

## **PENN TREATY AMERICAN CORPORATION**

### **AUDIT COMMITTEE CHARTER**

#### **Purpose**

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Penn Treaty American Corporation (the “Company”) to:

- assist Board oversight of:
  - the integrity of the Company’s financial statements;
  - the Company’s compliance with legal and regulatory requirements;
  - the independent auditor’s qualifications and independence; and
  - the performance of the Company’s internal audit function and independent auditors; and
- prepare an audit committee report as required by the Securities and Exchange Commission to be included in the Company’s annual proxy statement.

#### **Committee Membership**

The Committee shall be comprised of at least three members.

#### **Committee Member Qualifications**

All members of the Committee shall meet the independence requirements as set forth under Section 303A of the New York Stock Exchange’s Listed Company Manual and set forth in Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Each member of the Committee shall be financially literate, or become financially literate within a reasonable period of time after appointment to the Committee, and have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise so as to constitute a financial expert, as defined in Item 401(h) of Regulation S-K promulgated under the Securities Act of 1933, as amended. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

No member of the Committee shall serve simultaneously on the audit committees of more than three public companies, unless, in each case, the Board determines that such simultaneous service will not impair the ability of such member to effectively serve on the Committee.

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

### **Committee Structure and Operations**

With Board approval, the Committee may form and delegate authority to subcommittees when appropriate, provided that the subcommittees are composed entirely of independent directors.

The Committee shall meet at such times as it determines to be necessary or appropriate, but not less than once a year. Committee meetings may be called by the Chair of the Committee or at the request of the Company's independent accountants. A majority of the members present in person or by telephone by means of which all persons participating in the meeting can hear each other shall constitute a quorum. The Committee shall maintain minutes of its meeting and records relating to those meetings.

The Committee may adopt such other rules and procedures for the conduct of its affairs as it deems necessary or appropriate if not inconsistent with the Company's bylaws.

### **Committee Reporting to the Board**

The Committee shall make regular reports to the Board, including a review of any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.

### **Committee Authority and Responsibilities**

- The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer, and each such registered public accounting firm must report directly to the Committee.
- The Committee must establish and maintain procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- The Committee is authorized to engage independent counsel and other advisers, as it determines necessary to carry out its duties.

- The Company shall provide appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment of: compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; compensation to any advisers employed by the Committee; and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- The Committee shall, at least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the Company.
- The Committee shall evaluate the auditor's qualifications, performance and independence, including a review and evaluation of the lead partner, and taking into account the opinions of management and the Company's internal auditors (or other personnel responsible for the internal audit function), consider rotation of the audit firm and present its conclusions with respect to the independent auditor to the full Board.
- The Committee shall ensure the rotation of the audit partners as required by law.
- The Committee shall review and discuss the Company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the independent auditor's report and the nature and extent of any significant changes in accounting principles or their application.
- The Committee shall generally discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, in terms of the types of information to be disclosed and the type of presentation to be made (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information).
- The Committee shall generally review and discuss with management, the internal auditors and the independent accountants guidelines and policies governing risk assessment and risk management processes, including a discussion of the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.

- The Committee shall meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors.
- The Committee shall review with the independent auditor any audit problems or difficulties the auditor encountered in the course of the audit work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise), any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and any "management" or "internal control" letter issued, or proposed to be issued, by the audit firm to the Company, management's response to any audit problems or difficulties and any significant disagreements with management.
- The Committee shall discuss with the independent auditor and management the responsibilities, budget and staffing of the Company's internal audit function.
- The Committee shall set clear hiring policies for employees or former employees of the independent auditors, taking into account the pressures that may exist for auditors consciously or subconsciously seeking a job with the Company.
- The Committee shall review major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies.
- The Committee shall review analyses prepared by management and/or the Company's independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- The Committee shall review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
- The Committee shall pre-approve all auditing services, internal-control related services and permitted non-audit services (including all terms thereof) to be performed for the Company by its independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. The Committee may form

and delegate authority to subcommittees consisting of one or members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided the decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

- The Committee shall confer with the independent accountants and the internal auditors concerning the scope of their examinations of the books and records of the Company and its subsidiaries, review and approve the independent accountants' annual engagement letter, review and approve the Company's internal audit engagement letter, annual audit plans and budgets, direct the special attention of the auditors to specific matters or areas deemed by the Committee or the auditors to be of special significance and authorize the auditors to perform such supplemental reviews or audits as the Committee may deem desirable.
- The Committee shall oversee management's maintenance of the reliability and integrity of the accounting policies and financial reporting and the disclosure practices of the Company.
- The Committee shall oversee management's establishment and maintenance of processes to assure that an adequate system of internal control is functioning within the Company and shall periodically review and discuss with management the adequacy of the such system, any material control deficiencies and the adequacy of disclosures about changes in internal controls over financial reporting.
- The Committee shall provide for communication among the Board, financial and senior management, the internal auditors and the independent accountants.
- The Committee shall consider such other matters in relation to the financial affairs of the Company and its accounts, and in relation to the internal and external audit of the Company, as the Committee may, in its discretion, determine to be advisable.
- The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

### **Annual Performance Evaluation**

The Committee shall conduct an annual evaluation of its performance and powers and report and make recommendations to the Board.

Adopted by the Board of Directors on May 28, 2004