DIMECO INC.

NEWS RELEASE
TO BUSINESS EDITOR

Dimeco, Inc. Announces Earnings for Year and Quarter Ended September 30, 2016

Honesdale, PA, October 24, 2016/ Dimeco, Inc. (OTC Pink: DIMC), parent company of The Dime Bank, reported net income of $4.6 million for the first nine months of 2016, an increase of $1.3 million, or 38.6% over net income reported for the first nine months of 2015. Interest income increased $728 thousand (3.9%) primarily due to an increase of .05% in the net interest earned on loans, a decline of over $8 million in nonaccrual loans and the average balance of loans increasing $12 million over the past twelve months. As asset quality improved during the past year, the Company recognized a decline of $1.3 million (55.6%) in the provision for loan losses and a decrease of $520 thousand (48.1%) in costs associated with other real estate owned. The return on average assets was .97%, and the return on average equity was 8.69%, with earnings per share of $2.78. Dimeco's Board of Directors declared dividends totaling $1.14 per share during the past nine months which produced a dividend yield of 3.71% at September 30, 2016.

Total assets were $638 million at September 30, 2016, an increase of $26 million (4.3%) compared to September 30, 2015. Total loans at $490 million, increased $18 million (3.9%) over the period. The main increase was in residential real estate loans, representing both primary home residential mortgages and commercial loans secured by the borrower's residence. Total deposits at $508 million increased $20 million (4.2%) from balances a year earlier, fueled mainly by greater balances in Kasasa products.

President and Chief Executive Officer Gary C. Beilman stated, "I'm honored to report that from nearly every perspective, our results for the first three quarters of this year exceed that of last year. As can be seen in our third quarter report, the Company's positive performance which started the year continues and our financial position is healthy and growing. Efforts to improve asset quality continue to show positive results adding to a significant reduction in loan delinquency. As we move forward, our efforts will continue to ensure a strong asset base, working every day to build a better financial institution."

Dimeco, Inc. is the holding company of The Dime Bank, a full service financial institution serving Northeast Pennsylvania since 1905. For more information on Dimeco, Inc. and The Dime Bank, visit www.thedimebank.com.

Source: Dimeco, Inc. / October 24, 2016 / Deborah Unflat

INVESTOR INFORMATION

Stock Listing – DIMC

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
800-937-5449
e-mail: info@amstock.com
Internet address: www.amstock.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
800-800-4693

Stifel
866-780-7926

Directors

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

Barbara J. Genzlinger
Amy Litzenberger
David D. Reynolds, M.D.
Henry M. Skier
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DIMECO INC.

THIRD QUARTER 2016

CONSOLIDATED FINANCIAL HIGHLIGHTS *(unaudited)*

(dollars in thousands, except per share)

	2016	2015	% Increase (decrease)
Performance for the nine months ended Sept. 30,			
Interest income	**$ 19,194**	$ 18,466	3.9%
Interest expense	**$ 2,059**	$ 1,972	4.4%
Net interest income	**$ 17,135**	$ 16,494	3.9%
Net income	**$ 4,581**	$ 3,306	38.6%
Shareholders' Value (per share)			
Net income – basic	**$ 2.79**	$ 2.03	37.4%
Net income – diluted	**$ 2.78**	$ 2.02	37.6%
Dividends	**$ 1.14**	$ 1.14	–
Book value	**$ 43.45**	$ 41.70	4.2%
Market value	**$ 41.00**	$ 35.30	16.1%
Market value/book value ratio	**94.4%**	84.7%	11.5%
*Price/earnings multiple	**11.0X**	13.0X	(15.4%)
*Dividend yield	**3.71%**	4.31%	(13.9%)
Financial Ratios			
*Return on average assets	**.97%**	.73%	32.9%
*Return on average equity	**8.69%**	6.52%	33.3%
Efficiency ratio	**64.70%**	66.75%	(3.1%)
Net interest margin	**4.03%**	4.02%	.2%
Shareholders' equity/asset ratio	**11.20%**	11.19%	.1%
Dividend payout ratio	**40.86%**	56.16%	(27.2%)
Nonperforming assets/total assets	**2.53%**	3.60%	(29.7%)
Allowance for loan losses as a % of loans	**1.73%**	1.99%	(13.1%)
Net charge-offs/average loans	**.17%**	.16%	6.3%
Allowance for loan losses/nonaccrual loans	**102.90%**	55.24%	86.3%
Allowance for loan losses/non-performing loans	**88.57%**	53.45%	65.7%
Financial Position at Sept. 30,			
Assets	**$ 638,208**	$ 612,124	4.3%
Loans	**$ 489,563**	$ 471,161	3.9%
Deposits	**$ 507,756**	$ 487,363	4.2%
Stockholders' equity	**$ 71,510**	$ 68,468	4.4%

*annualized

Dear Shareholders:

It is my honor to present this report of Dimeco, Inc. for the quarter ended September 30, 2016. In this report you will see a continuation of the positive performance which started the year. From nearly every perspective, our results for the first three quarters of this year exceed that of last year.

Our financial position is healthy and growing. As we ended this quarter, total assets were at $638 million, an expansion of $26 million over the numbers posted the same time last year. Deposits are up over 4% from last year, ending the quarter at $508 million as customers take advantage of our "Kasasa" products as well as all other deposit accounts. Our loan portfolio expanded to $490 million and this is in spite of losing $9 million in unexpected payoffs in the first quarter. Thankfully, loan demand is robust for both commercial and residential mortgage loans. Additionally, our Wealth Management division continues to build our investment and financial planning services, and we now have $242 million of assets under management.

Efforts to improve asset quality continue to show positive results. I am happy to report that loan delinquency has been reduced significantly. We sold several of our other real estate owned properties, which in turn, has drastically lowered the corresponding operating expense. As a result of these actions, our nonperforming assets decreased considerably and our allowance for loan losses to nonperforming loans improved nicely. As positive as this news is, our efforts continue to ensure a strong asset base.

With all that said, Dimeco's performance for the first nine months of 2016 is up handsomely. Our net income stands at almost $4.6 million, a marked increase of 38% over that of last year. Return on average assets is at .97%, and return on average equity is 8.69%, both of which represent increases of greater than 30% over the same period of 2015.

This positive performance has provided numerous benefits for you, our shareholders. Stockholders' equity expanded to $71.5 million, an increase of 4.4%, and our shareholders' equity to asset ratio is solid at 11.2%. Additionally, book value per share has grown by 4%, and the securities market has reacted positively as noted in our quarter ended market value of $41.00 per share, an uptick of 16% from last year. We see all of these as true enhancements of your investment.

We are certainly pleased with this report for the third quarter of 2016, and we work every day to build a better financial institution for you. As we move forward, we continue to monitor the possible effects of a sluggish global economy, uncertain national monetary and fiscal policies, and the upcoming presidential election. Throughout all of this you have our pledge that all of our efforts are directed toward providing positive results for you.

We thank you for your loyalty and continued patronage. I encourage you to recommend Dimeco, Inc. to others for investment in our stock and to use our banking and wealth management services. As always, your comments are welcome.

Sincerely,

Gary C. Beilman

Gary C. Beilman
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEET

(unaudited)

(in thousands)

Assets	**9/30/2016**	6/30/2016	3/31/2016	9/30/2015
Cash and cash equivalents	**$ 8,630**	$ 15,203	$ 8,672	$ 6,916
Mortgage loans held for sale	**–**	952	–	–
Investment securities available for sale	**101,777**	118,421	100,764	99,709
Loans, net of allowance for loan losses	**481,090**	458,156	467,358	461,793
Premises and equipment	**9,168**	9,326	9,338	9,368
Accrued interest receivable	**1,735**	1,859	1,801	1,780
Other real estate owned	**6,449**	6,218	6,625	4,492
Other assets	**29,359**	28,137	28,608	28,066
TOTAL ASSETS	**$ 638,208**	$ 638,272	$ 623,166	$ 612,124
Liabilities				
Deposits:				
Noninterest-bearing	**$ 85,031**	$ 85,068	$ 77,754	$ 75,993
Interest-bearing	**422,725**	415,949	414,755	411,370
Total deposits	**507,756**	501,017	492,509	487,363
Short-term borrowings	**25,757**	34,001	28,429	33,121
Other borrowed funds	**26,241**	26,246	26,977	16,592
Accrued interest payable	**234**	261	310	257
Other liabilities	**6,710**	5,878	5,630	6,323
TOTAL LIABILITIES	**566,698**	567,403	553,855	543,656
TOTAL STOCKHOLDERS' EQUITY	**71,510**	70,869	69,311	68,468
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 638,208**	$ 638,272	$ 623,166	$ 612,124

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands, except per share data)	Three months ended			Nine months ended	
	9/30/2016	6/30/2016	3/31/2016	**9/30/2016**	9/30/2015
Interest Income					
Loans, including fees	**$ 5,851**	$ 5,759	$ 5,797	**$ 17,407**	$ 16,784
Investment securities	**624**	569	524	**1,717**	1,582
Other	**21**	30	19	**70**	100
Total interest income	**6,496**	6,358	6,340	**19,194**	18,466
Interest Expense					
Deposits	**492**	505	511	**1,508**	1,562
Short-term borrowings	**24**	19	14	**57**	52
Other borrowed funds	**169**	172	153	**494**	358
Total interest expense	**685**	696	678	**2,059**	1,972
Net Interest Income	**5,811**	5,662	5,662	**17,135**	16,494
Provision for loan losses	**325**	325	350	**1,000**	2,250
Net Interest Income, After Provision for Loan Losses	**5,486**	5,337	5,312	**16,135**	14,244
Noninterest income	**1,142**	1,056	1,030	**3,228**	3,227
Noninterest expense	**4,679**	4,454	4,444	**13,577**	13,539
Income before income taxes	**1,949**	1,939	1,898	**5,786**	3,932
Income taxes	**406**	405	394	**1,205**	626
NET INCOME	**$ 1,543**	$ 1,534	$ 1,504	**$ 4,581**	$ 3,306
Earnings per share-basic	**$ .94**	$ .93	$ .92	**$ 2.79**	$ 2.03
Earnings per share-diluted	**$ .93**	$ .93	$ .91	**$ 2.78**	$ 2.02
Average shares outstanding-basic	1,644,466	1,643,193	1,643,179	1,643,728	1,626,667
Average shares outstanding-diluted	1,652,853	1,650,422	1,648,204	1,650,547	1,633,876

NOTE 1 –ALLOWANCE FOR LOAN LOSSES

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio. The following tables present by portfolio segment, the allowance for loan losses for the quarter ended September 30, 2016 and the year ended December 31, 2015 (in thousands):

	September 30, 2016					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Allowance for loan losses:						
Beginning balance	$ 3,243	$ 64	$ 3,599	$ 117	$ 1,254	$ 8,277
Charge-offs	(138)	-	(803)	(24)	(53)	(1,018)
Recoveries	32	1	49	29	103	214
Provision	415	120	247	8	210	1,000
Ending balance	$ 3,552	$ 185	$ 3,092	$ 130	$ 1,514	$ 8,473
Ending allowance balance:						
Loans individually evaluated for impairment	$ 1,210	$ -	$ 271	$ -	$ 290	$ 1,771
Loans collectively evaluated for impairment	2,342	185	2,821	130	1,224	6,702
Total	$ 3,552	$ 185	$ 3,092	$ 130	$ 1,514	$ 8,473
Ending loan balance:						
Loans individually evaluated for impairment	$ 2,732	$ 11	$ 10,524	$ -	$ 1,627	$ 14,894
Loans collectively evaluated for impairment	86,997	25,089	252,938	8,145	101,500	474,669
Total	$ 89,729	$ 25,100	$ 263,462	$ 8,145	$ 103,127	$ 489,563

NOTE 1 –ALLOWANCE FOR LOAN LOSSES (continued)

	December 31, 2015					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Allowance for loan losses:						
Beginning balance	$ 1,054	$ 129	$ 5,437	$ 78	$ 1,138	$ 7,836
Charge-offs	(1,563)	-	(442)	(99)	(531)	(2,635)
Recoveries	5	1	14	49	7	76
Provision	3,747	(66)	(1,410)	89	640	3,000
Ending balance	$ 3,243	$ 64	$ 3,599	$ 117	$ 1,254	$ 8,277
Ending allowance balance:						
Loans individually evaluated for impairment	$ 1,390	$ -	$ 1,164	$ -	$ 433	$ 2,987
Loans collectively evaluated for impairment	1,853	64	2,435	117	821	5,290
Total	$ 3,243	$ 64	$ 3,599	$ 117	$ 1,254	$ 8,277
Ending loan balance:						
Loans individually evaluated for impairment	$ 2,983	$ -	$ 11,818	$ -	$ 1,579	$ 16,380
Loans collectively evaluated for impairment	83,941	13,439	256,666	7,640	93,298	454,984
Total	$ 86,924	$ 13,439	$ 268,484	$ 7,640	$ 94,877	$ 471,364

Credit Quality Information

The following tables represent credit exposures by assigned grades for the nine months ended September 30, 2016 and the year ended December 31, 2015. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows:

Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss – loans classified as a loss are considered uncollectable, or of such value that continuance as an asset is not warranted.

NOTE 1 –ALLOWANCE FOR LOAN LOSSES (continued)

Credit Quality Information (continued)

Loans are graded by either independent loan review or internal review. Internally reviewed loans were assigned a risk weighting by the loan officer and approved by the loan committee, but have not undergone a formal loan review by an independent party. These loans are typically smaller dollar balances that have not experienced delinquency issues. Balances as of September 30, 2016 and December 31, 2015 are net of unearned income and include overdrafts, loan settlement and loan unposted (in thousands):

	September 30, 2016					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Pass	$ 86,044	$ 20,811	$ 228,681	$ 8,140	$ 98,538	$ 442,214
Special Mention	339	233	12,070	5	1,426	14,073
Substandard	3,346	4,056	22,711	-	3,163	33,276
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 89,729	$ 25,100	$ 263,462	$ 8,145	$ 103,127	$ 489,563

	December 31, 2015					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Pass	$ 81,730	$ 12,986	$ 222,082	$ 7,634	$ 90,890	$ 415,322
Special Mention	563	259	14,117	6	1,221	16,166
Substandard	4,631	194	32,285	-	2,766	39,876
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 86,924	$ 13,439	$ 268,484	$ 7,640	$ 94,877	$ 471,364

NOTE 1 –ALLOWANCE FOR LOAN LOSSES (continued)

Age Analysis of Past Due Loans by Class

The following is a table which includes an aging analysis of the recorded investment of past due loans as of September 30, 2016 and December 31, 2015 including loans which are in nonaccrual status (in thousands):

	September 30, 2016						
	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	$ 232	$ 1,677	$ 84	$ 1,993	$ 87,736	$ 89,729	$ 52
Construction and development	-	-	-	-	25,100	25,100	-
Commercial real estate	202	-	2,025	2,227	261,235	263,462	-
Consumer	2	4	-	6	8,139	8,145	-
Residential real estate	122	894	1,294	2,310	100,817	103,127	535
Total	$ 558	$ 2,575	$ 3,403	$ 6,536	$ 483,027	$ 489,563	$ 587

	December 31, 2015						
	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	$ 73	$ 160	$ 99	$ 332	$ 86,592	$ 86,924	$ -
Construction and development	-	-	-	-	13,439	13,439	-
Commercial real estate	594	816	3,501	4,911	263,573	268,484	-
Consumer	37	8	2	47	7,593	7,640	2
Residential real estate	268	115	942	1,325	93,552	94,877	-
Total	$ 972	$ 1,099	$ 4,544	$ 6,615	$ 464,749	$ 471,364	$ 2