DIMECO, INC. ANNOUNCES EARNINGS AT JUNE 30, 2016

Honesdale, PA, July 25, 2016/ Dimeco, Inc. (OTC Pink: DIMC), parent company of The Dime Bank, reported net income of $3.0 million for the first six months of 2016, an increase of 28.5% over the same period 2015. This resulted in a return on average assets of .97% and a return on average shareholders' equity of 8.73%, with both ratios resulting in an increase of 24.0% over those reported for the second quarter of 2015. President and Chief Executive Officer Gary C. Beilman stated, "I am happy to note that the positive momentum that began in the first quarter of this year continued into this quarter. Largely our income growth is due to the aggressive and prudent steps that began in the fourth quarter of last year and continue as we make progress to improve asset quality."

Total assets were $638.3 million at June 30, 2016, an increase of $27.5 million or 4.5%, from one year earlier. Total loans at $466.3 million increased $5.2 million over the same period. This loan growth comes despite the fact that the Company experienced $9 million of commercial loan payoffs when two clients sold their businesses. As the local economy shows signs of recovery, the Company continues to generate real estate loans and their loan pipelines for both residential and commercial lending are moving at a healthy pace.

Total deposits increased $13.1 million, or 2.7% from balances a year earlier to $501.0 million, with non-interest bearing deposits increasing $9.6 million and interest-bearing deposits $3.5 million. Gary C. Beilman continued, "As certain indications of the economy in our locale are showing improvement, we are thrilled to be a part of this expansion with great products and services. Our Kasasa® deposit products are receiving a lot of attention as evidenced by new customers being attracted by the many benefits that are offered and by existing customers switching to these reward-based accounts. We have the ability to meet the needs of everyone through not only Kasasa, but a wide variety of deposit accounts."

Earnings per share rose 26.7% to $1.85 at June 30, 2016 from $1.46 at June 30, 2015. Dimeco's Board of Directors declared dividends totaling $.76 per share for the first half of 2016 which produced a dividend yield of 3.87% at the market price of $39.30 at June 30, 2016. Shareholders' equity expanded $3.4 million, or 5.0%, from one year ago, to $70.9 million, resulting in the ratio of stockholders' equity to assets of 11.10% at June 30, 2016. Gary C. Beilman closed stating, "This report of the second quarter 2016 is a solid one. We continue to make advances in enhancing our asset quality and to manage interest spread in this challenging environment. Global economies continue to struggle and it appears that our country may stay in this low interest rate environment for some time into the future. Throughout all of this, we pledge to continue our efforts toward building a solid Company for our shareholders and the community."

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. / July 25, 2016 / Deborah Unflat

Dear Shareholders:

I am pleased to present this report of Dimeco, Inc. for the second quarter of 2016. I am also happy to note that the positive momentum that began in the first quarter of this year continued into this quarter.

Looking at our balance sheet, the second quarter of 2016 shows respectable growth when compared to the same period of 2015. Deposits now stand at $501 million, up nicely from the $488 million posted in the previous year. The deposit base grew from a combination of new and existing business customers. In addition, our Kasasa deposit products are receiving a lot of attention as evidenced by new customers being attracted by the many benefits that are offered and by existing customers switching to these reward-based accounts. We have the ability to meet the needs of everyone through Kasasa and all of our other types of deposits.

Total loans outstanding of $466 million are $5 million greater than a year earlier. This loan growth comes despite the fact that we experienced $9 million of unexpected commercial loan payoffs this quarter when two clients sold their businesses. During the past twelve months, we continued to generate real estate loans as the local economy shows signs of recovery. Both our residential and commercial lending pipelines are moving at a healthy pace and we are hopeful to continue that trend.

Total assets grew to $638 million, an uptick of 4.5% from a year earlier. As certain indications of the economy in our locale are showing improvement, we are thrilled to be a part of this expansion with great products and services for both deposits and loans.

From a performance perspective there is even better news. As of June 30th of this year, we posted year to date net income of more than $3 million. This is a very significant increase of 28.5% over that earned a year earlier. Largely this income growth is due to the aggressive and prudent steps that began in the fourth quarter of last year and continue as we make progress to improve asset quality. The most evident expense reductions have been in the categories of our provision for loan losses and the costs associated with other real estate owned. Both of these, together with other efficiencies, have helped us to begin our return to performance levels to which you are accustomed. As a result, return on average assets is .97% and return on average equity is 8.73%, both of which are increases of 24% over the same ratios in 2015.

From your standpoint as shareholders, there is more good news. The book value of your stock is now $43.06 per share, an increase of more than 4%. Our shareholders' equity to asset ratio is 11.1% and stockholders' equity expanded to over $70 million, both up handsomely from the same period last year. Finally, Dimeco's dividend yield is a very respectable 3.87%. We see all of these performance results as being real enhancements to your stock ownership.

Granted, this report of the second quarter of 2016 is a solid one. That is not to say that our work is completed. We continue to make advances in further enhancing our asset quality and to manage interest spread in this challenging environment. Global economies continue to struggle and it appears that our country may stay in this low interest rate environment for some time into the future. Throughout all of this, you have our pledge that all of our efforts are directed toward enhancing your investment.

We thank you for your loyalty and investment. I encourage you to recommend Dimeco, Inc. to others for investment in our stock and to use our banking and wealth management services. Through our collective efforts we can build an even larger and more valuable institution. As always, your comments are welcome.

Sincerely,

Gary C. Beilman
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEET

(unaudited)

(in thousands)

	6/30/2016	3/31/2016	6/30/2015
Assets			
Cash and cash equivalents	**$ 15,203**	$ 8,672	$ 10,718
Mortgage loans held for sale	**952**	–	–
Investment securities available for sale	**118,421**	100,764	104,223
Loans, net of allowance for loan losses	**458,156**	467,358	452,282
Premises and equipment	**9,326**	9,338	9,486
Accrued interest receivable	**1,859**	1,801	1,783
Other real estate owned	**6,218**	6,625	4,633
Other assets	**28,137**	28,608	27,685
TOTAL ASSETS	**$ 638,272**	$ 623,166	$ 610,810
Liabilities			
Deposits:			
Noninterest-bearing	**$ 85,068**	$ 77,754	$ 75,465
Interest-bearing	**415,949**	414,755	412,403
Total deposits	**501,017**	492,509	487,868
Short-term borrowings	**34,001**	28,429	35,573
Other borrowed funds	**26,246**	26,977	15,263
Accrued interest payable	**261**	310	287
Other liabilities	**5,878**	5,630	4,316
TOTAL LIABILITIES	**567,403**	553,855	543,307
TOTAL STOCKHOLDERS' EQUITY	**70,869**	69,311	67,503
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 638,272**	$ 623,166	$ 610,810

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(in thousands, except per share data)

	Three months ended			Six months ended	
	6/30/2016	3/31/2016	6/30/2015	**6/30/2016**	6/30/2015
Interest Income					
Loans, including fees	**$ 5,759**	$ 5,797	$ 5,550	**$ 11,556**	$ 11,086
Investment securities	**569**	524	512	**1,093**	1,062
Other	**30**	19	19	**49**	87
Total interest income	**6,358**	6,340	6,081	**12,698**	12,235
Interest Expense					
Deposits	**505**	511	514	**1,016**	1,062
Short-term borrowings	**19**	14	16	**33**	29
Other borrowed funds	**172**	153	118	**325**	238
Total interest expense	**696**	678	648	**1,374**	1,329
Net Interest Income	**5,662**	5,662	5,433	**11,324**	10,906
Provision for loan losses	**325**	350	750	**675**	1,500
Net Interest Income, After Provision for Loan Losses	**5,337**	5,312	4,683	**10,649**	9,406
Noninterest income	**1,056**	1,030	1,123	**2,086**	2,152
Noninterest expense	**4,454**	4,444	4,364	**8,898**	8,740
Income before income taxes	**1,939**	1,898	1,442	**3,837**	2,818
Income taxes	**405**	394	232	**799**	453
NET INCOME	**$ 1,534**	$ 1,504	$ 1,210	**$ 3,038**	$ 2,365
Earnings per share-basic	**$ .93**	$ .92	$ .74	$ 1.85	$ 1.46
Earnings per share-diluted	**$ .93**	$ .91	$ .74	$ 1.84	$ 1.45
Average shares outstanding-basic	1,643,193	1,643,179	1,624,714	1,643,442	1,623,194
Average shares outstanding-diluted	1,650,422	1,648,204	1,633,859	1,649,616	1,632,220

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 June 30, 2016 and the year ended December 31, 2015 (in thousands):

	June 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	(94)	-	(732)	(17)	(53)	(896)
Recoveries	30	1	5	16	73	125
Provision	120	14	360	9	172	675
Ending balance	$ 3,299	$ 79	$ 3,232	$ 125	$ 1,446	$ 8,181
Ending allowance balance:						
Loans individually evaluated for impairment	$ 1,266	$ -	$ 376	$ -	$ 297	$ 1,939
Loans collectively evaluated for impairment	2,033	79	2,856	125	1,149	6,242
Total	$ 3,299	$ 79	$ 3,232	$ 125	$ 1,446	$ 8,181
Ending loan balance:						
Loans individually evaluated for impairment	$ 2,800	$ 12	$ 10,448	$ -	$ 1,532	$ 14,792
Loans collectively evaluated for impairment	79,864	13,174	253,375	7,972	97,160	451,545
Total	$ 82,664	$ 13,186	$ 263,823	$ 7,972	$ 98,692	$ 466,337

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 six months ended June 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 June 30, 2016 and December 31, 2015 are net of unearned income and include overdrafts, loan settlement and loan unposted (in thousands):

	June 30, 2016					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Pass	$ 78,947	$ 12,754	$ 221,781	$ 7,966	$ 94,183	$ 415,631
Special Mention	362	241	14,900	6	1,321	16,830
Substandard	3,355	191	27,142	-	3,188	33,876
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 82,664	$ 13,186	$ 263,823	$ 7,972	$ 98,692	$ 466,337

	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 June 30, 2016 and December 31, 2015 including loans which are in nonaccrual status (in thousands):

	June 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	$ 36	$ 39	$ 95	$ 170	$ 82,494	$ 82,664	$ -
Construction and development	-	-	-	-	13,186	13,186	-
Commercial real estate	819	1,959	1,383	4,161	259,662	263,823	-
Consumer	32	-	1	33	7,939	7,972	-
Residential real estate	102	575	1,579	2,256	96,436	98,692	635
Total	$ 989	$ 2,573	$ 3,058	$ 6,620	$ 459,717	$ 466,337	$ 635

	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