
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the Quarterly Period Ended:
June 30, 2007

Commission File Number:
333-84068

Crum & Forster

Crum & Forster Holdings Corp.

(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

04-3611900
(I.R.S. Employer Identification Number)

305 Madison Avenue, Morristown, New Jersey 07962
(Address of principal executive office)

(973) 490-6600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

<u>Class</u>	<u>Number of Shares Outstanding at August 2, 2007</u>
Common Stock, \$.01 Par Value	100

CRUM & FORSTER HOLDINGS CORP.

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**PART I
FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

CRUM & FORSTER HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	<u>June 30, 2007</u> (Unaudited)	<u>December 31, 2006</u>
ASSETS		
Investments:		
Fixed income securities, at fair value (amortized cost of \$1,903,384 and \$2,087,065 in 2007 and 2006, respectively)	\$ 1,725,724	\$ 1,984,242
Equity securities, at fair value (cost of \$668,819 and \$640,880 in 2007 and 2006, respectively)	715,678	667,718
Other invested assets	394,734	357,849
Hybrid financial instruments, at fair value	140,069	—
Short-term investments at cost, which approximates fair value	<u>37,220</u>	<u>14,130</u>
Total investments	3,013,425	3,023,939
Cash and cash equivalents	311,624	366,743
Assets pledged for short-sale obligations	595,636	535,594
Accrued investment income	35,576	34,581
Premiums receivable	249,708	249,913
Reinsurance recoverable	1,407,409	1,479,331
Reinsurance recoverable from affiliates	253,769	254,595
Prepaid reinsurance premiums	22,910	25,430
Deferred income taxes	318,862	285,902
Deferred policy acquisition costs	84,720	83,964
Other assets	<u>84,671</u>	<u>103,562</u>
Total assets	<u>\$ 6,378,310</u>	<u>\$ 6,443,554</u>
LIABILITIES		
Unpaid losses and loss adjustment expenses	\$ 3,317,465	\$ 3,371,549
Unearned premiums	566,888	576,182
Funds held under reinsurance contracts	246,101	243,316
Accounts payable and other liabilities	278,225	298,101
Deferred income on retroactive insurance	161,244	168,018
Short-sale obligations	447,061	400,163
Long-term debt	<u>312,564</u>	<u>293,170</u>
Total liabilities	<u>5,329,548</u>	<u>5,350,499</u>
Commitments and contingencies (Note 8)		
SHAREHOLDER'S EQUITY		
Common stock, \$0.01 par value; 1,000 shares authorized; 100 issued and outstanding	—	—
Additional paid-in capital	740,993	740,993
Accumulated other comprehensive loss, net of tax	(61,294)	(36,978)
Retained earnings	<u>369,063</u>	<u>389,040</u>
Total shareholder's equity	<u>1,048,762</u>	<u>1,093,055</u>
Total liabilities and shareholder's equity	<u>\$ 6,378,310</u>	<u>\$ 6,443,554</u>

The accompanying notes are an integral part of the consolidated financial statements.

CRUM & FORSTER HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Unaudited)			
REVENUES				
Premiums earned	\$306,821	\$264,828	\$600,528	\$511,547
Investment income	39,517	92,821	74,930	149,279
Realized investment gains and losses	(11,067)	9,716	3,407	131,538
Total revenues	<u>335,271</u>	<u>367,365</u>	<u>678,865</u>	<u>792,364</u>
EXPENSES				
Losses and loss adjustment expenses	201,690	181,681	395,150	350,693
Policy acquisition costs	42,705	37,546	85,682	68,779
Other underwriting expenses	39,723	41,597	81,500	80,622
Interest expense	7,604	8,243	15,864	16,484
Costs related to early retirement of debt	21,188	—	21,188	—
Other expense (income), net	586	1,580	(189)	4,244
Total expenses	<u>313,496</u>	<u>270,647</u>	<u>599,195</u>	<u>520,822</u>
Income before income taxes and equity in earnings of investees	21,775	96,718	79,670	271,542
Income tax expense	<u>6,800</u>	<u>33,145</u>	<u>26,207</u>	<u>93,465</u>
Income before equity in earnings of investees	14,975	63,573	53,463	178,077
Equity in earnings of investees, net of tax	<u>3,730</u>	<u>4,210</u>	<u>8,095</u>	<u>6,069</u>
NET INCOME	<u>\$ 18,705</u>	<u>\$ 67,783</u>	<u>\$ 61,558</u>	<u>\$184,146</u>

The accompanying notes are an integral part of the consolidated financial statements.

CRUM & FORSTER HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

(Dollars in thousands)

	Six Months Ended	
	June 30,	
	2007	2006
	(Unaudited)	
COMMON STOCK		
Balance, beginning and end of period	\$ —	\$ —
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning and end of period	740,993	740,993
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance, beginning of period	(36,978)	53,443
Cumulative effect of adoption of Statement of Financial Accounting Standards No. 155	(10,146)	—
Unrealized investment losses, net of transfers to realized investment gains and losses	(24,113)	(157,398)
Foreign currency translation	9,943	5,070
Balance, end of period	<u>(61,294)</u>	<u>(98,885)</u>
RETAINED EARNINGS		
Balance, beginning of period	389,040	166,757
Cumulative effect of adoption of Statement of Financial Accounting Standards No. 155 and equity method investee adoption of FASB Interpretation No. 48	9,465	—
Net income	61,558	184,146
Dividends to shareholder	(91,000)	(90,000)
Balance, end of period	<u>369,063</u>	<u>260,903</u>
TOTAL SHAREHOLDER'S EQUITY	<u>\$1,048,762</u>	<u>\$ 903,011</u>

The accompanying notes are an integral part of the consolidated financial statements.

CRUM & FORSTER HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Unaudited)			
NET INCOME	\$ 18,705	\$ 67,783	\$ 61,558	\$ 184,146
Change in components of other comprehensive loss for the period, before tax:				
Unrealized investment losses, net of transfers to realized investment gains and losses	(28,576)	(105,572)	(37,097)	(242,150)
Foreign currency translation	13,791	7,397	15,297	7,800
Other comprehensive loss for the period, before tax	(14,785)	(98,175)	(21,800)	(234,350)
Deferred income tax benefit (expense) for the period:				
Deferred income tax benefit from unrealized investment gains and losses	10,002	36,949	12,984	84,752
Deferred income tax expense from foreign currency translation	(4,827)	(2,589)	(5,354)	(2,730)
Total deferred income tax benefit for the period	5,175	34,360	7,630	82,022
Other comprehensive loss for the period, net of tax	(9,610)	(63,815)	(14,170)	(152,328)
COMPREHENSIVE INCOME	\$ 9,095	\$ 3,968	\$ 47,388	\$ 31,818

The accompanying notes are an integral part of the consolidated financial statements.

CRUM & FORSTER HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six Months Ended	
	June 30,	
	2007	2006
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	\$ 61,558	\$ 184,146
Adjustments to reconcile net income to net cash from operating activities:		
Net accretion of discount on fixed income securities	(4,540)	(5,177)
Realized investment gains	(3,407)	(131,538)
Earnings of equity method investees, net of dividends	(9,860)	(6,789)
Undistributed income of investment funds	(8,786)	(88,611)
Depreciation and amortization	1,577	1,637
Deferred income tax benefit	(24,963)	(14,057)
Costs related to early retirement of debt	9,216	—
Other non-cash net income adjustments	5,564	12,877
Changes in:		
Accrued investment income	(995)	(2,974)
Premiums receivable	205	(15,107)
Reinsurance recoverable	63,195	121,421
Prepaid reinsurance premiums	2,520	1,452
Deferred policy acquisition costs	(756)	(13,002)
Other assets	(821)	7,338
Unpaid losses and loss adjustment expenses	(54,084)	(110,697)
Unearned premiums	(9,294)	81,353
Accounts payable and other liabilities	(13,564)	(20,795)
Net cash from operating activities	12,765	1,477
INVESTING ACTIVITIES		
Purchases of fixed income securities	(149,214)	(134,214)
Proceeds from sales of fixed income securities	209,152	308,240
Proceeds from maturities of fixed income securities	2,025	58,945
Purchases of equity securities	(135,590)	(187,392)
Proceeds from sales of equity securities	114,062	228,581
Purchases of other invested assets	(24,040)	(5,975)
Proceeds from sales of other invested assets	39,391	140,179
Proceeds from sales of hybrid financial instruments	2,259	—
Purchases of short term investments	(74,758)	—
Proceeds from sales of short term investments	51,668	—
Proceeds from short-sale obligations	25,011	24,931
Cash pledged for short-sale obligations	(47,289)	(62,978)
Purchases of fixed assets	(408)	(324)
Net cash from investing activities	12,269	369,993
FINANCING ACTIVITIES		
Dividends to shareholder	(91,000)	(90,000)
Issuance of 7 3/4% long-term debt	330,000	—
Repayment of 10 3/8% long-term debt	(295,730)	—
New debt issuance costs	(23,423)	—
Net cash from financing activities	(80,153)	(90,000)
Net change in cash and cash equivalents	(55,119)	281,470
Cash and cash equivalents, beginning of period	366,743	245,441
Cash and cash equivalents, end of period	\$ 311,624	\$ 526,911
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 12,324	\$ 15,563
Cash paid to parent for income taxes	\$ 43,261	\$ 69,746

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

1. Organization and Basis of Presentation

Crum & Forster Holdings Corp. (the “Company” or “Crum & Forster”) is a Delaware holding company, which is 100% owned by Fairfax Inc., a Wyoming holding company. Fairfax Inc. is ultimately owned by Fairfax Financial Holdings Limited (“Fairfax”), a Canadian financial services holding company, which is publicly traded on the Toronto Stock Exchange and the New York Stock Exchange under the symbol “FFH”. The Company, through its subsidiaries, offers a full range of commercial property and casualty insurance distributed through an independent producer force located across the United States.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company, Crum & Forster Holding Inc. and their wholly-owned subsidiaries, including United States Fire Insurance Company (“US Fire”), The North River Insurance Company (“North River”), Crum & Forster Indemnity Company and Crum and Forster Insurance Company. US Fire owns 100% of the stock of Crum & Forster Specialty Insurance Company. North River owns 100% of the stock of Seneca Insurance Company, Inc. and its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Effective January 1, 2006, Fairfax announced that certain of the business of the insurance companies of Fairmont Specialty Group, affiliates of Fairfax, would be conducted as Fairmont Specialty, a division of Crum & Forster (“Fairmont”), thereby giving Fairmont access to the “A-” A.M. Best rating of Crum & Forster. The Fairmont business is comprised of standard commercial and personal lines, bail bonds and accident and health coverages. In return for the opportunity to quote Fairmont Specialty Group’s renewals effective January 1, 2006 and thereafter, the Company hired substantially all Fairmont Specialty Group employees and assumed certain operating obligations. Pending regulatory approval of Crum & Forster company rate and form filings for the Fairmont business, substantially all of the policies underwritten by Fairmont through September 2006 were being issued by the insurance companies of Fairmont Specialty Group and assumed by the Company through a 100% quota share reinsurance agreement.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Such estimates and assumptions may differ from actual results. Certain financial information that is normally included in annual financial statements, including certain financial statement footnotes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted herein. These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes related thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission (“SEC”) on March 9, 2007.

The interim financial data at June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 is unaudited. However, in the opinion of management, the interim data includes all adjustments that are necessary for a fair presentation of the Company’s results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Certain amounts in the Company’s prior year consolidated financial statements have been reclassified to conform to the 2007 presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

2. Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* (“SFAS 159”), which provides a fair value option to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adoption of SFAS 159 on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effects of SFAS 157 but does not expect its adoption to have a material impact on its results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (“FIN 48”). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 on January 1, 2007 and although its adoption did not have a direct impact on the Company’s results of operations or financial position, adoption of FIN 48 by one of the Company’s equity method investees resulted in the Company recording a cumulative adjustment of \$681, net of tax, to opening retained earnings.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements Nos. 133 and 140* (“SFAS 155”). SFAS 155 applies to certain “hybrid financial instruments” which are instruments that contain embedded derivatives. The standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments requiring bifurcation. SFAS 155 also permits an election for fair value measurement of any hybrid financial instrument that otherwise would require bifurcation under SFAS 133. Changes in fair value are recorded as realized investment gains or losses. The fair value election can be applied to existing instruments on an instrument-by-instrument basis at the date of adoption and to new instruments on a prospective basis. The statement is applicable in fiscal years beginning after September 15, 2006. The Company elected fair value measurement of its hybrid financial instruments, which are comprised of convertible bonds, effective with its adoption of SFAS 155 on January 1, 2007. Prior to January 1, 2007, the Company bifurcated its hybrid financial instruments and changes in the fair value of the host instrument were recorded as unrealized investment gains and losses while changes in the fair value of the embedded derivative were recorded as realized investment gains and losses. At December 31, 2006, the fair value of the host instruments included in fixed income securities was \$136,222 and the fair value of embedded derivatives included in other invested assets was \$7,372. Upon adoption of SFAS 155, the Company recorded a cumulative adjustment of \$10,146, inclusive of an adjustment of \$301 in respect of adoption of SFAS 155 by one of the Company’s equity method investees, net of tax, to reclassify unrealized investment gains associated with the host instruments to opening retained earnings. At June 30, 2007, the fair value of the Company’s hybrid financial instruments was \$140,069.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

3. Unpaid Losses and Loss Adjustment Expenses

Changes in the Company's liability for unpaid losses and loss adjustment expenses ("LAE") are summarized as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Gross unpaid losses and LAE, beginning of period	\$3,364,042	\$3,640,968	\$3,371,549	\$3,673,034
Less ceded unpaid losses and LAE	<u>1,335,078</u>	<u>1,646,972</u>	<u>1,355,253</u>	<u>1,682,768</u>
Net unpaid losses and LAE, beginning of period	<u>2,028,964</u>	<u>1,993,996</u>	<u>2,016,296</u>	<u>1,990,266</u>
Losses and LAE incurred related to:				
Current period	216,002	183,990	421,949	355,435
Prior years	<u>(14,312)</u>	<u>(2,309)</u>	<u>(26,799)</u>	<u>(4,742)</u>
Total losses and LAE incurred	<u>201,690</u>	<u>181,681</u>	<u>395,150</u>	<u>350,693</u>
Losses and LAE paid related to:				
Current period	48,707	28,378	64,328	36,484
Prior years	<u>152,386</u>	<u>130,832</u>	<u>317,557</u>	<u>288,008</u>
Total losses and LAE paid	<u>201,093</u>	<u>159,210</u>	<u>381,885</u>	<u>324,492</u>
Net unpaid losses and LAE, end of period	2,029,561	2,016,467	2,029,561	2,016,467
Add ceded unpaid losses and LAE	<u>1,287,904</u>	<u>1,545,870</u>	<u>1,287,904</u>	<u>1,545,870</u>
Gross unpaid losses and LAE, end of period	<u>\$3,317,465</u>	<u>\$3,562,337</u>	<u>\$3,317,465</u>	<u>\$3,562,337</u>

A reconciliation of the ceded unpaid losses and LAE in the table above to the reinsurance recoverable reflected on the consolidated balance sheet follows:

Ceded unpaid losses and LAE in the table above	<u>June 30,</u>
	<u>2007</u>
	<u>\$1,287,904</u>
Reconciling items:	
Reinsurance receivable on paid losses and LAE	72,308
Unamortized retroactive reinsurance recoverable	322,476
Loss sensitive cession ¹	<u>(21,510)</u>
Total reconciling items	<u>373,274</u>
Reinsurance recoverable on the consolidated balance sheet	<u>\$1,661,178</u>

¹ Equals additional premiums due on retrospectively rated insurance policies that inure to the benefit of the reinsurer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

4. Asbestos and Environmental Losses and Loss Adjustment Expenses

The Company has exposure to asbestos and environmental claims arising from the sale of general liability, commercial multi-peril and umbrella insurance policies, the majority of which were written for accident years 1985 and prior. Estimation of ultimate liabilities for these exposures is unusually difficult due to such issues as whether or not coverage exists, definition of an occurrence, determination of ultimate damages and allocation of such damages to financially responsible parties.

Changes in the Company's liability for asbestos and environmental exposures are summarized as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Asbestos				
Gross unpaid losses and allocated LAE ("ALAE"), beginning of period	\$429,596	\$461,078	\$443,055	\$469,199
Less ceded unpaid losses and ALAE	<u>88,565</u>	<u>93,895</u>	<u>94,817</u>	<u>92,418</u>
Net unpaid losses and ALAE, beginning of period	341,031	367,183	348,238	376,781
Net losses and ALAE incurred	—	—	—	—
Net paid losses and ALAE	<u>12,077</u>	<u>10,396</u>	<u>19,284</u>	<u>19,994</u>
Net unpaid losses and ALAE, end of period	328,954	356,787	328,954	356,787
Add ceded unpaid losses and ALAE	<u>92,426</u>	<u>84,965</u>	<u>92,426</u>	<u>84,965</u>
Gross unpaid losses and ALAE, end of period	<u><u>\$421,380</u></u>	<u><u>\$441,752</u></u>	<u><u>\$421,380</u></u>	<u><u>\$441,752</u></u>

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Environmental				
Gross unpaid losses ALAE, beginning of period	\$106,073	\$107,809	\$110,636	\$111,536
Less ceded unpaid losses and ALAE	<u>33,476</u>	<u>35,334</u>	<u>37,103</u>	<u>37,293</u>
Net unpaid losses and ALAE, beginning of period	72,597	72,475	73,533	74,243
Net losses and ALAE incurred	—	—	—	—
Net paid losses and ALAE	<u>8,034</u>	<u>2,223</u>	<u>8,970</u>	<u>3,991</u>
Net unpaid losses and ALAE, end of period	64,563	70,252	64,563	70,252
Add ceded unpaid losses and ALAE	<u>32,250</u>	<u>35,491</u>	<u>32,250</u>	<u>35,491</u>
Gross unpaid losses and ALAE, end of period	<u><u>\$ 96,813</u></u>	<u><u>\$105,743</u></u>	<u><u>\$ 96,813</u></u>	<u><u>\$105,743</u></u>

The Company also maintains reserves for other latent exposures such as those associated with silica, gas and vapors, lead, mold, chemical, welding fumes and pesticides of \$20,220 and \$21,758, net of reinsurance, as of June 30, 2007 and December 31, 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

5. Reinsurance

The components of the Company's net premiums written and premiums earned are summarized as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Premiums written:				
Direct	\$335,239	\$296,448	\$651,039	\$606,816
Assumed from other companies, pools or associations	10,356	44,951	21,487	81,784
Ceded to other companies, pools or associations	(34,288)	(42,391)	(78,772)	(94,248)
Net premiums written	<u>\$311,307</u>	<u>\$299,008</u>	<u>\$593,754</u>	<u>\$594,352</u>
Premiums earned:				
Direct	\$320,356	\$280,531	\$629,801	\$563,214
Assumed from other companies, pools or associations	21,689	29,066	52,019	44,033
Ceded to other companies, pools or associations	(35,224)	(44,769)	(81,292)	(95,700)
Premiums earned	<u>\$306,821</u>	<u>\$264,828</u>	<u>\$600,528</u>	<u>\$511,547</u>

The components of the Company's total reinsurance recoverable are summarized as follows:

	June 30,	December 31,
	2007	2006
Reinsurance recoverable on unpaid losses and LAE	\$1,588,870	\$ 1,662,993
Reinsurance receivable on paid losses and LAE	72,308	70,933
Total reinsurance recoverable	<u>\$1,661,178</u>	<u>\$ 1,733,926</u>

The reinsurance recoverable balances above are net of reserves for uncollectible reinsurance of \$46,577 and \$42,777 at June 30, 2007 and December 31, 2006, respectively.

Corporate Aggregate Reinsurance

Crum & Forster's underwriting results are significantly affected by reinsurance. The Company currently purchases, or has in the past purchased, reinsurance to limit its exposure to loss from any one claim or occurrence ("per risk or per occurrence reinsurance"), from aggregate loss experience for an accident year that exceeds an amount the Company is willing to accept and from adverse development of prior years' loss and LAE reserves (the latter two types of reinsurance are referred to herein as "corporate aggregate reinsurance", as distinct from the aforementioned "per risk or per occurrence reinsurance"). The Company's corporate aggregate reinsurance contracts are of the type commonly referred to as "finite" reinsurance and cover or covered, in varying amounts and on varying terms, accident years 2002 and prior.

In general, contracts covering past insurable events, such as adverse loss development covers, are categorized as "retroactive reinsurance", as opposed to contracts covering future insurable events, which are referred to as "prospective reinsurance". Amounts ceded under prospective contracts are recognized, as to premiums, as a reduction of premiums written and earned in the period in which premiums are ceded and, as to losses, as a reduction of incurred losses as the losses are ceded to the reinsurer. Under retroactive contracts, the excess of reinsurance recoverable due from reinsurers pursuant to the contract over premiums paid for coverage is deferred and amortized as a reduction of incurred losses over the expected period of recovery, generally many years, using the interest method. Under both prospective and retroactive contracts, funds held interest, if applicable, is recognized as a reduction of investment income in the period in which the interest is credited to the funds held account.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

The effect of prospective and retroactive corporate aggregate reinsurance on components of the Company's consolidated statements of income is summarized as follows (increase (decrease) in indicated component):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Investment income	\$ (4,186)	\$ (4,834)	\$ (8,338)	\$ (9,652)
Losses and LAE	(3,387)	(3,435)	(6,774)	(6,814)
Decrease in income before income taxes	<u>\$ (799)</u>	<u>\$ (1,399)</u>	<u>\$ (1,564)</u>	<u>\$ (2,838)</u>

At June 30, 2007, reinsurance recoverable includes \$400,433 and \$391,825 related to prospective and retroactive corporate aggregate reinsurance contracts, respectively, of which \$491,292 has been recognized as a reduction of incurred losses and LAE on the Company's consolidated statements of income.

Prospective Corporate Aggregate Reinsurance

An analysis of activity in prospective corporate aggregate reinsurance contracts follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Ceded losses and LAE	\$ —	\$ —	\$ —	\$ —
Less: funds held interest charged to investment income	606	767	1,237	1,676
Decrease in income before income taxes	<u>\$ (606)</u>	<u>\$ (767)</u>	<u>\$ (1,237)</u>	<u>\$ (1,676)</u>

The above activity arises from one prospective contract. The reinsurance recoverable and funds held balances in respect of such contract were \$32,933 and \$29,850, respectively, at June 30, 2007 (\$37,651 and \$33,333, respectively, at December 31, 2006).

Retroactive Corporate Aggregate Reinsurance

An analysis of activity in retroactive corporate aggregate reinsurance contracts follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Increase in reinsurance recoverable due from insurers	\$ —	\$ —	\$ —	\$ —
Less: related premiums paid	—	—	—	—
Income deferred during the period	—	—	—	—
Amortization of deferred income	(3,387)	(3,435)	(6,774)	(6,814)
Change in deferred income	(3,387)	(3,435)	(6,774)	(6,814)
Deferred income on retroactive reinsurance—beginning of period	\$164,631	\$181,119	\$168,018	\$184,498
Deferred income on retroactive reinsurance—end of period	<u>\$161,244</u>	<u>\$177,684</u>	<u>\$161,244</u>	<u>\$177,684</u>
Funds held interest charged during the period	<u>\$ 3,580</u>	<u>\$ 4,067</u>	<u>\$ 7,101</u>	<u>\$ 7,976</u>

The above activity arises from two retroactive contracts. The reinsurance recoverable and funds held balances in respect of the first contract were \$372,577 and \$213,486, respectively, at June 30, 2007 (\$372,577 and \$206,385, respectively, at December 31, 2006). There were no reinsurance recoverable or funds held balances in respect of the second contract at June 30, 2007 and December 31, 2006 as the Company has reduced the funds held balance to offset the reinsurance recoverable balance pursuant to a commutation provision contained in the contract. For additional information on the Company's prospective and retroactive corporate aggregate reinsurance contracts, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 9, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

6. Investments and Short-Sale Obligations

Derivative Transactions and Short-Sale Obligations

In the six months ended June 30, 2007, the Company purchased \$10,012 of credit default swaps on securities issued by various U.S. companies in the banking, mortgage and insurance industries, bringing the total cost of credit default swaps held at June 30, 2007 to \$87,633 (\$77,621 at December 31, 2006). The fair value of the credit default swaps was \$38,523 and \$16,702, at June 30, 2007 and December 31, 2006, respectively, and is included in other invested assets on the consolidated balance sheets. The notional value of the credit default swaps was \$5.1 billion and \$4.2 billion, at June 30, 2007 and December 31, 2006, respectively, with an average term to expiration of 4.2 years as of June 30, 2007. These credit default swaps serve as economic hedges against declines in the fair value of various financial assets owned by the Company arising from potential financial difficulties associated with any or all of these issuers or the industries in which they operate.

In June 2007, as an economic hedge against a rising interest rate environment, the Company sold short securities of certain U.S. financial guarantee insurance companies totaling \$25,012. The Company also holds short positions of securities of certain U.S. mortgage insurance companies as an economic hedge against rising interest rates and deteriorating conditions in the residential housing market. The obligation to purchase these securities is included, at fair value, in short-sale obligations on the consolidated balance sheet and amounted to \$48,766 and \$24,605, at June 30, 2007 and December 31, 2006, respectively.

As protection against a decline in equity markets, the Company holds short positions in Standard & Poor's Depository Receipts ("SPDRs") totaling approximately \$300,000. The Company has purchased S&P Index call options (the "Options") limiting the potential loss on the future purchase of the SPDRs to approximately \$87,000 at June 30, 2007. The Options held at December 31, 2006 expired at a market value of \$8,831 during the first quarter of 2007 and replacement options costing \$11,756 were purchased. Both the obligations to purchase the SPDRs and the Options are carried at fair value on the consolidated financial statements. The fair value of the obligation to purchase the SPDRs is included in short-sale obligations and the fair value of the Options is included in other invested assets on the consolidated balance sheets. The fair values of the SPDRs obligation and the Options at June 30, 2007 amounted to a liability of \$398,295 (\$375,558 at December 31, 2006) and an asset of \$15,009 (\$9,925 at December 31, 2006), respectively.

In connection with the short-sale transactions described above, the Company has pledged cash and U.S. Treasury securities as collateral for the obligation to purchase the securities sold short. These assets are recorded at fair value in assets pledged for short-sale obligations on the consolidated balance sheets. At June 30, 2007, the fair value of the assets pledged for the short-sale obligations totaled \$595,636 (\$535,594 at December 31, 2006).

The Company also has investments in warrants, which are contracts that grant the holder the right to purchase an underlying financial instrument at a given price and time. The fair value of the warrants at June 30, 2007 was \$5,850 (\$9,645 at December 31, 2006).

Changes in the fair value for the transactions described above and the Company's hybrid financial instruments have been included in realized investment gains and losses in the consolidated statements of income as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Credit default swaps	\$ 1,140	\$ 2,171	\$ 11,809	\$ (4,688)
Short-sale transactions and related options	(14,308)	2,207	(19,727)	(13,149)
Hybrid financial instruments	(7,529)	(4,842)	(11,017)	(4,842)
Warrants, swaps and other derivatives	(2,558)	(67)	(3,795)	(409)
Realized investment losses	<u>\$ (23,255)</u>	<u>\$ (531)</u>	<u>\$ (22,730)</u>	<u>\$ (23,088)</u>

The Company also incurs an expense in an amount equal to the dividend earnings on the short-sale obligations. Dividend earnings on the short-sale obligations amounted to \$1,756 and \$3,236, respectively, for the three and six months ended June 30, 2007 as compared to \$1,472 and \$2,849, for the three and six months ended June 30, 2006, respectively, and are recorded as an investment expense on the consolidated statements of income.

Other Investment Transactions

On March 15, 2007, the Company sold its 1.1% ownership interest in Odyssey Re Holdings Corp., an affiliated equity method investee, to TIG Insurance Company, a subsidiary of Fairfax, for proceeds of \$30,160 and a realized investment gain of \$8,300. The transaction was completed at fair market value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

Equity Method Investee

The Company's investment portfolio includes investments accounted for using the equity method, including its investment in Northbridge Financial Corporation ("Northbridge"), in which the Company holds a 15.2% interest at June 30, 2007. For the three months ended June 30, 2007, Northbridge was a significant subsidiary as defined in the SEC's Regulation S-X. The Company's aggregate share of Northbridge's statement of income for the three months ended June 30, 2007, is summarized as follows:

	Three Months Ended June 30, 2007
Total revenues	\$ 42,966
Total expenses	\$ 34,373
Income from continuing operations	\$ 8,593
Net income	\$ 5,655

7. Long-Term Debt

Long-term debt, net of unamortized discount, is comprised as follows:

	June 30, 2007	December 31, 2006
7-3/4% Senior Notes due 2017	\$308,386	\$ —
10-3/8% Senior Notes due 2013	4,178	293,170
Total	\$312,564	\$ 293,170

On May 7, 2007, the Company issued pursuant to a private offering (the "Offering") \$330,000 aggregate principal amount of 7-3/4% senior notes due May 1, 2017 (the "2017 Notes") at an issue price of 100%. The 2017 Notes are redeemable at the option of the Company beginning May 1, 2012, at prices set forth in the indenture governing the 2017 Notes. Net proceeds of the Offering to the Company, after commissions and expenses, were approximately \$325,100. In connection with the sale of the 2017 Notes, the Company entered into a registration rights agreement under which the Company agreed to use its reasonable best efforts to register with the SEC notes having substantially the same terms as the 2017 Notes, as part of an offer to exchange freely tradeable exchange notes for the 2017 Notes. The Company filed a registration statement on Form S-4 with the SEC, in connection with the exchange offer, on June 29, 2007, which was declared effective by the SEC on July 13, 2007. The Company expects the exchange offer to be completed by the end of August 2007.

On May 21, 2007, the Company completed a cash tender offer (the "Tender Offer") to purchase any and all of its outstanding \$300,000 aggregate principal amount of 10-3/8% senior notes due June 15, 2013 (the "2013 Notes"). In conjunction with the Tender Offer, the Company entered into a supplemental indenture eliminating substantially all restrictive covenants and certain event of default provisions contained in the indenture under which the 2013 Notes were issued. Pursuant to the Tender Offer, all but \$4,270 aggregate principal amount of the 2013 Notes were purchased and cancelled. The Company paid total consideration of approximately \$325,700 to purchase the 2013 Notes tendered and, in addition, paid accrued and unpaid interest of approximately \$12,100. The purchase of the 2013 Notes was funded with proceeds from the sale of the aforementioned 2017 Notes and available cash on hand.

For the six months ended June 30, 2007, the Company recognized costs related to the early retirement of its 2013 Notes of \$21,188, which were comprised of premium payments, related fees and expenses and write-off of unamortized deferred financing costs. For the six months ended June 30, 2007 and 2006, total interest expense on the notes was \$15,864 and \$16,484, respectively, including amortization of related deferred financing costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

8. Commitments and Contingencies

On September 7, 2005, Fairfax announced that it had received a subpoena from the SEC requesting documents regarding any non-traditional insurance or reinsurance transactions entered into or offered by Fairfax and the entities in its consolidated group, which includes the Company. The U.S. Attorney's Office for the Southern District of New York is reviewing documents provided to the SEC in response to the subpoena and is participating in the investigation of these matters. Fairfax and entities in its consolidated group are cooperating fully with these requests. Fairfax and certain of the entities in its consolidated group, including the Company, have prepared presentations and provided documents to the SEC and the U.S. Attorney's Office, and employees of Fairfax and certain of the entities in its consolidated group, including senior officers, have attended or have been requested to attend interviews conducted by the SEC and the U.S. Attorney's Office. The Company is cooperating fully in addressing its obligations under this subpoena. This inquiry is ongoing and the Company continues to comply with requests from the SEC and the U.S. Attorney's office. At the present time, the Company cannot predict the outcome of these matters, or the ultimate effect on the Company's consolidated financial statements, which effect could be material and adverse. No assurance can be made that the Company will not be subject to further requests or other regulatory proceedings of a similar kind.

The Company and US Fire, among numerous other insurance company and insurance broker defendants, have been named as defendants in a class action suit filed by policyholders alleging, among other things, that the defendants used the contingent commission structure to deprive policyholders of free competition in the market for insurance. The action is pending in the U.S. District Court for the District of New Jersey. Plaintiffs seek certification of a nationwide class consisting of all persons who between August 26, 1994 and the date of the class certification engaged the services of any one of the broker defendants and who entered into or renewed a contract of insurance with one of the insurer defendants. In October 2006, the court partially granted defendants' motion to dismiss the plaintiffs' complaint, subject to plaintiffs' filing an amended statement of their case. Plaintiffs thereafter filed their "supplemental statement of particularity" and amended case statement. In response, defendants filed a renewed motion to dismiss. In April 2007, the plaintiffs' RICO and antitrust claims were again dismissed without prejudice. Plaintiffs filed their amended petition on May 22, 2007. The Crum & Forster entities continue to be named as defendants. Defendants filed their renewed motions to dismiss on June 21, 2007. Plaintiffs filed responses to the motions by July 19, 2007 and defendants filed replies by July 31, 2007. The Court issued a statement on July 20, 2007 indicating oral arguments likely will not be conducted. Crum & Forster Holdings Corp. and US Fire intend to vigorously defend the action.

In the ordinary course of their business, Crum & Forster's subsidiaries receive claims asserting alleged injuries and damages from asbestos and other hazardous waste and toxic substances and are subject to related coverage litigation. The conditions surrounding the final resolution of these claims and the related litigation continue to change. Currently, it is not possible to predict judicial and legislative changes and their impact on the future development of asbestos and environmental claims and litigation. This trend will be affected by future court decisions and interpretations, as well as changes in applicable legislation and the possible implementation of a proposed federal compensation scheme for asbestos-related injuries. As a result of these uncertainties, additional liabilities may arise for amounts in excess of current reserves for asbestos, environmental and other latent exposures. These additional amounts, or a range of these additional amounts, cannot currently be reasonably estimated. As a result of these claims, management continually reviews required reserves and reinsurance recoverable. In each of these areas of exposure, the Company litigates individual cases when appropriate and endeavors to settle other claims on favorable terms.

The Company's subsidiaries are involved in various lawsuits and arbitration proceedings arising in the ordinary course of business. While the outcome of such matters cannot be predicted with certainty, in the opinion of management, no such matter is likely to have a material adverse effect on the Company's consolidated net income, financial position or liquidity. However, it should be noted that the frequency of large damage awards in some jurisdictions, including punitive damage awards that bear little or no relation to actual economic damages incurred by plaintiffs, continues to create the potential for an unpredictable judgment in any given matter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, dollars in thousands)

9. Segment Reporting

The Company operates in the commercial property and casualty insurance business. Premiums earned for the Company's lines of business are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
General liability	\$ 59,876	\$ 59,248	\$121,626	\$112,277
Workers' compensation	69,299	65,071	133,142	139,871
Commercial automobile	53,234	49,908	107,079	99,770
Property	72,391	62,072	142,430	110,857
Commercial multi-peril	19,373	13,992	36,043	26,332
Other	32,648	14,537	60,208	22,440
Total premiums earned	<u>\$306,821</u>	<u>\$264,828</u>	<u>\$600,528</u>	<u>\$511,547</u>

The losses and LAE and losses and LAE ratios of the Company's lines of business are summarized as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007		2006		2007		2006	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Accident year loss and LAE ratios:								
General liability	\$ 39,358	65.7%	\$ 41,457	70.0%	\$ 83,425	68.6%	\$ 79,053	70.4%
Workers' compensation	49,376	71.3%	48,457	74.5%	103,322	77.6%	108,588	77.6%
Commercial automobile	35,056	65.9%	32,433	65.0%	70,391	65.7%	62,961	63.1%
Property	57,681	79.7%	43,372	69.9%	104,879	73.6%	74,209	66.9%
Commercial multi-peril	12,901	66.6%	8,139	58.2%	22,763	63.2%	15,620	59.3%
Other	21,630	66.3%	10,132	69.7%	37,169	61.7%	15,004	66.9%
Total accident year losses and LAE	216,002	70.4%	183,990	69.5%	421,949	70.3%	355,435	69.5%
Prior years' loss development	(14,312)	(4.7)%	(2,309)	(0.9)%	(26,799)	(4.5)%	(4,742)	(0.9)%
Calendar year losses and LAE	<u>\$201,690</u>	<u>65.7%</u>	<u>\$181,681</u>	<u>68.6%</u>	<u>\$395,150</u>	<u>65.8%</u>	<u>\$350,693</u>	<u>68.6%</u>

The Company does not allocate investment results or certain corporate expenses for purposes of evaluating financial performance of each line of business.

10. Accounting Adjustments in Respect of Certain Investments

During the second quarter of 2006, the Company identified certain adjustments associated with its accounting for investments. The adjustments relate principally to three areas: (1) equity method accounting — the Company did not properly reflect adjustments to realized investment gains and losses reported by equity method investees arising from basis differences associated with initial purchases or changes in ownership percentages. These adjustments relate principally to the Company's investments in Northbridge and HWIC Asia Fund ("HWIC"); (2) partnership accounting — several of the Company's partnership interests were recorded on the equity method of accounting pursuant to Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, even though the Company did not have the ability to exercise significant influence over the investees. In such circumstances, the Company should have retained the investment company accounting of the investees; and (3) embedded derivatives mark-to-market — the Company did not properly reflect the mark to market through earnings of derivative features embedded in convertible bonds pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Several of the Company's equity investees also held the same or similar securities with embedded derivatives. The Company determined that the investees also did not properly bifurcate their investments, which required adjustments to the Company's financial statements.

Management evaluated the financial impact of the aforementioned accounting adjustments and concluded that the effect both individually and in the aggregate was not material to the second quarter of 2006 or any prior period. Accordingly, prior period financial statements were not restated. Instead, the Company recorded a cumulative charge to net income in the three months ended June 30, 2006 of \$5,678 pre-tax (\$3,691 after-tax) for these adjustments. Of the \$5,678 pre-tax charge, \$4,255 was recorded as a charge to realized investment gains, \$3,534 (\$2,297 after-tax) was recorded as a charge to equity in earnings of investees (including \$456 of previously waived immaterial adjustments) and \$2,111 was recorded as an increase to investment income on the consolidated statements of income. In addition, the Company recorded a \$7,369 increase to accumulated other comprehensive income, net of tax, that together with the aforementioned \$3,691 charge to net income, resulted in a \$3,678 increase in shareholder's equity as of June 30, 2006.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to the critical accounting policies and estimates, the consolidated results of operations, financial condition, liquidity and capital resources of the Company for the interim periods indicated. Within this discussion, the terms "Company" or "Crum & Forster" refer to Crum & Forster Holdings Corp. and its direct and indirect subsidiaries, including United States Fire Insurance Company ("US Fire"), The North River Insurance Company ("North River"), Crum & Forster Indemnity Company and Crum and Forster Insurance Company. US Fire owns 100% of the stock of Crum & Forster Specialty Insurance Company. North River owns 100% of the stock of Seneca Insurance Company, Inc. and its subsidiaries ("Seneca"). The term "Fairfax" refers to Fairfax Inc., Crum & Forster's parent company, and Fairfax Financial Holdings Limited, which holds a 100% indirect interest in Fairfax Inc.

Certain financial information that is normally included in annual financial statements, including certain financial statement footnotes, prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), is not required for interim reporting purposes and has been condensed or omitted herein. This discussion, and the related consolidated financial statements, should be read in conjunction with the Company's consolidated financial statements, and notes related thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission ("SEC") on March 9, 2007. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

All dollar amounts are in thousands, unless otherwise indicated.

Statements Regarding Forward-Looking Information

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These are statements that relate to future periods and include statements regarding the Company's anticipated performance. Generally, the words "anticipates", "believes", "expects", "intends", "estimates", "projects", "plans", "target", "potential", "likely", "may", "could", "should" and similar expressions identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Company's actual results, performance or achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, but are not limited to, the following:

- Lowering or loss of one of the Company's financial strength ratings;
- Insufficient loss reserves, including reserves for asbestos, environmental and other latent claims;
- Occurrence of natural or man-made catastrophic events;
- Inability to obtain reinsurance coverage on reasonable terms and prices, particularly property catastrophe reinsurance;
- Competitive conditions in the insurance market;
- Changes in the business or regulatory environment in which the Company operates as a result of recent insurance industry investigations by government authorities and other parties;
- SEC requests for information from the Company;
- Inability to realize the Company's investment objectives;
- Loss of key producers;
- Exposure to emerging claims and coverage issues;
- Restrictions on the ability of the Company's insurance subsidiaries to pay dividends;
- Subordination of debt securities to the obligations and liabilities of the Company's insurance subsidiaries;
- Exposure to credit risk, in the event reinsurers or policyholders fail to pay the Company amounts owed to it;
- Adverse developments in the prospects or results of operations of Fairfax or its affiliates;
- Loss of key employees;
- Changes in governmental regulations; and
- Exposure to credit risks on novated policies.

Although the Company believes that its forward-looking statements are based upon reasonable assumptions, management can give no assurance that the Company's goals will be achieved. Given these uncertainties, prospective investors are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements made in this report are made by the Company as of the date of this report. Except as otherwise required by federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information regarding these factors, and others that could cause actual results to differ materially from expectations, is included in the Company's Prospectus filed with the SEC pursuant to rule 424(b)(3) on July 13, 2007. The information appearing under "Risk Factors" in such Prospectus is incorporated by reference into, and made a part of, Part II of this Form 10-Q.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements and related notes thereto are prepared in accordance with GAAP. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of material contingent assets and liabilities at the balance sheet date and the revenues and expenses reported during the relevant period. In general, management's estimates are based on historical experience, evaluation of current trends, information from third party professionals and various other assumptions that are believed to be reasonable under the known facts and circumstances.

The accounting policies and estimates discussed below are those that require management to make assumptions about highly uncertain matters. If management were to make different assumptions about those matters, or if actual results were to differ significantly from management's estimates, the Company's reported consolidated results of operations and financial condition could be materially affected.

The Company's significant accounting policies are described in detail in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 9, 2007.

Unpaid Losses and Loss Adjustment Expenses

The most significant accounting estimates relate to the Company's reserves for unpaid losses and loss adjustment expenses ("LAE"). Unpaid losses and LAE include reserves for both reported (case reserves) and unreported losses and LAE. When the Company is notified of insured losses, claims personnel set up case reserves for the estimated amount of settlement, if any, which excludes estimates of expenses to settle claims, such as legal and other fees and the general expenses of administering the claims adjustment process. The estimate reflects the judgment of claims personnel, or of independent claims adjusters hired by the Company, the scope of coverage available for the reported claim under each individual policy assuming application of controlling state contract law, general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, advice of counsel, with the goal of setting the reserve at the ultimate expected loss amount as soon as sufficient information becomes available.

Losses and LAE are charged to income as they are incurred. During the loss settlement period, reserves established in prior years are adjusted as loss experience develops and new information becomes available. Adjustments to previously estimated reserves, both positive and negative, are reflected in the Company's financial results in the periods in which they are made, and are referred to as prior period development. Due to the high level of uncertainty, revisions to these estimated reserves could have a material impact on the Company's results of operations in the period recognized and actual payments for claims and LAE could ultimately be significantly different from estimates.

The Company has written general liability, commercial multi-peril and umbrella policies under which its policyholders continue to present asbestos, environmental and other latent claims. The vast majority of these claims, particularly with respect to asbestos and environmental claims, are presented under policies written many years ago. There are significant uncertainties in estimating the amount of reserves required for asbestos, environmental and other latent claims. Reserves for these exposures cannot be estimated solely with the traditional loss reserving techniques, which rely on historical accident year development factors. Among the uncertainties relating to asbestos, environmental and other latent reserves are a lack of historical data, long reporting delays and complex unresolved legal issues regarding policy coverage and the extent and timing of any such contractual liability. Courts have reached different, and frequently inconsistent, conclusions as to when losses occurred, what claims are covered, under what circumstances the insurer has an obligation to defend, how policy limits are determined and how policy exclusions are applied and interpreted.

No adjustment was made to asbestos, environmental or other latent reserves in the six months ended June 30, 2007. In 2006 and 2005, based on the Company's internal actuarial review, the Company strengthened its asbestos, environmental and other latent reserves by \$33,897 and \$44,646, respectively. In 2004, the Company engaged an independent actuarial firm to conduct a ground-up study of the Company's asbestos reserves and based on the results of such study, together with the Company's internal actuarial review, asbestos, environmental and other latent reserves were increased by \$100,542 in that year.

Other than Temporary Declines in Value of Investments

The Company's fixed income and equity securities are principally categorized as "available-for-sale" and are carried at their fair value based primarily on quoted market prices. Unrealized gains or losses on the Company's investments, net of applicable income taxes, are included in other comprehensive income. Declines in the market value of invested assets below carrying value are evaluated for other than temporary impairment losses on a quarterly basis. Management considers an impairment as "other than temporary" if evidence indicating that an investment's carrying amount is recoverable within a reasonable period of time, which in the case of fixed income securities may mean until maturity, is outweighed by evidence to the contrary. Management also considers the Company's ability and intent to hold an investment until such recovery of the security's fair value. Notwithstanding the foregoing, with respect to fixed income securities, an impairment may be considered other than temporary if it is probable that the Company will be unable to collect all amounts due under the terms of the securities.

Recognition of impairment losses for declines in the value of fixed income and equity securities attributable to issuer-specific events is based upon all relevant facts and circumstances for each investment. Factors considered by management include, but are not limited to, the impact of issuer-specific events, current and expected future market and economic conditions, the nature of the investment, the number of investment positions with losses, the severity and duration of the impairment and the volatility of the security's market price.

No other than temporary impairments were recorded for the six months ended June 30, 2007. In the six months ended June 30, 2006, the Company recognized a \$5,400 other than temporary impairment charge, substantially all of which was in respect of its investment in Advent Capital (Holdings) PLC ("Advent"), an affiliated company. See "Liquidity and Capital Resources – *Insurance Subsidiaries*" below for a further discussion of investments in an unrealized loss position.

Reinsurance Recoverable

Amounts recoverable from reinsurers are initially estimated in conjunction with the establishment of reserves for unpaid losses and LAE. These amounts may be adjusted as actual case reserves are recorded and reinsured claims are settled. The ceding of risk to reinsurers does not relieve the operating companies of their primary obligation to policyholders as the direct insurer. Accordingly, the Company is exposed to the risk that any reinsurer may be unable, or unwilling, to meet the obligations assumed under its reinsurance agreements. Management attempts to mitigate this risk by obtaining collateral and by entering into reinsurance arrangements only with reinsurers that have credit ratings and statutory surplus above certain levels.

In certain circumstances, including the significant deterioration of a reinsurer's financial strength rating, the Company may engage in commutation discussions with an individual reinsurer, essentially canceling and settling the contract at its net present value. The outcome of such discussions may result in a lump sum settlement that is less than the recorded recoverable balance. Losses arising from commutations could have an adverse impact on the Company's results of operations. An estimated allowance for uncollectible reinsurance recoverable is recorded on the basis of periodic evaluation of balances due from reinsurers, judgments regarding reinsurer solvency, known disputes, reporting characteristics of the underlying reinsured business, historical experience, current economic conditions and the state of insurer/reinsurer relations in general, and at the Crum & Forster companies in particular.

At June 30, 2007 and December 31, 2006, reinsurance recoverable was \$1,661,178 and \$1,733,926, net of reserves for uncollectible reinsurance of \$46,577 and \$42,777, respectively. The provision for uncollectible reinsurance for the three and six months ended June 30, 2007 was \$2,000 and \$4,000, respectively. While management believes the allowance for uncollectible reinsurance recoverable is adequate based on information currently available, failure of reinsurers to meet their obligations could have a material adverse impact on the Company's financial position and results of operations.

Deferred Income Tax Assets

The Company recognizes deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Management regularly reviews the Company's deferred tax assets for recoverability based on history of earnings, expectations for future earnings and expected timing of reversals of temporary differences.

Although realization is not assured, management believes the recorded deferred tax assets are fully recoverable based on estimates of the future profitability of Crum & Forster's taxable subsidiaries and current forecasts for the periods through which losses may be carried back and/or forward. The Company has several material deferred tax assets, including net operating losses, undistributed income of foreign investments, deferred gain on retroactive reinsurance, loss reserve discounting, and unearned premium adjustment. The realizability of these reversing deferred tax assets is considered in conjunction with similar originating deferred tax assets and other taxable income.

The Company's current projections of future taxable income are based on assumptions of modest business growth and relatively stable combined ratios, with portfolio yields approximating current levels. The current net operating losses of \$221,354 relate primarily to the Company's debt. Under tax planning strategies allowed pursuant to Statement of Financial Accounting No. 109 ("SFAS 109") the Company may elect to file a consolidated tax return for tax sharing purposes. The Company plans to make this election in the third quarter of 2007 and once the election is in place, it is projected that the existing and future net operating losses of the Company will be fully utilized against the operating companies income, based on positive taxable income in the loss carryback period and the assumptions discussed above.

At June 30, 2007, there are no valuation allowances against the Company's gross deferred tax assets of \$365,518. Should the assumptions of future profitability change significantly, however, or the taxable income of these entities fall far below expectations, a valuation allowance, which could be significant, may have to be established if management believes any portion of the deferred tax asset will not be realized. A valuation allowance may also be required if there is a material change in the tax laws such that the actual effective tax rate or the time periods within which the underlying temporary differences become taxable or deductible change.

Realization of the deferred tax asset under SFAS 109 ultimately depends on the existence of sufficient taxable income available under tax law, including future reversals of existing temporary differences, future taxable income exclusive of reversing differences, and taxable income in prior carryback years and tax planning strategies. Future profitability, as it relates to taxable income expectations discussed above, can be negatively affected by substantial changes in premium volume, persistent underwriting losses resulting from significant events such as severe natural disasters or large settlements for asbestos or environmental claims, or materially lower investment results.

Summary of Operations

The Company is a national commercial property and casualty insurance company with a focused underwriting strategy, targeting specialty classes of business and underserved market opportunities. Operating through its home office and regional branch network, the Company writes a broad range of commercial coverage, including general liability, workers' compensation, property, commercial automobile, commercial multi-peril and other lines of business. The Company generally conducts business on a brokerage basis through more than 1,200 producers located throughout the United States. The Company's two largest producers accounted for approximately 6.4% and 5.2% of gross premiums written for the six months ended June 30, 2007.

The Company's objective is to expand opportunistically into classes of business or market segments that are consistent with its underwriting expertise and have the potential to generate an underwriting profit. Management believes the Company's ability to identify and react to changing market conditions provides it with a competitive advantage.

Based on the experience and underwriting expertise of management, the Company seeks to write new lines of business and expand existing classes of business based on market conditions and expected profitability. The Company offers insurance products designed to meet specific insurance needs of targeted policyholder groups and underwrites specific types of coverage for markets that are generally underserved by the industry.

The profitability of property and casualty insurance companies is primarily determined by their underwriting results and investment performance. Underwriting results are the net result of a company's premiums earned and amounts paid, or expected to be paid, to settle insured claims and policy acquisition costs and other underwriting expenses. The insurance business is unique in that premiums charged for insurance coverage are set without certainty of the ultimate claim costs to be incurred on a given policy. This requires that liabilities be estimated and recorded in recognition of future loss and settlement obligations. Due to the inherent uncertainty in estimating these liabilities, there can be no assurance that actual liabilities will not exceed recorded amounts or premiums received. The ultimate adequacy of premium rates is affected mainly by the severity and frequency of claims, which are influenced by many factors, including natural and man-made disasters, regulatory measures and court decisions that define and expand the extent of coverage. Insurance premium rates are also influenced by available insurance capacity or the industry's willingness to deploy capital to cover each insurable risk.

Premiums collected are invested until funds are required to pay settled claims. Insurance company investment portfolios generally must provide a balance among total return, capital preservation and liquidity in order to generate sufficient funds for payment of claims as they are settled. The Company follows a long-term, value-oriented investment philosophy, with the goal of optimizing investment returns viewed on a total return basis, without reaching for yield, while maintaining sensitivity to liquidity requirements. The Company attempts to protect its capital from loss. Management believes that investing in debt and equity securities selling at prices below intrinsic value better protects the Company's capital.

Management monitors the contribution to earnings of underwriting operations and investment results separately. The ability to achieve underwriting profitability on a consistent basis is the core competency of a property and casualty insurance company, demonstrating discipline, individual risk selection and pricing skills, and effective risk management on a portfolio basis. The underwriting functions of the Company are managed separately from the investment operations. Accordingly, in assessing the Company's results of operations, management evaluates underwriting results separately from investment performance.

With respect to the Company's underwriting operations, management monitors key indicators of growth and profitability. Growth is generally measured in terms of gross premiums written. Management further monitors growth in its gross premiums written in terms of its rate of retention of existing policyholders, increases or decreases in the pricing of renewed policies and the growth in new business premiums. Underwriting profitability is measured both in dollars and by the combined ratio, a standard industry measure. Underwriting profit or loss equals premiums earned less losses and LAE, policy acquisition costs and other underwriting expenses. The combined ratio expresses underwriting results as a percentage of premiums earned and generally comprises two components: the loss ratio, which is the percentage of losses and LAE to premiums earned, and the expense ratio, which is the percentage of the sum of policy acquisition costs and other underwriting expenses to premiums earned. A combined ratio less than 100% indicates an underwriting profit; a combined ratio greater than 100% indicates an underwriting loss.

Underwriting profit or loss expressed in dollars is considered a non-GAAP financial measure. The table at the beginning of the Results of Operations section that follows presents the separate contribution of underwriting and investment operations to income before income taxes on a GAAP basis. An understanding of a property and casualty insurance company's financial condition, results of operations and profit and growth prospects begins with an assessment of the entity's ability to underwrite effectively. Underwriting is the core business of such companies; investment operations are a separate function. Management monitors the Company's consolidated results on this basis and likewise reports such results to its board of directors. Rating agencies and securities analysts also focus separately on underwriting and investment results. In annual and quarterly statements to state insurance regulators prepared in accordance with statutory accounting practices, underwriting profit or loss is presented separately from investment results. Underwriting profit or loss, together with the related combined ratio, are widely followed measures in the property and casualty insurance industry.

Investment results are generally measured in terms of total return on assets under management. Growth in the Company's cash and invested assets is also a key measure of investment performance.

The property and casualty insurance business is cyclical and influenced by many factors, including price competition, economic conditions, natural and man-made disasters (for example, hurricanes, earthquakes and terrorism), availability and cost of reinsurance, interest rates, state regulations, court decisions and changes in the law. The property and casualty market has experienced increased competition since 2003. Through 2004 and 2005, property risks generally were written at or below expiring prices. Price increases in casualty lines slowed considerably in 2004 while casualty risks were generally written at or below expiring prices in 2005. The casualty market continued to see an acceleration of softening market conditions in 2006, particularly in respect of workers' compensation policies in California and more recently, pricing pressure for casualty accounts has intensified countrywide, particularly for larger accounts. While property market conditions improved significantly in the first three quarters of 2006 in the wake of the 2005 hurricane activity, the market began to soften in the fourth quarter of 2006, fueled by the mild hurricane season and this market softening continued through the first six months of 2007 with several major competitors offering more capacity in the coastal wind areas and greater capacity and more competitive pricing in non-catastrophe exposed business. In the six months ended June 30, 2007, renewal pricing in the Company's casualty lines declined by approximately 7% and renewal pricing in the Company's property lines declined by approximately 9%. The increased market competition has made it particularly challenging to acquire new accounts at adequate prices. New business in the first six months of 2007 declined by approximately 17% in the casualty lines and approximately 11% in the property lines as compared to new business written in the first six months of 2006. The Company's overall renewal retention rate increased by approximately three percentage points in the first six months of 2007.

Effective April 1, 2007, Seneca placed its property catastrophe reinsurance treaty. The expiring treaty provided coverage of \$25 million in excess of \$5 million per occurrence for an annual premium of \$2,625. The new treaty provides coverage of \$40 million in excess of \$5 million per occurrence for an annual premium of \$2,829. Seneca is obliged to reinstate any limits used at 100% of the original premium.

Effective May 1, 2007, the Company placed its property catastrophe treaty (excluding Seneca). The expiring treaty provided coverage of \$210 million in excess of \$40 million per occurrence. The Company's participation in the \$210 million of coverage was \$22,653 and the premium for the coverage, net of Company participation, was approximately \$60 million. The new treaty provides coverage of \$100 million in excess of \$100 million per occurrence for an annual premium of \$18 million. The Company is obliged to reinstate any limits used at 100% of the original premium. The Company also purchased California only earthquake coverage of \$100 million in excess of \$200 million per occurrence for an estimated annual premium of \$7 million. The decision to increase the retention and purchase less coverage was based on the Company's reduced property exposures in catastrophe-prone zones and the expected cost of property catastrophe reinsurance at lower attachment points.

Results of Operations

The components of the Company's net income, and certain ratios based thereon, are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Gross premiums written	\$345,595	\$341,399	\$672,526	\$688,600
Net premiums written	\$311,307	\$299,008	\$593,754	\$594,352
Premiums earned	\$306,821	\$264,828	\$600,528	\$511,547
Losses and LAE	201,690	181,681	395,150	350,693
Underwriting expenses	82,428	79,143	167,182	149,401
Underwriting income	22,703	4,004	38,196	11,453
Investment income and realized investment gains and losses	28,450	102,537	78,337	280,817
Interest and other expense	8,190	9,823	15,675	20,728
Costs related to early retirement of debt	21,188	—	21,188	—
Income before income taxes and equity in earnings of investees	21,775	96,718	79,670	271,542
Income tax expense	6,800	33,145	26,207	93,465
Income before equity in earnings of investees	14,975	63,573	53,463	178,077
Equity in earnings of investees, net of tax	3,730	4,210	8,095	6,069
Net income	\$ 18,705	\$ 67,783	\$ 61,558	\$184,146
Loss and LAE ratio	65.7%	68.6%	65.8%	68.6%
Underwriting expense ratio	26.9	29.9	27.8	29.2
Combined ratio	92.6%	98.5%	93.6%	97.8%

The decrease in net income in both the three and six month periods ended June 30, 2007, as compared to the corresponding prior year periods, was principally due to lower investment earnings and debt retirement costs, partially offset by improved underwriting results. In the three and six months ended June 30, 2006, the Company benefited from higher earnings from HWIC Asia Fund ("HWIC"), an affiliated equity method investee, as well as other partnership earnings. Partnership earnings in the three and six months ended June 30, 2007 were \$5,621 and \$8,683, respectively, compared to partnership earnings of \$63,458 and \$88,610, in the three and six months ended June 30, 2006, respectively. Additionally, the first quarter of 2006 was favorably affected by a \$106,578 gain on the sale of Zenith National Insurance Corp. ("Zenith") common stock.

During the second quarter of 2006, the Company identified certain adjustments associated with its accounting for investments and recorded a cumulative charge to net income in the three months ended June 30, 2006, of \$5,678 pre-tax (\$3,691 after-tax) for these adjustments. Of the \$5,678 pre-tax charge, \$4,255 was recorded as a charge to realized investment gains, \$3,534 (\$2,297 after-tax) was recorded as a charge to equity in earnings of investees (including \$456 of previously waived immaterial adjustments) and \$2,111 was recorded as an increase to investment income on the consolidated statements of income. For further details see Note 10 to the consolidated financial statements.

Underwriting Results

Gross Premiums Written

Gross premiums written by line of business are summarized as follows:

	Three Months Ended June 30,			
	2007	2006	Increase/ (Decrease)	Percent Change
General liability	\$ 63,126	\$ 82,271	\$ (19,145)	(23.3)%
Workers' compensation	67,812	57,307	10,505	18.3%
Commercial automobile	52,516	49,471	3,045	6.2%
Property	97,569	107,814	(10,245)	(9.5)%
Commercial multi-peril	28,927	20,154	8,773	43.5%
Other	35,645	24,382	11,263	46.2%
Total gross premiums written	\$345,595	\$341,399	\$ 4,196	1.2%

	Six Months Ended June 30,			
	2007	2006	Increase/ (Decrease)	Percent Change
General liability	\$140,109	\$164,995	\$ (24,886)	(15.1)%
Workers' compensation	134,660	139,901	(5,241)	(3.7)%
Commercial automobile	106,653	114,940	(8,287)	(7.2)%
Property	180,549	194,915	(14,366)	(7.4)%
Commercial multi-peril	43,277	37,376	5,901	15.8%
Other	67,278	36,473	30,805	84.5%
Total gross premiums written	<u>\$672,526</u>	<u>\$688,600</u>	<u>\$ (16,074)</u>	(2.3)%

Other lines of business include the following:

	Three Months Ended June 30,			
	2007	2006	Increase/ (Decrease)	Percent Change
Accident and health	\$27,413	\$16,053	\$ 11,360	70.8%
Surety	3,949	3,973	(24)	(0.6)%
Homeowners	1,983	1,872	111	5.9%
Personal automobile	2,300	2,484	(184)	(7.4)%
Total gross premiums written in other	<u>\$35,645</u>	<u>\$24,382</u>	<u>\$ 11,263</u>	46.2%

	Six Months Ended June 30,			
	2007	2006	Increase/ (Decrease)	Percent Change
Accident and health	\$53,682	\$22,952	\$ 30,730	133.9%
Surety	7,323	6,573	750	11.4%
Homeowners	3,412	3,567	(155)	(4.3)%
Personal automobile	2,861	3,381	(520)	(15.4)%
Total gross premiums written in other	<u>\$67,278</u>	<u>\$36,473</u>	<u>\$ 30,805</u>	84.5%

For the three months ended June 30, 2007, gross premiums written associated with the Company's core commercial lines of business (excludes "other" lines of business in the tables above), declined by \$7,067, or 2.2%, compared to the three months ended June 30, 2006, primarily due to the combined effects of a decline in new business of approximately 8% and price decreases on renewal policies of approximately 10%, partially offset by an increase in renewal retention rates of approximately two percentage points. For the six months ended June 30, 2007, gross premiums associated with core commercial lines declined by \$46,879, or 7.2%, compared to the six months ended June 30, 2006, primarily due to a decline in new business of approximately 15% and price decreases on renewal policies of approximately 8%, partially offset by an increase in renewal retention rates of approximately three percentage points. The decline in new business is reflective of significant price competition in the market and the Company's commitment to disciplined underwriting and pricing standards.

Casualty gross premiums written

For the three and six months ended June 30, 2007, gross premiums written in casualty lines, which include the general liability, workers' compensation and commercial automobile lines of business, decreased by \$5,595, or 3.0%, and \$38,414, or 9.1%, respectively, as compared to the three months and six months ended June 30, 2006 due to a decline in new business and price decreases on renewal policies, partially offset by an increase in renewal retention rates.

The casualty market experienced an acceleration of softening market conditions during 2006, particularly with respect to the California workers' compensation business, which has been affected by declining market prices as a consequence of system reforms and very favorable industry accident year results in recent years. More recently, pricing pressure for casualty classes intensified countrywide.

Property gross premiums written

For the three and six months ended June 30, 2007, gross premiums written in property lines, which include the property and commercial multi-peril lines of business, decreased by \$1,472, or 1.2%, and \$8,465, or 3.6%, respectively, as compared to the three and six months ended June 30, 2006, primarily due to a decline in new business and price decreases on renewal policies, partially offset by an increase in renewal retention rates. The property market experienced a significant hardening in the first three quarters of 2006 in the wake of the 2005 hurricane activity, but showed signs of softening in the fourth quarter. This market softening, primarily driven by the mild 2006 hurricane activity, has continued through the first six months of 2007, with several major competitors offering more capacity in the coastal wind areas and greater capacity and more competitive pricing in non-catastrophe exposed business.

Other gross premiums written

The increase in other gross premiums written in both the three and six month periods ended June 30, 2007 as compared to 2006, was primarily due to significant growth in the Company's accident and health book of business. Previously written in the "B++" rated Fairmont companies, the accident and health business has particularly benefited from Crum & Forster's "A-" A.M. Best rating. The growth in accident and health gross premiums written was also partially due to relatively low gross premiums written in the first quarter of 2006.

Net Premiums Written

For the three months ended June 30, 2007, net premiums written increased by \$12,299, or 4.1%, compared to the three months ended June 30, 2006. For the six months ended June 30, 2007, net premiums written remained level compared to the six months ended June 30, 2006. The higher increase in net premiums written relative to gross premiums written is partly due to increased retention of property risks and corresponding reduced premium cessions, as well as the discontinuance of certain reinsurance programs related to the Fairmont business.

Premiums Earned

Premiums earned reflect the amount of net premiums written applicable to the portion of the policy term that expires in a given period. The Company generally earns premiums on a pro-rata basis over the period in which the coverage is provided. For the three and six months ended June 30, 2007, premiums earned increased by \$41,993, or 15.9%, and \$88,981, or 17.4%, respectively, as compared to the three and six months ended June 30, 2006. The higher increase in premiums earned relative to net premiums written is primarily attributable to the Fairmont business which the Company assumed at the start of 2006 and which therefore contributed only a relatively small portion to premiums earned in the first half of 2006 as compared to the first half of 2007. Further, accident and health premiums, which grew significantly in the first six months of 2007, are earned as written.

Losses and Loss Adjustment Expenses

For the three and six months ended June 30, 2007, the Company's calendar year loss and LAE ratio improved to 65.7% and 65.8%, respectively, compared to 68.6%, for both the three and six month periods ended June 30, 2006. The improvement is primarily due to higher favorable prior year loss development in the six months ended June 30, 2007 as compared to 2006. The majority of the net favorable development was in the workers' compensation line of business in accident years 2005 and 2004, partially offset by adverse emergence of property losses in accident year 2006. Included in prior year favorable loss development was \$6,774 and \$6,814 of amortization of deferred income on retroactive reinsurance contracts in the six months ended June 30, 2007 and 2006, respectively.

The accident year loss and LAE ratio remained relatively stable at 70.3% for the first six months of 2007 compared to 69.5% for the first six months of 2006. The full year accident year 2006 loss ratio was 70.3%.

Underwriting Expenses

Underwriting expenses are comprised of policy acquisition costs and other underwriting expenses. Policy acquisition costs are those costs that vary with and are primarily related to the acquisition of new and renewal policies and are comprised of commissions paid to producers and premium taxes. Other underwriting expenses consist of all other operating expenses associated with the Company's underwriting activities, including salaries and benefits, information technology and rent. For the three and six months ended June 30, 2007, the Company's underwriting expense ratio was 26.9% and 27.8%, respectively, as compared to an underwriting expense ratio of 29.9% and 29.2% for the three and six months ended June 30, 2006, respectively.

The Company's policy acquisition expense ratio decreased to 13.9% for the three months ended June 30, 2007, compared to 14.2% for the three months ended June 30, 2006. For the six months ended June 30, 2007, the policy acquisition ratio increased to 14.3% compared to 13.4% for the six months ended June 30, 2006 primarily due to lower ceding commissions paid to the Company by reinsurers and higher direct commissions.

The Company's other underwriting expense ratio improved to 13.0% and 13.5%, respectively, for the three and six months ended June 30, 2007, compared to 15.7% and 15.8% for the three and six months ended June 30, 2006, respectively. The improvement is primarily due to the favorable impact of earnings from the Fairmont business which has grown significantly in the first half of 2007 compared to the first half of 2006 when it added to the Company's fixed expenses, but only moderately to its net earned premiums. Additionally, the underwriting expense ratio in the three and six months ended June 30, 2006, was adversely affected by higher legal expenses.

Investment Results

Information on the Company's investment results is summarized as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Average investments, including cash and cash equivalents, at book value ¹	<u>\$ 4,008,966</u>	<u>\$ 3,734,902</u>	<u>\$ 4,000,328</u>	<u>\$ 3,720,240</u>
Investment income	\$ 39,517	\$ 92,821	\$ 74,930	\$ 149,279
Realized investment (losses) gains	(11,067)	9,716	3,407	131,538
Pre-tax equity in earnings of investees	5,738	6,477	12,454	9,337
Change in unrealized investment gains (losses) and foreign currency translation	<u>(14,785)</u>	<u>(98,175)</u>	<u>(21,800)</u>	<u>(234,350)</u>
Total return on investments	<u>\$ 19,403</u>	<u>\$ 10,839</u>	<u>\$ 68,991</u>	<u>\$ 55,804</u>
Annualized total return on investments	<u>1.9%</u>	<u>1.2%</u>	<u>3.4%</u>	<u>3.0%</u>

¹ Includes book value of assets pledged for short-sale obligations of \$607,316 at June 30, 2007 (\$538,553 at June 30, 2006).

The Company manages its investment portfolio with an emphasis on total return. Total return for the period is the sum of investment income (including pre-tax equity in earnings of investees), realized investment gains and losses and changes in the market value of the portfolio expressed as a percentage of the average book value of the portfolio during the period. Total annualized rate of return was 1.9% and 3.4% for the three and six months ended June 30, 2007, respectively, as compared to 1.2% and 3.0% for the three and six months ended June 30, 2006, respectively. Funds held interest related to corporate aggregate reinsurance contracts reduced the rate of return for the three and six months ended June 30, 2007 by 0.5%, and by 0.5% and 0.4% in the three and six months ended June 30, 2006, respectively. The following paragraphs discuss each component of the return on investments.

For the three and six months ended June 30, 2007, the decrease in investment income of \$53,304, or 57.4%, and \$74,349, or 49.8%, respectively, as compared to the three and six month periods ended June 30, 2006, was primarily due to lower earnings from HWIC which realized significant capital gains in both the three and six month periods ended June 30, 2006, as well as lower earnings from other partnerships. Partnership earnings in the three and six months ended June 30, 2007 were \$5,621 and \$8,683, respectively, compared to partnership earnings of \$63,458 and \$88,610, in the three and six months ended June 30, 2006, respectively. For further details on accounting adjustments in respect of certain investments in the prior year, see Note 10 to the consolidated financial statements.

The decrease in realized investment gains of \$20,783, or 213.9%, in the second quarter of 2007 as compared to the second quarter of 2006 was primarily due to realized investment losses on the change in fair value of the Company's Standard & Poor's Depository Receipts ("SPDRs"), partially offset by realized investment gains on the change in fair value of the related options. The decrease in realized investment gains of \$128,131, or 97.4%, in the six months ended June 30, 2007 as compared to the six months ended June 30, 2006, was primarily the result of the combined effects of gains of \$106,578 on the sale of Zenith common stock and \$34,260 on the sale of a corporate fixed income security in the six months ended June 30, 2006, partially offset by a \$8,300 gain on the sale of the Company's investment in Odyssey Re Holdings Corp. ("Odyssey"), an affiliated equity method investee, in the first quarter of 2007. Realized investment gains in the three and six month periods ended June 30, 2006, include a \$5,400 charge for other than temporary impairments, substantially all of which was in respect of the Company's investment in Advent, an affiliated company.

Pre-tax equity in earnings of investees was \$5,738 and \$12,454, and \$6,477 and \$9,337, for the three and six months ended June 30, 2007 and 2006, respectively. The decrease in pre-tax equity in earnings of investees in the second quarter of 2007 as compared to the second quarter of 2006 was primarily due to lower earnings from Odyssey, partially offset by higher earnings from Northbridge Financial Corporation ("Northbridge"). The Company disposed of its investment in Odyssey in the first quarter of 2007. The increase in pre-tax equity in earnings of investees in the six months ended June 30, 2007 as compared to the six months ended June 30, 2006, was principally attributable to higher earnings from Northbridge, partially offset by lower earnings from Odyssey. Northbridge contributed \$5,655 and \$11,767, and \$4,481 and \$8,374, to the Company's pre-tax equity in earnings of investees in the three and six months ended June 30, 2007 and 2006, respectively. Northbridge's earnings in the three month period ended June 30, 2006 were affected by equity adjustments and mark to market adjustments in respect of the derivative features embedded in convertible bonds. For further details on accounting adjustments in respect of certain investments in the prior year, see Note 10 to the consolidated financial statements.

For the three and six months ended June 30, 2007, the change in unrealized investment gains and losses and foreign currency translation was principally due to an increase in unrealized losses on the Company's U.S. Treasury securities, attributable to rising interest rates, partially offset by an increase in unrealized gains on the Company's equity portfolio and other invested assets. In the three and six month periods ended June 30, 2006, the change in unrealized investment gains and losses was principally due to the adverse effect of rising interest rates on the Company's U.S. Treasury securities and the release of approximately \$92,300 of unrealized investment gains on the sale of Zenith common stock.

Interest and Other Expense

For the three and six months ended June 30, 2007, interest and other expenses, excluding costs related to early retirement of debt of \$21,188, were \$8,190 and \$15,675, respectively, as compared to \$9,823 and \$20,728, respectively, for the three and six months ended June 30, 2006. The lower expense in the three and six months ended June 30, 2007, was primarily due to lower charitable contributions and an accrual adjustment in the first quarter of 2007.

Liquidity and Capital Resources

Holding Company

As a holding company with no direct operations, Crum & Forster Holdings Corp.'s (referred to in this section as the "Company") assets consist primarily of its investments in the capital stock of its insurance subsidiaries and deferred tax assets associated with holding company net operating losses. The Company requires cash to meet its annual debt service obligations (approximately \$26,000 per year), to pay corporate expenses and, ultimately, to repay the \$334,270 aggregate principal amount of senior notes, \$4,270 of which is due in 2013 and \$330,000 of which is due in 2017. For further details on the Company's long-term debt see Note 7 to the consolidated financial statements. The Company's ability to satisfy its corporate obligations is primarily dependent on the dividend paying capacity of its subsidiaries. State insurance laws restrict the amount of shareholder dividends that insurance companies may pay without prior approval of regulatory authorities.

The ability of the Company's insurance subsidiaries to pay dividends depends, among other things, on such subsidiaries having positive statutory earned surplus. The Company's principal insurance subsidiaries are US Fire and North River. At June 30, 2007, US Fire reported statutory earned surplus of \$284,153 and North River reported statutory earned surplus of \$65,380. On March 29, 2007, US Fire paid a dividend in the amount of \$97,300 to the company. The payment included \$9,005 of HWIC Asia Fund stock at market value and \$88,295 of cash. On May 14, 2007, North River paid a dividend in the amount of \$40,900 to the Company. After the aforementioned dividend actions, neither US Fire nor North River may pay additional dividends in 2007 without prior regulatory approval. On March 29, 2007 and May 29, 2007, the Company paid cash shareholder dividends of \$61,000 and \$30,000, respectively, to Fairfax.

Cash used in financing activities was primarily in respect of dividends paid to Fairfax of \$91,000 and \$90,000 in the six months ended June 30, 2007 and 2006, respectively, and refinancing of the Company's long-term debt in 2007. In May 2007, the Company issued pursuant to a private offering (the "Offering") \$330,000 aggregate principal amount of 7-3/4% senior notes due May 1, 2017 (the "2017 Notes") at an issue price of 100%. Net proceeds of the Offering to the Company, after commissions and expenses, of approximately \$325,100 were used to repurchase \$295,730 of the Company's outstanding \$300,000 aggregate principal amount of 10-3/8% senior notes due June 15, 2013 (the "2013 Notes"), through a tender offer which the Company completed in May 2007. The Company paid approximately \$325,700 to purchase the 2013 Notes tendered. For further details on the Company's long-term debt see Note 7 to the consolidated financial statements.

Shareholder's equity was \$1,048,762 at June 30, 2007, as compared to \$1,093,055 at December 31, 2006. The decrease was primarily the result of net unrealized investment losses and dividends paid to Fairfax partially offset by current year earnings.

Insurance Subsidiaries

At Crum & Forster's insurance subsidiaries, cash provided by operating activities primarily consists of premium collections, reinsurance recoveries and investment income. Cash provided from these sources is generally used for payment of losses and LAE, policy acquisition costs, operating expenses, ceded reinsurance premiums, income taxes and shareholder dividends, when permitted. Variability in cash provided by and used in operations can occur for many reasons, including changes in gross premiums written, changes in the Company's underwriting results, natural or man-made catastrophes, settlements of large claims including asbestos and environmental claims, commutation of reinsurance contracts and the timing of recoveries from reinsurers, particularly as related to claim payments for natural or man-made catastrophes and asbestos and environmental claims.

Cash provided by the Company's operating activities for the six months ended June 30, 2007 was \$12,765 as compared to \$1,477 for the six months ended June 30, 2006. The favorable variance from prior year is primarily attributable to lower income tax payments, partially offset by higher underwriting expenses as well as a tender premium payment of approximately \$12,000 in respect of the early retirement of debt.

Cash provided by the Company's investing activities for the six months ended June 30, 2007 was \$12,269 as compared to cash provided by investing activities of \$369,993 in the six months ended June 30, 2006. The decrease in cash provided by investing activities in the six months ended June 30, 2007 was primarily attributable to lower proceeds received from the sales of fixed income and equity securities and other invested assets.

Investment Portfolio

Investments in available-for-sale fixed income and equity securities which include assets pledged for short-sale obligations are summarized below:

	At June 30, 2007			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
United States government and government agencies and authorities ¹	\$ 2,047,314	\$ 2,776	\$ 191,744	\$ 1,858,346
States, municipalities and political subdivisions	2,843	9	30	2,822
Other corporate fixed income securities	7,782	25	376	7,431
Total fixed income securities	<u>2,057,939</u>	<u>2,810</u>	<u>192,150</u>	<u>1,868,599</u>
Equity securities:				
Common stocks	660,729	64,135	17,768	707,096
Preferred stocks	8,090	492	—	8,582
Total equity securities	<u>668,819</u>	<u>64,627</u>	<u>17,768</u>	<u>715,678</u>
Total available-for-sale securities	<u>\$ 2,726,758</u>	<u>\$ 67,437</u>	<u>\$ 209,918</u>	<u>\$ 2,584,277</u>

¹ Includes U.S. Treasury securities pledged for short-sale obligations at a fair value of \$142,875 (amortized cost of \$154,555).

The total gross unrealized losses of \$209,918 represent 9.2% of the cost or amortized cost of such securities in the aggregate. At June 30, 2007, U.S. Treasury securities accounted for substantially all of the \$192,150 of gross unrealized losses in the fixed income portfolio. These securities are backed by the full faith and credit of the United States government and the Company has the ability and intent to hold such securities for a period of time sufficient to allow a market recovery, or to maturity, if necessary.

At June 30, 2007, approximately \$9,404, or 52.9%, of the equity portfolio gross unrealized losses was attributable to one security that has been in a loss position for less than one month and whose loss did not exceed 10% of its cost at June 30, 2007. The remaining balance of the unrealized losses was attributable to five securities, two of which had unrealized losses in excess of 10% of their cost. None of these five securities has been in a loss position for greater than five consecutive months and the Company has the intent and ability to hold such securities for a period of time sufficient to allow a market recovery.

The Company's investment portfolio has exposure to credit risk primarily related to fixed income securities. Management attempts to control this exposure by emphasizing investment grade credit quality in the fixed income securities purchased. Management believes that this concentration in investment grade securities reduces the Company's exposure to credit risk to an acceptable level. At June 30, 2007 and December 31, 2006, 92.7% and 92.0% of the Company's fixed income securities were rated investment grade, respectively.

The Company's investment portfolio includes investments accounted for using the equity method. These investments had a total carrying value of \$328,525 and \$307,818 at June 30, 2007 and December 31, 2006, respectively, and are included in other invested assets on the consolidated balance sheets. For the three and six months ended June 30, 2007 and 2006, earnings of equity method investees were \$11,359 and \$21,137, and \$69,935 and \$97,947, respectively. Earnings of investment companies and similar equity method investees of \$5,621 and \$8,683 and \$63,458 and \$88,610, in the three and six months ended June 30, 2007 and 2006, respectively, are included in investment income on the consolidated statements of income. Pre-tax earnings of other equity method investees of \$5,738 and \$12,454, and \$6,477 and \$9,337, in the three and six months ended June 30, 2007 and 2006, respectively, are included in equity in earnings of investees, net of tax, on the consolidated statements of income. Dividends received from all equity method investees were \$1,316 and \$2,594, and \$1,294 and \$2,548, in the three and six months ended June 30, 2007 and 2006, respectively.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements Nos. 133 and 140* ("SFAS 155"). SFAS 155 applies to certain "hybrid financial instruments" which are instruments that contain embedded derivatives. The standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments requiring bifurcation. SFAS 155 also permits an election for fair value measurement of any hybrid financial instrument that otherwise would require bifurcation under SFAS 133. Changes in fair value are recorded as realized investment gains or losses. The fair value election can be applied to existing instruments on an instrument-by-instrument basis at the date of adoption and to new instruments on a prospective basis. The statement is applicable in fiscal years beginning after September 15, 2006. The Company elected fair value measurement of its hybrid financial instruments, which are comprised of convertible bonds, effective with its adoption of SFAS 155 on January 1, 2007. Prior to January 1, 2007, the Company bifurcated its hybrid financial instruments and changes in the fair value of the host instrument were recorded as unrealized investment gains and losses while changes in the fair value of the embedded derivative were recorded as realized investment gains and losses. At December 31, 2006, the fair value of the host instruments included in fixed income securities was \$136,222 and the fair value of embedded derivatives included in other invested assets was \$7,372. Upon adoption of SFAS 155, the Company recorded a cumulative adjustment of \$10,146, inclusive of an adjustment of \$301 in respect of adoption of SFAS 155 by one of the Company's equity method investees, net of tax, to reclassify unrealized investment gains associated with the host instruments to opening retained earnings. At June 30, 2007, the fair value of the Company's hybrid financial instruments was \$140,069. For the three and six months ended June 30, 2007, the Company recorded realized investment losses of \$7,529 and \$11,017, respectively, as a result of changes in the fair value of hybrid financial instruments.

Ratings

Financial strength ratings issued by third party rating agencies are used by insurance consumers and insurance intermediaries as an important means of assessing the financial strength and quality of insurers. Higher ratings generally indicate relative financial stability and a strong ability to pay claims. Ratings focus on the following factors: capital resources, financial strength, demonstrated management expertise in the insurance business, credit analysis, systems development, marketing, investment operations, minimum policyholders' surplus requirements and capital sufficiency to meet projected growth, as well as access to such traditional capital as may be necessary to continue to meet standards for capital adequacy. Crum & Forster's insurance subsidiaries have an "A-" financial strength rating (the fourth highest of fifteen rating categories) with a positive outlook from A.M. Best, a rating agency and publisher for the insurance industry, and a "BBB" financial strength rating (the fourth highest of nine rating categories) with a negative outlook from Standard & Poor's Insurance Rating Services ("S&P"), also a rating agency for the insurance industry. On October 25, 2006, S&P assigned a negative outlook to Fairfax and its subsidiaries and cited as the reason its concern about "FFH's qualitative areas of governance, risk controls and enterprise risk management."

Crum & Forster's current ratings are the lowest necessary to compete in its targeted markets. The Company may not maintain its financial strength ratings from the rating agencies. A downgrade or withdrawal of any rating could severely limit or prevent the Company from writing quality new or renewal business, securing adequate reinsurance on acceptable terms and retaining its key management and employees. The Company's ratings by these rating agencies are based on a variety of factors, many of which are outside of its control, including the financial condition of Fairfax and Fairfax's other subsidiaries and affiliates, the financial condition or actions of parties from which the Company has obtained reinsurance, factors relating to the sectors in which the Company or its reinsurers conduct business and the statutory surplus of its insurance subsidiaries, which is adversely affected by underwriting losses and dividends paid by them to Crum & Forster.

The financial strength ratings assigned by rating agencies to insurance companies represent independent opinions of an insurer's financial strength and its ability to meet ongoing obligations to policyholders, and are not directed toward the protection of investors. Ratings by rating agencies of insurance companies are not ratings of securities or recommendations to buy, hold or sell any security.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is principally exposed to three types of market risk related to its investment operations. These risks are interest rate risk, equity price risk and foreign currency exchange risk. The term "market risk" refers to the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity prices and foreign currency exchange rates. All market sensitive instruments discussed here relate to the Company's investment portfolio, including assets pledged for short-sale obligations.

Computations of the prospective effects of hypothetical interest rate, equity price and foreign exchange rate changes shown below are based on numerous assumptions, including the maintenance of the existing level and composition of fixed income, equity and foreign securities, and should not be relied on as indicative of future results. Certain shortcomings are inherent in the methods of analyses presented in the computations of the fair value of fixed rate instruments and in the computations of the impact of potential market movements on equity securities and foreign securities.

Actual values may differ from those projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities, including, but not limited to, non-parallel shifts in the term structure of interest rates, changing individual issuer credit spreads and non-parallel movements of foreign exchange rates or equity prices.

Interest Rate Risk

At June 30, 2007, the fair value of Crum & Forster's investment portfolio included \$2,008,668 of fixed income securities, including \$142,875 of assets pledged for short-sale obligations and \$140,069 of hybrid financial instruments, which are subject to interest rate risk. Fluctuations in interest rates have a direct impact on the market values of these securities. As interest rates rise, market values of fixed income portfolios fall, and vice versa. The table below displays the potential impact of market value fluctuations on the Company's fixed income portfolio based on parallel 200 basis point shifts in interest rates up and down, in 100 basis point increments. This analysis was performed on each security individually.

	At June 30, 2007		
	Fair Value of Fixed Income Portfolio	Hypothetical \$ Change	Hypothetical % Change
200 basis point decline	\$ 2,532,199	\$ 523,531	26.1%
100 basis point decline	\$ 2,248,711	\$ 240,043	12.0%
Base scenario	\$ 2,008,668	\$ —	—%
100 basis point increase	\$ 1,809,847	\$ (198,821)	(9.9)%
200 basis point increase	\$ 1,639,563	\$ (369,105)	(18.4)%

As an economic hedge against a rising interest rate environment, the Company has sold short securities of certain U.S. mortgage insurers and U.S. financial guarantee insurance companies totaling approximately \$50,000. A hypothetical 10% decrease in the price of these securities would result in approximately a \$5,000 decrease in the obligations to purchase the securities sold. The Company expects that a decline in the short-sale obligations will offset losses in the fixed income portfolio in the event of a rise in interest rates.

Equity Price Risk

At June 30, 2007, the Company's investment portfolio included \$715,678 of equity securities. Marketable equity securities, which represented approximately 18.3% of the Company's investment portfolio, including cash and cash equivalents and assets pledged for short-sale obligations, are exposed to equity price risk, which is defined as the potential for loss in market value owing to declines in equity prices. A hypothetical 10% decline in the price of each of these marketable equity securities would result in a total decline of \$71,568 in the fair value of the equity portfolio at June 30, 2007. At December 31, 2006, a hypothetical 10% decline in the price of marketable equity securities would have resulted in a total decline of \$66,772 in the fair value of the equity portfolio. The increase in the Company's exposure to equity price risk is the result of the increase in the value of the equity portfolio from December 31, 2006.

As an economic hedge against a decline in the U.S. equity markets, the Company has executed short-sales totaling approximately \$300,000 of SPDRs. The Company has purchased S&P Index call options, limiting the potential loss on the future purchases of the SPDRs to approximately \$87,000 at June 30, 2007. A hypothetical 10% decrease in the price of the SPDRs would result in approximately a \$30,000 decrease in the obligations to purchase the SPDRs. The Company expects that a decline in the SPDRs obligations will offset losses in the equity portfolio in the event of a decline in the U.S. equity markets.

Foreign Currency Exchange Rate Risk

Through investments in foreign securities, including certain equity method investees, the Company is exposed to foreign currency exchange rate risk. Foreign currency exchange rate risk is the potential for loss in value owing to a decline in the U.S. dollar value of these investments due to a change in the exchange rate of the foreign currency in which these assets are denominated. At June 30, 2007, the Company's total exposure to foreign currency denominated securities in U.S. dollar terms was approximately \$436,677, or 11.1%, of the Company's total investment portfolio, including cash and cash equivalents and assets pledged for short-sale obligations. The primary foreign currency exposures were in Canadian dollar denominated securities and Indian rupee denominated securities, which represented 5.9% and 1.8%, respectively, of the Company's investment portfolio, including cash and cash equivalents and assets pledged for short-sale obligations. The potential impact of a hypothetical 10% decline in each of the foreign exchange rates on the valuation of investment assets denominated in those respective foreign currencies would result in a total decline in the fair value of the total investment portfolio of \$43,668 at June 30, 2007. At December 31, 2006, a hypothetical 10% decline in foreign currency exchange rates would have resulted in a total decline of \$36,803 in the fair value of the total investment portfolio. The increase in the Company's exposure to foreign currency exchange rate risk is the result of the increase in foreign currency denominated securities.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's principal executive officer and its principal financial officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, such officers have concluded that the Company's disclosure controls and procedures are effective as of the end of such period.

Internal Control Over Financial Reporting

During the period covered by this report, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The design of any system of controls and procedures is based, in part, upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Part II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 7, 2005, Fairfax announced that it had received a subpoena from the SEC requesting documents regarding any non-traditional insurance or reinsurance transactions entered into or offered by Fairfax and the entities in its consolidated group, which includes the Company. The U.S. Attorney's Office for the Southern District of New York is reviewing documents provided to the SEC in response to the subpoena and is participating in the investigation of these matters. Fairfax and entities in its consolidated group are cooperating fully with these requests. Fairfax and certain of the entities in its consolidated group, including the Company, have prepared presentations and provided documents to the SEC and the U.S. Attorney's Office, and employees of Fairfax and certain of the entities in its consolidated group, including senior officers, have attended or have been requested to attend interviews conducted by the SEC and the U.S. Attorney's Office. The Company is cooperating fully in addressing its obligations under this subpoena. This inquiry is ongoing and the Company continues to comply with requests from the SEC and the U.S. Attorney's office. At the present time, the Company cannot predict the outcome of these matters, or the ultimate effect on the Company's consolidated financial statements, which effect could be material and adverse. No assurance can be made that the Company will not be subject to further requests or other regulatory proceedings of a similar kind.

The Company and US Fire, among numerous other insurance company and insurance broker defendants, have been named as defendants in a class action suit filed by policyholders alleging, among other things, that the defendants used the contingent commission structure to deprive policyholders of free competition in the market for insurance. The action is pending in the U.S. District Court for the District of New Jersey. Plaintiffs seek certification of a nationwide class consisting of all persons who between August 26, 1994 and the date of the class certification engaged the services of any one of the broker defendants and who entered into or renewed a contract of insurance with one of the insurer defendants. In October 2006, the court partially granted defendants' motion to dismiss the plaintiffs' complaint, subject to plaintiffs' filing an amended statement of their case. Plaintiffs thereafter filed their "supplemental statement of particularity" and amended case statement. In response, defendants filed a renewed motion to dismiss. In April 2007, the plaintiff's RICO and antitrust claims again were dismissed without prejudice. Plaintiffs filed their amended petition on May 22, 2007. The Crum & Forster entities continue to be named as defendants. Defendants filed their renewed motions to dismiss on June 21, 2007. Plaintiffs filed responses to the motions by July 19, 2007 and defendants filed replies by July 31, 2007. The Court issued a statement on July 20, 2007 indicating oral arguments likely will not be conducted. Crum & Forster Holdings Corp. and US Fire intend to vigorously defend the action.

In the ordinary course of their business, Crum & Forster's subsidiaries receive claims asserting alleged injuries and damages from asbestos and other hazardous waste and toxic substances and are subject to related coverage litigation. The conditions surrounding the final resolution of these claims and the related litigation continue to change. Currently, it is not possible to predict judicial and legislative changes and their impact on the future development of asbestos and environmental claims and litigation. This trend will be affected by future court decisions and interpretations, as well as changes in applicable legislation and the possible implementation of a proposed federal compensation scheme for asbestos-related injuries. As a result of these uncertainties, additional liabilities may arise for amounts in excess of current reserves for asbestos, environmental and other latent exposures. These additional amounts, or a range of these additional amounts, cannot currently be reasonably estimated. As a result of these claims, management continually reviews required reserves and reinsurance recoverable. In each of these areas of exposure, the Company litigates individual cases when appropriate and endeavors to settle other claims on favorable terms.

The Company's subsidiaries are involved in various lawsuits and arbitration proceedings arising in the ordinary course of business. While the outcome of such matters cannot be predicted with certainty, in the opinion of management, no such matter is likely to have a material adverse effect on the Company's consolidated net income, financial position or liquidity. However, it should be noted that the frequency of large damage awards in some jurisdictions, including punitive damage awards that bear little or no relation to actual economic damages incurred by plaintiffs, continues to create the potential for an unpredictable judgment in any given matter.

ITEM 6. EXHIBITS

See Index to Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CRUM & FORSTER HOLDINGS CORP.
(Registrant)**

Date: August 2, 2007

By: /s/ Nikolas Antonopoulos
Nikolas Antonopoulos
President and Chief Executive Officer

Date: August 2, 2007

By: /s/ Mary Jane Robertson
Mary Jane Robertson
Executive Vice President, Chief Financial Officer
and Treasurer

INDEX TO EXHIBITS

Exhibit No.

- * 10.42 Amendment Number 1 to the Investment Agreement among Hamblin Watsa, Fairfax and United States Fire Insurance Company effective as of April 1, 2007.
- * 10.43 Amendment Number 1 to the Investment Agreement among Hamblin Watsa, Fairfax and Crum & Forster Indemnity Company effective as of April 1, 2007.
- * 31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- * 31.2 Certification of Executive Vice President, Chief Financial Officer and Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- * 32.1 Certification of President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * 32.2 Certification of Executive Vice President, Chief Financial Officer and Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Risk Factors (incorporated into Part II of this Form 10-Q by reference to the section entitled "Risk Factors" in the Company's Prospectus filed with the SEC pursuant to rule 424(b)(3) on July 13, 2007).

* Filed herewith

Amendment Number 1 to Investment Agreement

This Amendment Number 1 (“Amendment”) to the Investment Agreement (“Agreement”) dated as of October 1, 2002, between United States Fire Insurance Company and Hamblin Watsa Investment Counsel Ltd. and Fairfax Financial Holdings Limited is effective as of April 1, 2007.

1. Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Agreement.
2. The last sentence of Section 2 of the Agreement is hereby amended to read in its entirety as follows:

The investment guidelines shall at all times be in compliance with the investment statutes of the Delaware Insurance Code.
3. Section 3A(e) of the Agreement is hereby amended to read in its entirety as follows:

Such transactions between affiliated companies must comply with the prior approval or reporting requirements of the Delaware Insurance Code.
4. The second sentence of Section 10 of the Agreement is hereby amended to read in its entirety as follows:

Attached hereto as Schedule C is a copy of the current fee schedule and FFH agrees to give us thirty (30) days prior written notice of any change in such schedule, which change shall comply with the prior approval or reporting requirements of the Delaware Insurance code.
5. Section 17 of the Agreement is hereby amended to read in its entirety as follows:

This Agreement, including the schedules attached hereto and made a part hereof, may only be amended by written agreement signed by the parties and must comply with the prior approval or reporting requirements of the Delaware Insurance Code; provided, however, that any amendment to Schedule A may become effective without the prior approval of the Delaware Department of Insurance, provided that such amendment shall be filed with the Delaware Department of Insurance not later than its effective date and shall, if disapproved by the Delaware Department of Insurance, be void as of the date of such disapproval.
6. Section 2, Governing Laws: Jurisdiction: Service of Process, of Schedule D of the Agreement is hereby amended to read in its entirety as follows:

This Agreement shall be governed and construed in accordance with the laws of Delaware, our state of domicile. Each of the parties thereto submits to the jurisdiction of the state and federal courts of Delaware, in any action or proceeding arising out of or relating to this Agreement and all claims in respect of any such action or proceeding may be heard or determined in any such court; and service of process, notices and demands of such courts may be made upon you by personal service to the person and at the address contained in Section 1 above as such person or address may be changed from time to time.
7. Section 3, Insurance Department Approval, of Schedule D of the Agreement is hereby amended to read in its entirety as follows:

This Agreement may be subject to the non-disapproval or approval of the Delaware Department of Insurance, and such terms and conditions hereof as may be required by the Delaware Department of Insurance to be altered or amended shall be deemed acceptable to the parties hereto, to the extent same shall not change the substance and intent of this Agreement.
8. Section 4, Inspection of Records, of Schedule D of the Agreement is hereby amended to read in its entirety as follows:

You and we and the duly authorized representatives of each of us shall, at all reasonable times, each be permitted access to all relevant books and records of the other pertaining to this Agreement. You and your duly authorized representatives shall provide to the Delaware Department of Insurance, within fifteen (15) days of any request from the Delaware Department of Insurance therefor, copies of all your books and records as they pertain to us (or any portion thereof as may be specifically requested).
9. Schedule A is hereby amended to read in its entirety as attached hereto in Exhibit A.
10. Unless specifically modified in this Amendment, all other terms and conditions contained in the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute this Amendment as of the date written below.

Hamblin Watsa Investment Counsel Ltd.

By: /s/ Paul Rivett
Authorized Signature
Paul Rivett
Printed Name
Vice President & Chief Operating Officer
Title

Crum & Forster Indemnity Company

By: /s/ Dennis J. Hammer
Authorized Signature
Dennis J. Hammer
Printed Name
Senior Vice President, Controller
Title

Fairfax Financial Holdings Limited

By: /s/ Paul Rivett
Authorized Signature
Paul Rivett
Printed Name
Vice President & Chief Legal Officer
Title

SCHEDULE A
INVESTMENT GUIDELINES

FUNDAMENTAL OBJECTIVES

1. Invest on a long-term basis in accordance with applicable insurance regulatory guidelines.
2. Ensure preservation of invested capital for policyholder protection, always providing sufficient liquidity for the payment of claims and other policy obligations.

GUIDELINES

1. **Approach**

All investments are to be made using the long-term value investing approach by investing in the securities of companies and other entities at prices below their underlying long-term values to protect capital from loss and earn income over time and provide operating income as needed.

With regard to equity securities, the investment manager will attempt to identify financially sound companies and other entities with good potential profitability which are selling at large discounts to their intrinsic value. Appropriate measures of low prices may consist of some or all of the following characteristics: low price earnings ratios, high dividend yields, significant discounts to book value and free cash flow. Downside protection is obtained by seeking a margin of safety in terms of a sound financial position and a low price in relation to intrinsic value. Appropriate measures of financial integrity which are regularly monitored, include debt/equity ratios, financial leverage, asset turnover, profit margin, return on equity, and interest coverage.

As a result of this long-term value investing approach, it is anticipated that purchases will be made when economic and issue-specific conditions are less than ideal and sentiment is uncertain or negative. Conversely, it is expected that gains will be realized when issue-specific factors are positive and sentiment is buoyant. The investment time horizon is one business cycle (approximately 3-5 years).

With respect to fixed income securities, the long-term value investing approach is similar. The investment manager will attempt to purchase attractively priced bonds offering yields better than treasury bonds with maturities of 30 years or less that are of sound quality, i.e. whose obligations are expected to be fully met as they come due. Rating services are not regarded as an unimpeachable source for assessing credit quality any more than a broker's recommendation on a stock is necessarily correct. With any form of investment research and evaluation, there is no substitute for the reasoned judgment of the investment committee and the investment manager.

2. **Liquidity**

An adequate cash flow shall be maintained to ensure that claims and operating expenses are paid on a timely basis. An operating cash position is to be maintained at appropriate levels and will be managed by the insurance company in accordance with an approved list of liquid investments, as determined from time to time by the investment committee. These securities will be managed by the insurance company as part of the treasury function and are primarily restricted to treasury and agency securities of the U.S. government.

3. **Regulatory**

All applicable insurance regulations will be complied with.

4. **Diversification**

The portfolio is to be invested in a wide range of securities of different issuers operating in different industries and jurisdictions in order to diversify risk.

5. **Prudent Person Rule**

Prudent investment standards are considered in the overall context of an investment portfolio and how a prudent person would invest another person's money without undue risk of loss or impairment and with a reasonable expectation of fair return.

6. **Investment Committee**

The board of directors of the insurance company shall appoint an investment committee that shall consist of at least one member of the board of directors of the insurance company and any other members as the board of directors of the insurance company deems appropriate. The investment committee shall meet at least once each quarter to review the investments and loans of the insurance company.

STRATEGY

1. Maintain Adequate Liquidity

A detailed review of portfolio liquidity is undertaken on a periodic basis. This liquidity analysis determines how much of each portfolio is in cash or can be converted into cash in a given time period. The insurance company determines its near term liquidity requirements and the liquidity of the portfolio will be modified from time to time to match such near term requirement.

2. Asset Allocation

The asset allocation will be determined by the investment manager and will include short-term investments that will generate appropriate cash flows and long-term investments such as stocks and bonds, both domestic and foreign, that generate investment gains. The asset allocation will be monitored from time to time in order to comply with regulatory guidelines and meet insurance policy liabilities.

3. Foreign Exchange Risk

The investment manager shall use its discretion to hedge any foreign currency investments and exposures. The investment manager may use a variety of methods to reduce such exposures, including forward foreign exchange contracts, currency options and natural hedging with foreign pay liabilities of the insurance company. Un-hedged foreign investments will be limited to 10% of admitted assets at cost, subject to adjustment to conform with applicable insurance regulatory requirements. Un-hedged exposure above this amount must be approved by the investment committee.

4. Interest Rate Risk

Interest rate risk will be minimized primarily through investment in a variety of term to maturity fixed income securities with maturities less than thirty years. Maximum fixed income portfolio duration is limited to the equivalent of a twenty year term to maturity treasury security.

INVESTMENT CLASS EXPOSURE

The following exposure ranges established by the investment committee shall be monitored and maintained by the investment manager for the stated asset classes:

<u>Class</u>	<u>Range</u>
Equities	0-25%
Fixed Income	0-100%

Within the fixed income portfolio, the taxable/tax exempt mix will be determined relative to the consolidated tax position of the insurance company and its affiliates and the relative investment attractiveness of available tax exempt securities.

The investment committee will monitor the total asset class exposure and, if deemed appropriate, will provide specific direction from time to time to the investment manager with respect to the asset exposure ranges.

RETURN EXPECTATIONS

The foregoing asset class exposure is expected, on an annual basis, to result in returns better than the Consumer Price Index plus 3% over a ten year period before the disbursement of investment management fees. However, in any one year the annual return may be significantly above or below this expectation.

INVESTMENT OBJECTIVES OF THE INVESTMENT MANAGER

The investment manager, subject to regulatory and insurance company imposed constraints mentioned elsewhere, expects to provide additional returns to those returns that would be earned by the alternative of passively managing a surrogate market index.

Measured over four year moving periods, performance of the investment manager is expected to result in the following returns:

All Equities	S&P 500 + 1% point
Fixed Income:	
Taxable Bonds	Merrill Lynch Intermediate Treasury Index + 0.25%
Tax-Advantaged Bonds	Lehman Brothers 3&5 Year State GO Indexes

AGGREGATE INVESTMENT LIMITS, PERMITTED INVESTMENT CATEGORIES AND INDIVIDUAL INVESTMENT LIMITS

PERMITTED INVESTMENT CATEGORIES WITHIN ASSET CLASSES

The following are some examples of permitted investments within each asset class:

Equity	Common shares, rights and warrants.
Fixed Income	Bonds, debentures, preferred shares, including those convertible into common shares.
Cash	Cash on hand, demand deposits, treasury bills, short-term notes and bankers' acceptances, term deposits and guaranteed investment certificates.

All of the above may be either U.S. domestic, Canadian, or other foreign investments.

Convertible preferred securities will be classified as equities if the preferred dividend is not being paid.

Private placement issues in public companies are allowed.

INVESTMENT CONSTRAINTS

All investments will be made in accordance with all applicable insurance legislation as amended from time to time.

INDIVIDUAL INVESTMENT LIMITS

Any combination of investments in any one corporate issuer will be limited to a maximum of 3% of admitted assets.

QUALITY CONSTRAINTS

The investment manager may invest in the permitted investment categories subject to the following quality constraints:

Investments in money market instruments (less than or equal to 1 year term) will be limited to those included on the list approved by the insurance company. This list will include money market instruments of the U.S. Treasury, agencies of the U.S. government, and as a minimum commercial paper rated A1 or higher by Moody's and rated P1 or higher by Standard & Poor's.

Investments in bonds and preferred securities will be limited by bond rating category as follows:

LIMITS AS % OF ADMITTED ASSETS

<u>Bond Rating</u>	<u>% of Total</u>	<u>Min./Max.</u>
A or better	50%	Min.
BBB	50%	Max.
Less than BBB	20%	Max.

The above limits are subject to adjustment to conform with applicable insurance regulatory requirements.

Limits are determined on a cost basis and include convertible securities.

Downgrades will be taken into account when making new investments but will not necessarily result in the sale of existing positions.

Securities which are not rated by any public rating agency must be rated by the investment manager and included as part of the categories above for the purposes of determining overall exposure by bond rating category.

Any exceptions to the above must be approved by the investment committee.

PROHIBITED INVESTMENTS

In addition to any applicable insurance legislation prohibitions:

- (a) No Real Estate will be purchased without investment committee approval.
- (b) No Mortgages on real estate will be purchased without investment committee approval. The exceptions to this are obligations issued by an agency of the U.S. Government, or by U.S. domiciled corporations that are issued as part of a registered public offering that also meet the minimum quality tier requirements.

FOREIGN INVESTMENT LIMITS

Foreign Securities may be purchased in compliance with applicable insurance legislation and with the policy on foreign exchange risk outlined herein. Unless otherwise required by applicable insurance legislation, Canadian securities shall not be considered foreign securities and securities issued by U.S. domestic companies or other U.S. domestic entities that are denominated in foreign currencies shall not constitute foreign securities.

OTHER

Derivative securities may be purchased up to 7.5% of the portfolios cost at book, subject to adjustment to conform with applicable insurance regulatory requirements. Use of derivative investments is infrequent and primarily for hedging purposes. The aforementioned limit on the purchase of derivative securities shall not apply to traditional securities with limited embedded derivative components such as convertible bonds and optional maturity date bonds.

Amendment Number 1 to Investment Agreement

This Amendment Number 1 (“Amendment”) to the Investment Agreement (“Agreement”) dated as of October 1, 2002, between Crum & Forster Indemnity Company and Hamblin Watsa Investment Counsel Ltd. and Fairfax Financial Holdings Limited is effective as of April 1, 2007.

1. Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Agreement.
2. The last sentence of Section 2 of the Agreement is hereby amended to read in its entirety as follows:

The investment guidelines shall at all times be in compliance with the investment statutes of the Delaware Insurance Code.
3. Section 3A(e) of the Agreement is hereby amended to read in its entirety as follows:

Such transactions between affiliated companies must comply with the prior approval or reporting requirements of the Delaware Insurance Code.
4. The second sentence of Section 10 of the Agreement is hereby amended to read in its entirety as follows:

Attached hereto as Schedule C is a copy of the current fee schedule and FFH agrees to give us thirty (30) days prior written notice of any change in such schedule, which change shall comply with the prior approval or reporting requirements of the Delaware Insurance code.
5. Section 17 of the Agreement is hereby amended to read in its entirety as follows:

This Agreement, including the schedules attached hereto and made a part hereof, may only be amended by written agreement signed by the parties and must comply with the prior approval or reporting requirements of the Delaware Insurance Code; provided, however, that any amendment to Schedule A may become effective without the prior approval of the Delaware Department of Insurance, provided that such amendment shall be filed with the Delaware Department of Insurance not later than its effective date and shall, if disapproved by the Delaware Department of Insurance, be void as of the date of such disapproval.
6. Section 2, Governing Laws: Jurisdiction: Service of Process, of Schedule D of the Agreement is hereby amended to read in its entirety as follows:

This Agreement shall be governed and construed in accordance with the laws of Delaware, our state of domicile. Each of the parties thereto submits to the jurisdiction of the state and federal courts of Delaware, in any action or proceeding arising out of or relating to this Agreement and all claims in respect of any such action or proceeding may be heard or determined in any such court; and service of process, notices and demands of such courts may be made upon you by personal service to the person and at the address contained in Section 1 above as such person or address may be changed from time to time.
7. Section 3, Insurance Department Approval, of Schedule D of the Agreement is hereby amended to read in its entirety as follows:

This Agreement may be subject to the non-disapproval or approval of the Delaware Department of Insurance, and such terms and conditions hereof as may be required by the Delaware Department of Insurance to be altered or amended shall be deemed acceptable to the parties hereto, to the extent same shall not change the substance and intent of this Agreement.
8. Section 4, Inspection of Records, of Schedule D of the Agreement is hereby amended to read in its entirety as follows:

You and we and the duly authorized representatives of each of us shall, at all reasonable times, each be permitted access to all relevant books and records of the other pertaining to this Agreement. You and your duly authorized representatives shall provide to the Delaware Department of Insurance, within fifteen (15) days of any request from the Delaware Department of Insurance therefor, copies of all your books and records as they pertain to us (or any portion thereof as may be specifically requested).
9. Schedule A is hereby amended to read in its entirety as attached hereto in Exhibit A.
10. Unless specifically modified in this Amendment, all other terms and conditions contained in the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute this Amendment as of the date written below.

Hamblin Watsa Investment Counsel Ltd.

By: /s/ Paul Rivett
Authorized Signature
Paul Rivett
Printed Name
Vice President & Chief Operating Officer
Title

Crum & Forster Indemnity Company

By: /s/ Dennis J. Hammer
Authorized Signature
Dennis J. Hammer
Printed Name
Senior Vice President, Controller
Title

Fairfax Financial Holdings Limited

By: /s/ Paul Rivett
Authorized Signature
Paul Rivett
Printed Name
Vice President & Chief Legal Officer
Title

SCHEDULE A
INVESTMENT GUIDELINES

FUNDAMENTAL OBJECTIVES

1. Invest on a long-term basis in accordance with applicable insurance regulatory guidelines.
2. Ensure preservation of invested capital for policyholder protection, always providing sufficient liquidity for the payment of claims and other policy obligations.

GUIDELINES

1. **Approach**

All investments are to be made using the long-term value investing approach by investing in the securities of companies and other entities at prices below their underlying long-term values to protect capital from loss and earn income over time and provide operating income as needed.

With regard to equity securities, the investment manager will attempt to identify financially sound companies and other entities with good potential profitability which are selling at large discounts to their intrinsic value. Appropriate measures of low prices may consist of some or all of the following characteristics: low price earnings ratios, high dividend yields, significant discounts to book value and free cash flow. Downside protection is obtained by seeking a margin of safety in terms of a sound financial position and a low price in relation to intrinsic value. Appropriate measures of financial integrity which are regularly monitored, include debt/equity ratios, financial leverage, asset turnover, profit margin, return on equity, and interest coverage.

As a result of this long-term value investing approach, it is anticipated that purchases will be made when economic and issue-specific conditions are less than ideal and sentiment is uncertain or negative. Conversely, it is expected that gains will be realized when issue-specific factors are positive and sentiment is buoyant. The investment time horizon is one business cycle (approximately 3-5 years).

With respect to fixed income securities, the long-term value investing approach is similar. The investment manager will attempt to purchase attractively priced bonds offering yields better than treasury bonds with maturities of 30 years or less that are of sound quality, i.e. whose obligations are expected to be fully met as they come due. Rating services are not regarded as an unimpeachable source for assessing credit quality any more than a broker's recommendation on a stock is necessarily correct. With any form of investment research and evaluation, there is no substitute for the reasoned judgment of the investment committee and the investment manager.

2. **Liquidity**

An adequate cash flow shall be maintained to ensure that claims and operating expenses are paid on a timely basis. An operating cash position is to be maintained at appropriate levels and will be managed by the insurance company in accordance with an approved list of liquid investments, as determined from time to time by the investment committee. These securities will be managed by the insurance company as part of the treasury function and are primarily restricted to treasury and agency securities of the U.S. government.

3. **Regulatory**

All applicable insurance regulations will be complied with.

4. **Diversification**

The portfolio is to be invested in a wide range of securities of different issuers operating in different industries and jurisdictions in order to diversify risk.

5. **Prudent Person Rule**

Prudent investment standards are considered in the overall context of an investment portfolio and how a prudent person would invest another person's money without undue risk of loss or impairment and with a reasonable expectation of fair return.

6. **Investment Committee**

The board of directors of the insurance company shall appoint an investment committee that shall consist of at least one member of the board of directors of the insurance company and any other members as the board of directors of the insurance company deems appropriate. The investment committee shall meet at least once each quarter to review the investments and loans of the insurance company.

STRATEGY

1. Maintain Adequate Liquidity

A detailed review of portfolio liquidity is undertaken on a periodic basis. This liquidity analysis determines how much of each portfolio is in cash or can be converted into cash in a given time period. The insurance company determines its near term liquidity requirements and the liquidity of the portfolio will be modified from time to time to match such near term requirement.

2. Asset Allocation

The asset allocation will be determined by the investment manager and will include short-term investments that will generate appropriate cash flows and long-term investments such as stocks and bonds, both domestic and foreign, that generate investment gains. The asset allocation will be monitored from time to time in order to comply with regulatory guidelines and meet insurance policy liabilities.

3. Foreign Exchange Risk

The investment manager shall use its discretion to hedge any foreign currency investments and exposures. The investment manager may use a variety of methods to reduce such exposures, including forward foreign exchange contracts, currency options and natural hedging with foreign pay liabilities of the insurance company. Un-hedged foreign investments will be limited to 10% of admitted assets at cost, subject to adjustment to conform with applicable insurance regulatory requirements. Un-hedged exposure above this amount must be approved by the investment committee.

4. Interest Rate Risk

Interest rate risk will be minimized primarily through investment in a variety of term to maturity fixed income securities with maturities less than thirty years. Maximum fixed income portfolio duration is limited to the equivalent of a twenty year term to maturity treasury security.

INVESTMENT CLASS EXPOSURE

The following exposure ranges established by the investment committee shall be monitored and maintained by the investment manager for the stated asset classes:

<u>Class</u>	<u>Range</u>
Equities	0-25%
Fixed Income	0-100%

Within the fixed income portfolio, the taxable/tax exempt mix will be determined relative to the consolidated tax position of the insurance company and its affiliates and the relative investment attractiveness of available tax exempt securities.

The investment committee will monitor the total asset class exposure and, if deemed appropriate, will provide specific direction from time to time to the investment manager with respect to the asset exposure ranges.

RETURN EXPECTATIONS

The foregoing asset class exposure is expected, on an annual basis, to result in returns better than the Consumer Price Index plus 3% over a ten year period before the disbursement of investment management fees. However, in any one year the annual return may be significantly above or below this expectation.

INVESTMENT OBJECTIVES OF THE INVESTMENT MANAGER

The investment manager, subject to regulatory and insurance company imposed constraints mentioned elsewhere, expects to provide additional returns to those returns that would be earned by the alternative of passively managing a surrogate market index.

Measured over four year moving periods, performance of the investment manager is expected to result in the following returns:

All Equities	S&P 500 + 1% point
Fixed Income:	
Taxable Bonds	Merrill Lynch Intermediate Treasury Index + 0.25%
Tax-Advantaged Bonds	Lehman Brothers 3&5 Year State GO Indexes

AGGREGATE INVESTMENT LIMITS, PERMITTED INVESTMENT CATEGORIES AND INDIVIDUAL INVESTMENT LIMITS

PERMITTED INVESTMENT CATEGORIES WITHIN ASSET CLASSES

The following are some examples of permitted investments within each asset class:

Equity	Common shares, rights and warrants.
Fixed Income	Bonds, debentures, preferred shares, including those convertible into common shares.
Cash	Cash on hand, demand deposits, treasury bills, short-term notes and bankers' acceptances, term deposits and guaranteed investment certificates.

All of the above may be either U.S. domestic, Canadian, or other foreign investments.

Convertible preferred securities will be classified as equities if the preferred dividend is not being paid.

Private placement issues in public companies are allowed.

INVESTMENT CONSTRAINTS

All investments will be made in accordance with all applicable insurance legislation as amended from time to time.

INDIVIDUAL INVESTMENT LIMITS

Any combination of investments in any one corporate issuer will be limited to a maximum of 3% of admitted assets.

QUALITY CONSTRAINTS

The investment manager may invest in the permitted investment categories subject to the following quality constraints:

Investments in money market instruments (less than or equal to 1 year term) will be limited to those included on the list approved by the insurance company. This list will include money market instruments of the U.S. Treasury, agencies of the U.S. government, and as a minimum commercial paper rated A1 or higher by Moody's and rated P1 or higher by Standard & Poor's.

Investments in bonds and preferred securities will be limited by bond rating category as follows:

LIMITS AS % OF ADMITTED ASSETS

<u>Bond Rating</u>	<u>% of Total</u>	<u>Min./Max.</u>
A or better	50%	Min.
BBB	50%	Max.
Less than BBB	20%	Max.

The above limits are subject to adjustment to conform with applicable insurance regulatory requirements.

Limits are determined on a cost basis and include convertible securities.

Downgrades will be taken into account when making new investments but will not necessarily result in the sale of existing positions.

Securities which are not rated by any public rating agency must be rated by the investment manager and included as part of the categories above for the purposes of determining overall exposure by bond rating category.

Any exceptions to the above must be approved by the investment committee.

PROHIBITED INVESTMENTS

In addition to any applicable insurance legislation prohibitions:

- (a) No Real Estate will be purchased without investment committee approval.
- (b) No Mortgages on real estate will be purchased without investment committee approval. The exceptions to this are obligations issued by an agency of the U.S. Government, or by U.S. domiciled corporations that are issued as part of a registered public offering that also meet the minimum quality tier requirements.

FOREIGN INVESTMENT LIMITS

Foreign Securities may be purchased in compliance with applicable insurance legislation and with the policy on foreign exchange risk outlined herein. Unless otherwise required by applicable insurance legislation, Canadian securities shall not be considered foreign securities and securities issued by U.S. domestic companies or other U.S. domestic entities that are denominated in foreign currencies shall not constitute foreign securities.

OTHER

Derivative securities may be purchased up to 7.5% of the portfolios cost at book, subject to adjustment to conform with applicable insurance regulatory requirements. Use of derivative investments is infrequent and primarily for hedging purposes. The aforementioned limit on the purchase of derivative securities shall not apply to traditional securities with limited embedded derivative components such as convertible bonds and optional maturity date bonds.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nikolas Antonopoulos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crum & Forster Holdings Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (c) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2007

By: /s/ Nikolas Antonopoulos
Nikolas Antonopoulos
President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mary Jane Robertson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crum & Forster Holdings Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (c) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2007

By: /s/ Mary Jane Robertson

Mary Jane Robertson
Executive Vice President,
Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Crum & Forster Holdings Corp. (the "Company") for the period ended June 30, 2007 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, I, Nikolas Antonopoulos, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. This Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 2, 2007

By: /s/ Nikolas Antonopoulos
Nikolas Antonopoulos
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission, or its staff, upon request.

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Crum & Forster Holdings Corp., (the "Company") for the period ended June 30, 2007 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, I, Mary Jane Robertson, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. This Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 2, 2007

By: /s/ Mary Jane Robertson
Mary Jane Robertson
Executive Vice President,
Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission, or its staff, upon request.