as the loan portfolio matures and is replenished with loans at the current market rates. Correspondingly, interest expense has decreased by $286 thousand over the same two periods. The cost reduction is a result of our management of deposit rates competitively in our marketplace, as well as the aforementioned shift in deposit categories.

Asset quality remains a focus of our attention. Counseling and collection efforts are active pursuits as we continue our efforts to bring delinquent and non-accrual credits back in line with our goals. On a positive note, the provision for loan losses expense decreased $625 thousand for the six months ended June 30, 2014 compared to the same period in 2013. Management continued to identify credit quality issues and believes that this decrease in provision expense is appropriate due to our analysis of the allowance for loan losses. Certainly, we have more work to do, but are headed in the right direction.

With all that said, net income for the first six months of 2014 was $2.9 million, just $162 thousand off the pace for the same period in 2013. I think I could safely state that most of us remember the slow start this year, brought about by a tough, cold, snowy winter. Thankfully that is past, summer is here, and banking activity has certainly picked back up.

The return on average assets was .97% and the return on average equity was 9.20% for the first six months of 2014, slightly lower than these ratios for the same period of 2013, but both above comparative peer returns. For the quarter ended June 30, 2014, the Board of Directors declared a dividend of $.38 per share. At this level, and with a quarter-end market value of $39.50 per share, the dividend yield was 3.85%. It is a goal of the Board to continue to enhance your investment by consistently producing handsome dividend yields.

As always, we thank you for your investment and loyalty. We appreciate the confidence that you have bestowed on us and we continually strive to enhance your investment. Your comments and questions are welcome.

Sincerely,

Gary C. Beilman

Gary C. Beilman
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEET (unaudited)

(in thousands)

	June 30, 2014	June 30, 2013
Assets		
Cash and cash equivalents	$ 11,634	$ 14,111
Mortgage loans held for sale	–	290
Investment securities available for sale	99,852	97,212
Loans, net of allowance for loan losses	450,287	453,258
Premises and equipment	10,016	9,687
Accrued interest receivable	1,872	1,908
Other real estate owned	6,216	3,401
Other assets	28,582	23,496
TOTAL ASSETS	**$ 608,459**	**$ 603,363**
Liabilities		
Deposits:		
Noninterest-bearing	$ 69,980	$ 58,953
Interest-bearing	414,564	427,544
Total deposits	484,544	486,497
Short-term borrowings	35,408	31,726
Other borrowed funds	18,017	19,552
Accrued interest payable	358	460
Other liabilities	5,516	4,422
TOTAL LIABILITIES	543,843	542,657
TOTAL STOCKHOLDERS' EQUITY	64,616	60,706
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 608,459**	**$ 603,363**

CONSOLIDATED STATEMENT OF INCOME (unaudited)

(in thousands)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Interest Income				
Loans, including fees	$ 5,647	$ 5,742	$ 11,349	$ 11,751
Investment securities	595	513	1,170	1,052
Other	27	9	42	12
Total interest income	6,269	6,264	12,561	12,815
Interest Expense				
Deposits	629	741	1,286	1,521
Short-term borrowings	19	21	36	38
Other borrowed funds	132	155	266	315
Total interest expense	780	917	1,588	1,874
Net Interest Income	**5,489**	**5,347**	**10,973**	**10,941**
Provision for loan losses	650	800	1,325	1,950
Net Interest Income, After Provision for Loan Losses	**4,839**	**4,547**	**9,648**	**8,991**
Noninterest income	1,234	1,377	2,212	2,640
Noninterest expense	4,225	4,073	8,235	7,697
Income before income taxes	1,848	1,851	3,625	3,934
Income taxes	363	361	703	850
NET INCOME	**$ 1,485**	**$ 1,490**	**$ 2,922**	**$ 3,084**

CONSOLIDATED FINANCIAL HIGHLIGHTS (unaudited)

(dollars in thousands, except per share)

	2014	2013	% Increase (decrease)
Performance for the six months ended June 30,			
Interest income	$ 12,561	$ 12,815	(2.0%)
Interest expense	$ 1,588	$ 1,874	(15.3%)
Net interest income	$ 10,973	$ 10,941	.3%
Net income	$ 2,922	$ 3,084	(5.3%)
Shareholders' Value (per share)			
Net income – basic	$ 1.81	$ 1.91	(5.2%)
Net income – diluted	$ 1.79	$ 1.90	(5.8%)
Dividends	$ .76	$ .76	–
Book value	$ 39.78	$ 37.31	6.6%
Market value	$ 39.50	$ 42.50	(7.1%)
Market value/book value ratio	99.3%	113.9%	(12.8%)
*Price/earnings multiple	10.9X	11.1X	(1.8%)
*Dividend yield	3.85%	3.58%	7.5%
Financial Ratios			
*Return on average assets	.97%	1.02%	(4.9%)
*Return on average equity	9.20%	10.09%	(8.8%)
Shareholders' equity/asset ratio	10.62%	10.06%	5.6%
Dividend payout ratio	41.99%	39.79%	5.5%
Nonperforming assets/total assets	4.12%	3.75%	9.9%
Allowance for loan loss as a % of loans	2.06%	2.09%	(1.4%)
Net charge-offs/average loans	.10%	.31%	(67.7%)
Allowance for loan loss/nonaccrual loans	59.37%	53.56%	10.8%
Allowance for loan loss/non-performing loans	50.41%	50.25%	.3%
Financial Position at June 30,			
Assets	$ 608,459	$ 603,363	.8%
Loans	$ 459,779	$ 462,917	(.7%)
Deposits	$ 484,544	$ 486,497	(.4%)
Stockholders' equity	$ 64,616	$ 60,706	6.4%

*annualized

ALLOWANCE FOR LOAN LOSSES
By Porfolio Segment

	June 30, 2014					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Allowance for loan losses:						
Beginning balance	$ 1,017	$ 465	$ 5,593	$ 121	$ 1,435	$ 8,631
Charge-offs	(26)	(2)	(131)	(115)	(236)	(510)
Recoveries	11	-	-	32	3	46
Provision	265	11	821	57	171	1,325
Ending balance	$ 1,267	$ 474	$ 6,283	$ 95	$ 1,373	$ 9,492
Ending allowance balance:						
Loans individually evaluated for impairment	$ 208	$ -	$ 1,256	$ -	$ 53	$ 1,517
Loans collectively evaluated for impairment	1,059	474	5,027	95	1,320	7,975
Total	$ 1,267	$ 474	$ 6,283	$ 95	$ 1,373	$ 9,492
Ending loan balance:						
Loans individually evaluated for impairment	$ 384	$ -	$ 18,569	$ -	$ 1,854	$ 20,807
Loans collectively evaluated for impairment	68,075	17,108	252,797	6,522	94,470	438,972
Total	$ 68,459	$ 17,108	$ 271,366	$ 6,522	$ 96,324	$ 459,779

	December 31, 2013					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Allowance for loan losses:						
Beginning balance	$ 965	$ 416	$ 6,607	$ 130	$ 1,034	$ 9,152
Charge-offs	(380)	-	(3,094)	(129)	(266)	(3,869)
Recoveries	10	-	13	57	18	98
Provision	422	49	2,067	63	649	3,250
Ending balance	$ 1,017	$ 465	$ 5,593	$ 121	$ 1,435	$ 8,631
Ending allowance balance:						
Loans individually evaluated for impairment	$ 211	$ -	$ 831	$ -	$ 90	$ 1,132
Loans collectively evaluated for impairment	806	465	4,762	121	1,345	7,499
Total	$ 1,017	$ 465	$ 5,593	$ 121	$ 1,435	$ 8,631
Ending loan balance:						
Loans individually evaluated for impairment	$ 434	$ -	$ 16,390	$ -	$ 2,312	$ 19,136
Loans collectively evaluated for impairment	67,762	16,723	264,048	6,840	96,739	452,112
Total	$ 68,196	$ 16,723	$ 280,438	$ 6,840	$ 99,051	$ 471,248

ALLOWANCE FOR LOAN LOSSES
Credit Quality Information

	June 30, 2014					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Loans Independently Reviewed:						
Pass	$ 36,596	$ 8,509	$ 150,123	$ 2,222	$ 18,472	$ 215,922
Special Mention	577	1,651	9,278	1	2,508	14,015
Substandard	4,312	2,284	32,307	9	3,193	42,105
Doubtful	16	-	-	-	-	16
Loss	-	-	-	-	-	-
Total	$ 41,501	$ 12,444	$ 191,708	$ 2,232	$ 24,173	$ 272,058
Loans Internally Reviewed:						
Pass	$ 26,645	$ 4,708	$ 80,532	$ 4,290	$ 72,270	$ 188,445
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 26,645	$ 4,708	$ 80,532	$ 4,290	$ 72,270	$ 188,445

	December 31, 2013					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Loans Independently Reviewed:						
Pass	$ 29,952	$ 6,778	$ 141,799	$ 873	$ 12,686	$ 192,088
Special Mention	791	1,984	13,371	5	3,407	19,558
Substandard	2,933	2,322	30,345	24	4,508	40,132
Doubtful	16	-	-	-	-	16
Loss	-	-	-	-	-	-
Total	$ 33,692	$ 11,084	$ 185,515	$ 902	$ 20,601	$ 251,794
Loans Internally Reviewed:						
Pass	$ 34,190	$ 5,681	$ 95,784	$ 5,939	$ 78,579	$ 220,173
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 34,190	$ 5,681	$ 95,784	$ 5,939	$ 78,579	$ 220,173

Note - Balances include gross loan before unearned income and excluding overdrafts as of the balance sheet date.

ALLOWANCE FOR LOAN LOSSES
Age Analysis of Past Due Loans by Class

	June 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 200	$ 98	$ 1,750	$ 2,048	$ 66,410	$ 68,459	$ 1,302
Construction and development	-	-	40	40	17,068	17,108	-
Commercial real estate	2,213	873	8,549	11,635	259,731	271,366	183
Consumer	47	2	6	55	6,467	6,522	6
Residential real estate	1,187	266	1,524	2,977	93,347	96,324	165
Total	$ 3,647	$ 1,239	$ 11,869	$ 16,754	$ 443,023	$ 459,779	$ 1,656

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 2,194	$ 20	$ 238	$ 2,452	$ 65,744	$ 68,196	$ 18
Construction and development	24	-	50	74	16,649	16,723	-
Commercial real estate	2,034	1,398	3,583	7,015	273,423	280,438	35
Consumer	69	23	17	109	6,731	6,840	4
Residential real estate	808	174	1,979	2,961	96,090	99,051	-
Total	$ 5,129	$ 1,615	$ 5,867	$ 12,611	$ 458,637	$ 471,248	$ 57