PENN TREATY AMERICAN CORPORATION

CORPORATE GOVERNANCE GUIDELINES

These Corporate Governance Guidelines (these "Guidelines") serve as an important framework for the corporate governance practices of the Board of Directors (the "Board") of Penn Treaty American Corporation (the "Company") and to assist the Board in carrying out its fiduciary and other responsibilities effectively. The Board reviews these Guidelines periodically and, upon the recommendation of the Audit, Nominating and Corporate Governance Committee (the "Governance Committee"), may modify these Guidelines as appropriate to reflect the evolution of its corporate governance practices.

ARTICLE I. THE BOARD

The Board's primary responsibility is to provide effective governance over the Company's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, including its policy holders, employees, suppliers and local communities. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Company and all of its shareholders. The Board does not represent any particular group or special interest segment of the shareholders. In discharging its responsibilities, directors may rely on the honesty and integrity of the Company's senior management and its outside advisors and auditors.

1.1 Board Size

Under the Company's by-laws, the number of directors is set at nine (9). Currently, the Board has nine (9) members. Upon the occurrence of any vacancy in the Board, the Governance Committee recommends to the Board whether to fill such vacancy or to reduce the size of the Board, and the Board makes the final determination after receipt of such recommendation.

1.2 Board Responsibilities

Directors represent the interests of all shareholders, rather than any particular group or special interest segment of the shareholders. The Board has an active responsibility for broad corporate policy, overall performance of the Company and long-term strategic direction. Through activities related to furtherance of shareholder interests, stewardship of the Company and oversight of management, the Board seeks to enhance the long-term value and health of the Company.

Directors are expected to expend sufficient time, energy and attention to assure diligent performance of their responsibility. Directors are expected to attend meetings of the Board and committees of the Board (the "Board Committees") on which they serve; review materials distributed in advance of the meetings; and make themselves available for periodic updates and briefings with management via telephone or one-on-one meetings.

In carrying out its responsibilities, the Board performs some specific functions, including providing input and perspective in evaluating alternative strategic initiatives; reviewing and, where appropriate, approving fundamental financial and business strategies and major corporate actions; ensuring that processes are in place to maintain the integrity of the Company; evaluating and compensating the Chief Executive Officer (the "CEO") and other key executives; and planning for CEO succession and monitoring succession planning for other key executives. The Board reviews the Company's long-term strategic plans and the principal issues that it expects the Company may face in the future during at least one Board meeting each year.

To adequately fulfill the Board's responsibilities and carry out its functions, the Board as a whole should possess the following core competencies, with each member contributing knowledge, experience and skills in one or more domains:

Accounting and Finance. Among the most important missions of the Board is ensuring that shareholder value is both enhanced and protected through corporate performance and protected through adequate internal financial controls and appropriate financial reporting and disclosures. The Board must have at lease one director who meets the criteria for financial expertise set forth in the applicable rules and regulations of the Securities and Exchange Commission and the New York Stock Exchange and should have at least two more directors who are financially literate.

Business Judgment. Shareholders rely on directors to make reasonable and sensible choices on their behalf. The majority of directors should have a record of making good business decisions in the corporate sector.

Management Practices. To monitor corporate management, the Board needs to understand management trends in general and industry trends in particular. The Board should have one or more directors who understand and stay current on general management "best practices" and their application in complex, rapidly evolving business environments.

Crisis Response. Organizations inevitably experience both short and long-term crises. The ability to timely and effectively deal with crises can minimize ramifications and limit negative impact on corporate performance. The Board should have one or more directors who have the ability and time to perform during periods of both short-term and prolonged crises.

Industry Knowledge. Companies continually face new opportunities and threats that are unique to their industries. The Board should have one or more members with appropriate and relevant industry-specific knowledge.

General Experience. The Board should have one or more directors who appreciate the value of positive relationships with governments, communities and other constituencies. Such directors can provide expertise or insight on matters such as safety, health, environmental, diversity, charitable and civic interests.

Strategy and Vision. A key Board role is to approve and monitor Company strategy to ensure the Company's continued high performance. The Board should have one or more directors with the skills and capacity to provide strategic insight and direction by encouraging innovation, conceptualizing key trends, evaluating strategic decisions, and continuously challenging the organization to sharpen its vision.

1.3 Lead Director

The Chair of the Governance Committee will serve as the Board's lead director (the "Lead Director"), unless another director is designated as Lead Director by a majority vote of the Board. The Lead Director's responsibilities include ensuring that the Board functions independently of management. The Lead Director presides over regularly scheduled meetings of independent directors and performs other functions as directed by the Board. The Lead Director may rely on the Chair of each Board Committee to take a lead role for matters under the respective responsibility of such committee. The Lead Director can be contacted in writing by sending materials (indicating whether they are confidential) to the Lead Director, Penn Treaty American Corporation Board of Directors, c/o Corporate Secretary, Penn Treaty American Corporation, 3440 Lehigh Street, Allentown, PA 18103. If the sender's situation requires that his or her identity be kept secret, the sender's anonymity will be protected.

1.4 Independence

At least a majority of the members of the Board must be independent. A director is considered "independent" only when the Board has affirmatively determined that the director has no material relationship with the Company or any entity owned or controlled by the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company or any entity owned or controlled by the Company), following a review of all relevant information and factors the Board deems appropriate, and a recommendation by the Governance Committee. The Company shall disclose such determinations of independence in its annual proxy statement. Among others, the Board recognizes that material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. However, as the key concern is independence from management, the ownership of a significant amount of stock, by itself, shall not be considered a bar to an independence finding (except as discussed below in connection with the Governance Committee). Except in an unusual circumstance, the Board shall not include more than two (2) members of the Company's management, one of whom shall be the CEO.

The Governance Committee is responsible for reviewing the independence of the members of the Board and Board Committees on a periodic basis (but at least annually), as well as any relationships directors may have with the Company and/or its subsidiaries or affiliates or otherwise that may reasonably create the appearance of non independence.

Without limiting the information and factors that the Board may review and consider, a director shall meet the criteria for independence established in applicable laws, rules and regulations concerning independence, including those of the Securities and Exchange Commission and of the New York Stock Exchange. However, none of the following shall be considered to be independent:

- a director who is an employee, or whose immediate family member is an executive officer of the Company until three (3) years after the end of such employment relationship;

- a director who receives, or whose immediate family member receives, more than $100,000 per year in direct compensation from the Company (other than (1) director and committee fees; (2) compensation received by an immediate family member for services as a non-executive employee; and (3) pension or other forms of deferred compensation for prior service that is not contingent in any way on continued service) until three years after he or she ceases to receive more than $100,000 per year in such compensation;

- a director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company until three (3) years after the end of either the affiliation or the employment or auditing relationship;

- a director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's executive officers serves on that company's compensation committee until three (3) years after the end of such service or the employment relationship; and

- a director who is an executive officer or an employee, or whose immediate family member is an executive officer, of another company (A) that accounts for or could reasonably be expected to account for at least 2% or $1 million, whichever is the greater, of the Company's consolidated gross revenues, or (B) for which the Company accounts for or could reasonably be expected to account for at least 2% or $1 million, whichever is the greater, of such other company's consolidated gross revenues, in each case until three (3) years after falling below such threshold.

For the purposes of service on the Governance Committee, a director will not be considered "independent," unless, in addition to meeting the above criteria and such other qualifications as may be required by the Board, he or she (A) does not receive, directly or indirectly, any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries and (B) is not an affiliate of the Company or any of its subsidiaries. The foregoing shall be interpreted in accordance with, and shall be subject to the exceptions provided under, Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended.

1.5 Director Qualifications

Directors are selected for their integrity and character; sound and independent judgment; breadth of experience, insight and knowledge; business acumen; and the projected contributions they can make to the Company, the Board and management. Leadership skills, industry expertise, familiarity with issues affecting businesses in diverse industries, prior government service and diversity are among the relevant criteria, which criteria will vary over time depending on the needs of the Company and of the Board. The Governance Committee considers candidates for potential nomination to recommend for approval by the full Board. This assessment includes candidates' qualification as independent (see "Section 1.4 Independence" of these Guidelines), as well as consideration of the following factors:

(1) ***Integrity***. A director candidate should have proven integrity and a record of substantial achievement.

(2) ***Age***. A director candidate should be old enough to exercise mature judgment, but young enough to serve for several years.

(3) ***Experience***. A candidate should be a senior officer or senior manager of a company, university, non-profit organization or other entity that is well managed and achieving good results, preferably, who has experience in common with some aspects of the Company's business. Other qualified and prominent individuals who have business acumen and whose relevant background, training and experience (such as in the government) or skills can be expected to benefit the Company, should also be considered.

(4) ***High Performance Standards***. In today's highly competitive world, only companies capable of performing at the highest levels are likely to prosper. Directors should have a history of achievements that reflect high standards for themselves and others.

(5) ***Judgment***. A candidate should have a reputation for sound business judgment. It is important that a candidate be able to understand the role of the Board and the workings of the Company in the current business environment. A candidate should be able to objectively appraise management's plans, programs, achievements and shortcomings.

(6) ***Mature Confidence***. The Board functions best when directors value Board and team performance over individual performance. Openness to other opinions and the willingness to listen should rank as highly as the ability to communicate persuasively. Directors should approach others assertively, responsibly and supportively, and should identify issues in a manner that encourages open discussion.

(7) ***Collegiality***. It is important to preserve the collegiality of the Board. Candidates must inspire trust and confidence in other directors so that the Board can discharge its duties smoothly and efficiently.

(8) ***Passion***. Directors should be passionate about the performance of the Company, both in absolute terms and relative to its peers. That passion should manifest itself in engaged debate about the future of the Company and an *esprit de corps* among the Board that both challenges and inspires.

(9) ***Prestige***. A candidate should add to the prestige of the Board. This will enhance the reputation of the Company and make future recruiting easier.

(10) ***Commitment***. A candidate should be able and willing to devote the required amount of time to the Company's affairs, including preparing for and attending meetings of the Board and Board Committees. Directors should be actively involved in the Board and its decision-making.

(11) ***Diversity***. Directors should have a diverse mix of backgrounds, experiences, geography, gender and ethnicity.

In addition, under the rules of the New York Stock Exchange, the members of the Governance Committee must be financially literate or become financially literate within a reasonable period of time after appointment to the Governance Committee. As a result, the Governance Committee may consider the financial literacy of candidates for potential nomination where such candidates, if elected to the Board, may be considered for future service on the Governance Committee.

Shareholders make recommendations of persons for consideration as director candidates by submitting such recommendations to the Chair of the Governance Committee, Penn Treaty American Corporation Board of Directors, c/o Corporate Secretary, Penn Treaty American Corporation, 3440 Lehigh Street, Allentown, PA 18103. The recommendation must be in writing, received by the Corporate Secretary of the Company at least 120 days prior to the date that the Company's proxy statement with respect to the previous year's annual meeting was released to shareholders and include the proposed director candidate's name, address, telephone number, full educational and employment history, and consent to serve as a director if elected. Any other information about the recommended nominee that the recommending shareholder deems relevant may be submitted with the recommendation.

1.6 Other Boards

The Board believes the number of other public company boards on which a director simultaneously serves should be considered as part of the evaluation of whether a director has the time and energy to actively serve on the Board. The Governance Committee considers the number of such other boards on which a director serves and, particularly, whether such director chairs the audit, finance, compensation or corporate governance committee(s) on such other board(s). Directors are encouraged to limit the number of other public company boards on which they serve, in light of each director's time and effectiveness, and are expected to advise the Chairman of the Board and the Chair of the Governance Committee in advance of serving on another public company board.

The Board does not believe a director should serve simultaneously on more than three (3) public company audit committees (including the Company), unless the Board determines that such simultaneous service would not impair the ability of the director to effectively serve on the Company's Governance Committee.

1.7 Retirement

Employee directors shall resign from the Board upon their resignation, removal or retirement as an officer of the Company. However, there may be circumstances where this policy would not apply, including, without limitation, the transition to a new Chairman of the Board or a new CEO.

1.8 Codes of Ethics

The Company has adopted a Code of Business Conduct and Ethics, which is applicable to the Company's directors and addresses, among other things, directors' conflicts of interest, compliance with law and regulations, confidentiality and ethical conduct. The

Governance Committee shall monitor compliance of directors with the Code of Business Conduct and Ethics.

1.9 Service Arrangements

The Board believes that the Company should not, directly or indirectly, enter into paid service arrangements (*e.g.*, accounting, consulting, legal, etc.) with the independent directors.

1.10 Share Ownership by Directors

The Board believes that the number of shares of common stock, stock options or other equity securities of the Company owned by each director is personal. However, the Board strongly encourages directors to own a meaningful number of such securities within a reasonable time (but not later than five (5) years) after joining the Board, and to retain all shares of common stock, stock options and other equity securities of the Company they have received or purchased from the Company until after their membership on the Board has ended.

1.11 Orientation and Continuing Education

New directors must participate in an orientation program to become familiar with the Company and its strategic plans and businesses, significant financial matters and core values, including ethics, compliance programs, corporate governance practices and other key policies and practices. Such orientation may be done through a formal orientation program and/or informally through a review of background materials, meetings with senior executives and visits to the Company's facilities. Additionally, and at the Company's expense, a director may be afforded an opportunity to participate in a director education program sponsored by an accredited university or other reputable organization.

All directors must participate in an orientation program within six (6) months of joining the Board and must thereafter participate in an orientation program and/or director education program at least once every two (2) years.

The Governance Committee is responsible for providing guidance on directors' orientation and continuing education.

1.12 Compensation

The Board believes that compensation for independent directors should be competitive. The form, amount and other aspects of director compensation shall be determined by the Board upon the recommendation of the Compensation Committee in accordance with the policies and principles set forth in its charter and any New York Stock Exchange or other applicable rules (and, if appropriate, after receipt of input from outside advisors). The Compensation Committee will conduct an annual review of director compensation.

In the development of director compensation, consideration should be given to the following, among other things: compensation should fairly pay directors for work required for a publicly traded company of the Company's size and scope; compensation should align directors' interests with the long-term interests of shareholders; and the structure of compensation should be simplified and transparent. The Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

Directors who are employees of the Company or any of its subsidiaries or affiliates may not receive any compensation for their services as directors.

1.13 Annual Performance Evaluation

The Board will conduct an annual self-evaluation of its and each Board Committee's performance with a particular focus on overall effectiveness. The Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board following the end of each fiscal year. The assessment will focus on the contribution to the Company of the Board and each Board Committee. Without limiting the foregoing, the assessment will include and focus on areas in which the Board, management and/or the respective Board Committee believes that the Board and/or the respective Board Committee could improve.

1.14 Access to Management and Advisors

Directors have full and free access to the Company's officers and employees and, in addition, are encouraged to visit the Company's facilities. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Corporate Counsel or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company, and will, to the extent not inappropriate, copy the CEO on any written communications between a director and an officer or employee of the Company.

1.15 Independent Advisors

The Board, at the Company's expense, may consult with and retain independent advisors (*e.g.*, consulting, financial, accounting and legal) as it may deem appropriate and without prior approval of or consultation with any officer of the Company.

Each Board Committee, at the Company's expense, may consult with and retain independent advisors (*e.g.*, consulting, financial, accounting and legal) as it may deem appropriate and without prior consultation with or approval of the Board and/or the CEO.

Adequate funds for retention by the Board and Board Committees of independent advisors shall be provided by the Company.

The Governance Committee shall have exclusive authority to engage and terminate the Company's independent auditors, in accordance with its charter.

1.16 Interaction with the Investment Community, Media and Others

The Board believes that management should speak for the Company and recommends that directors refer inquiries to the Company. Directors are encouraged to be sensitive and remain cognizant of the need to clearly distinguish their personal views from the Company's views when a director is engaged in political, social, community or other public issues.

The response to any shareholder proposals will be the responsibility of the CEO with oversight by the Board Committee(s) with responsibility for the respective issue(s) raised by the shareholder(s).

1.17 Indemnification and Insurance

The Company will purchase reasonable directors and officers liability insurance for the benefit of its directors and management. Additionally, directors and management are entitled to the benefits of indemnification to the fullest extent permitted by law and the Company's Restated and Amended Articles of Incorporation, as amended, Amended and Restated By-laws and any indemnification agreements, and to exculpation as provided by state law and the Company's Amended and Restated Articles of Incorporation, as amended.

1.18 Attendance at Annual Shareholders Meetings

Directors are strongly encouraged to attend the Company's annual meeting of its shareholders.

ARTICLE II. BOARD MEETINGS

2.1 Selection of Agenda Items

The Chairman of the Board establishes the agenda for Board meetings, in consultation with the Lead Director and the Chairs of the Board Committees. At the beginning of the year the Chairman of the Board will establish a schedule of agenda subjects to be discussed during the year (to the degree this can be foreseen). Directors are encouraged to suggest items for inclusion on the agenda and may raise at any Board meeting subjects not specifically on the agenda. The Lead Director and/or the Chair(s) of the relevant Board Committee(s) will determine the agenda for private meetings of the independent directors.

2.2 Attendance at Board Meetings

Directors are expected to regularly attend Board and Board Committee meetings and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Generally, directors who attend less than seventy-five percent (75%) of the Board and relevant Board Committee meetings for two (2) consecutive years will be deemed poor performers.

Directors fulfill their responsibilities not only by attending Board and Board Committee meetings but also through communication with the CEO and other members of management relative to matters of mutual interest and concern to the Company.

2.3 Attendance of Company Personnel

The Board welcomes regular attendance of and participation by relevant senior executives or managers at Board and Board Committee meetings, as shall be determined from time to time. If the CEO wishes to have additional Company personnel attendees on a regular basis, this suggestion should be brought to the Lead Director or the Board for consideration. Presentation of matters to be considered by the Board is generally made by the responsible senior executive or manager with an appropriate period for questions, answers and deliberations. Company personnel shall not attend executive sessions or independent director sessions either of the Board or any Board Committee, unless requested to do so by the Board or such Board Committee.

2.4 Executive and Independent Directors Sessions

Each regularly scheduled Board meeting shall include an executive session of all directors and the CEO. In addition, the Board shall meet in regularly scheduled independent directors sessions without the participation of the CEO or other Company personnel. The Chairman of the Board presides over the executive sessions. The Lead Director presides over the independent directors sessions but may delegate such authority to other Board Committee Chair(s) with respect to matters within the responsibility of a particular Board Committee.

2.5 Board Materials

Information and data that are important to the Board's understanding of the business to be conducted at a Board or Board Committee meeting should generally be distributed in writing to the directors sufficiently before the meeting, and directors should review these materials in advance of the meeting. Sensitive subject matters and late developing matters may be discussed at Board or Board Committee meetings without materials being distributed in advance. To prepare for meetings, directors are expected to thoroughly and carefully review the materials that are sent to them in advance of meetings.

ARTICLE III. LEADERSHIP ASSESSMENT

3.1 Succession Planning

The Governance Committee oversees and periodically reports to the Board on the succession planning process. The entire Board will work with the Governance Committee to nominate and evaluate potential successors to the CEO. To assist the Board, the CEO periodically provides the Board with an assessment of senior executives and their potential to succeed to the position of CEO, as well as his or her perspective on potential candidates from outside the Company. The Board has available on a continuing basis the CEO's recommendation should he or she be unexpectedly unable to serve. The CEO also provides the Board from time to time with an assessment of potential successors to key senior executive positions.

3.2 Separation of Certain Positions

The Company's by-laws permit the Chairman, President and CEO to be the same person. As part of its annual evaluation of the CEO and as part of the succession planning process, the Board may consider whether any separation of these roles is in the best interests of the Company.

3.3 CEO Evaluation and Compensation

The Compensation Committee will conduct an annual review of the CEO's performance, as set forth in its charter. The Board will review the Compensation Committee's report in order to confirm that the CEO is providing effective leadership for the Company in the long and short term.

ARTICLE IV. BOARD COMMITTEES

The Board will have at all times a Governance Committee and a Compensation Committee, each consisting of no fewer than three (3) members. All of the members of these Board Committees shall meet the independence criteria described in Section 1.4 (Independence) of these Guidelines. The Board may have additional standing and temporary Board Committees as appropriate. Currently, the Board Committees are: Audit, Corporate Governance and Nominating Committee, Compensation Committee and Executive Committee.

In general, Board Committee members will be appointed by the Board, with consideration of the desires of individual directors, upon recommendation of the Governance Committee. It is the sense of the Board that consideration should be given to rotating Board Committee members periodically, but the Board does not feel that rotation should be mandated as a policy.

Each Board Committee will have its own charter, which shall comply with the applicable laws, rules and regulations, including those of the Securities and Exchange Commission and of the New York Stock Exchange. The charters will include the purposes, goals and responsibilities of the Board Committees.

The Chair of each Board Committee, in consultation with the Board Committee members, will determine the frequency and length of the Board Committee meetings consistent with any requirements set forth in the Board Committee's charter. The Chair of each Board Committee, in consultation with the appropriate members of the Board Committee and management, will develop the Board Committee's agenda. At the beginning of the year each Board Committee will establish a schedule of agenda subjects to be discussed during the year (to the degree these can be foreseen). The schedule for each Board Committee will be furnished to all directors. Directors who are not on a particular Board Committee may attend a meeting of such Board Committee only with prior approval of the Chair of such committee.

Each Board Committee may retain independent advisors. (See Section 1.17 (Independent Advisors) of these Guidelines.)

ARTICLE V. VOTING

The Board favors confidentiality of individual shareholder voting. The Board supports the "one share/one vote" concept, in preference to cumulative voting.

ARTICLE VI. STOCK OPTIONS

The Board opposes repricing of stock options by a reduction in the option's exercise price, unless submitted to the shareholders for approval. However, the Board favors equitable adjustment of an option's exercise price in connection with a reclassification of the Company's stock, a change in the Company's capitalization, a stock split, a restructuring, merger or combination of the Company, or other similar events where it is customary to adjust the exercise price of an option and/or the number and kind of shares subject thereto to maintain the option's pre-existing value. All equity compensation plans are submitted to the shareholders for approval.

ARTICLE VII. DISCLOSURES AND REVISIONS

The Board is committed to, and expects all employees of the Company involved in the disclosure process to strive for, full, fair, accurate, timely and understandable disclosure in the Company's periodic reports and other public statements.

These Guidelines will be posted on the Company's website together with the charters of the Board Committees. The Company's annual report and proxy statement will disclose that these Guidelines and the foregoing charters are available on the Company's website and that printed versions are available, free of charge, to any shareholder who requests them from the Corporate Secretary, Penn Treaty American Corporation, 3440 Lehigh Street, Allentown, PA 18103.

These Guidelines will be reviewed and reassessed at least annually by the Governance Committee. Revisions or other changes from time to time to these Guidelines shall be considered by the full Board upon recommendation of the Governance Committee.