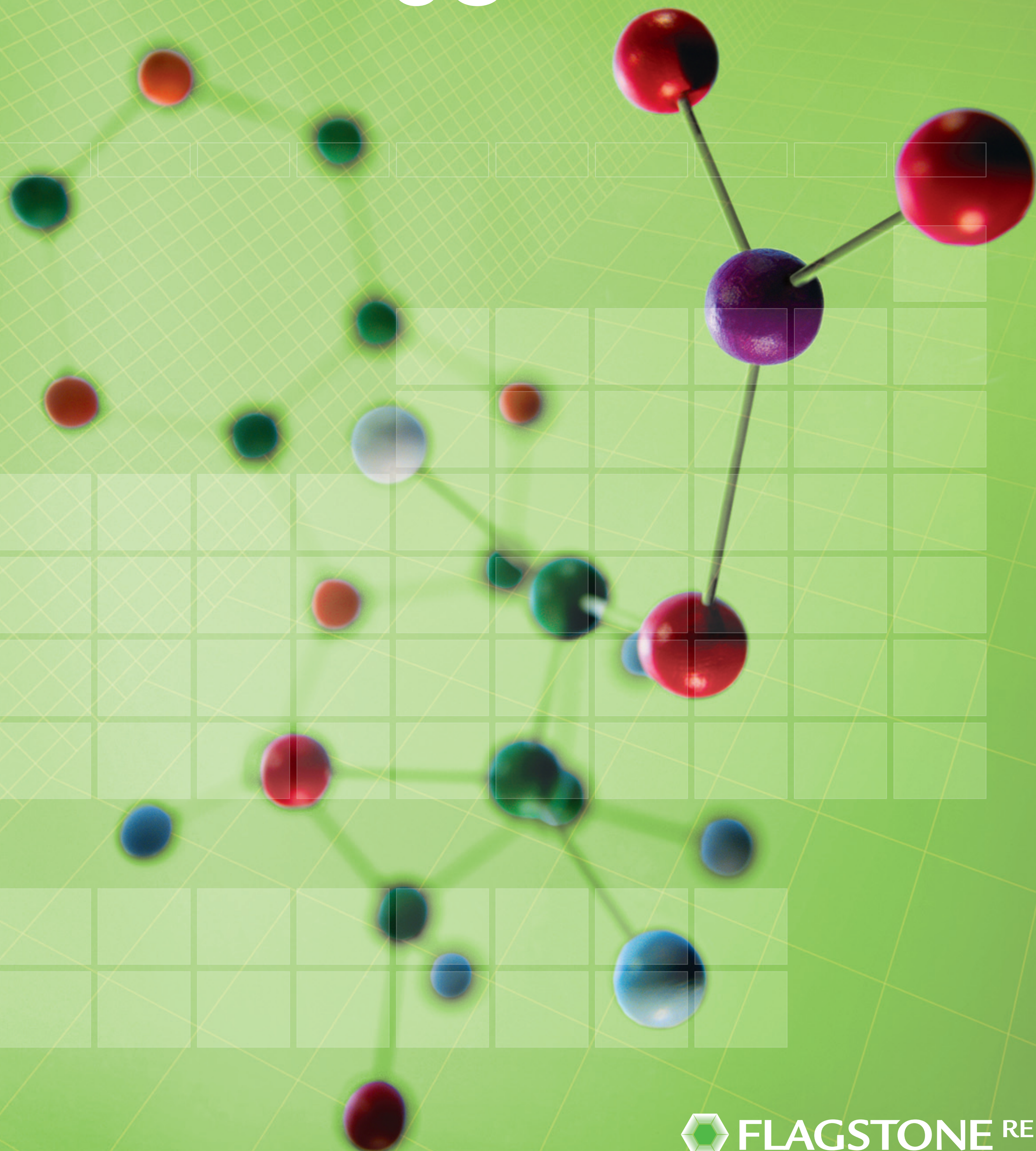
08 ELEMENTS FOR GROWTH



FLAGSTONE RE

Annual Report 2008

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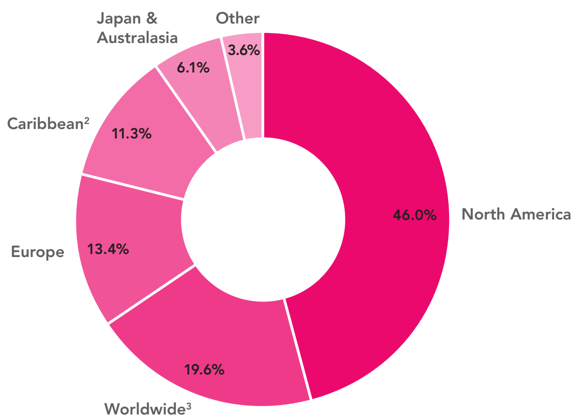
THE ELEMENTS FOR GROWTH

Diversification. Security. Strength. Service. Technology.

These are the elements of growth that Flagstone has defined as being at the very nucleus of our organization's success to date. Through 2008, as corporations around the world struggled with the fallout from the economic crisis, we maintained our focus on our long-term goals and continued to lay the groundwork necessary to bring those goals to fruition. With our team of consummate professionals, Flagstone respects the importance of adhering to the fundamentals, adopting a rigorous approach, and undertaking thorough analysis, all the while encouraging and rewarding creativity, flexibility, and ingenuity. Welcome to Flagstone's Annual Report for 2008.



GROSS PREMIUMS WRITTEN BY GEOGRAPHIC AREA[1]
For year ended 31st December 2008

(1) Except as otherwise noted, each of these categories includes contracts that cover risks located primarily in the designated geographic area.

(2) Gross written premiums related to the Insurance segment are included in the Caribbean geographic area.

(3) This geographic area includes contracts that cover risks in two or more geographic zones.

Portfolio diversification + geographic expansion = ↓ volatility + ↑ stability

LETTER TO SHAREHOLDERS

We are pleased to report on Flagstone's operations for the year ended December 31, 2008, and to present the company's Annual Report.

Flagstone's biggest success story for 2008 was the ongoing expansion of our global operating platform. This growth is part of our long-term strategy, a strategy that adds strength, security, and diversification to our organization and that we continue to adhere to faithfully – despite the challenges of the financial markets and the catastrophe losses sustained from Hurricanes Ike and Gustav.

Flagstone acquired and rebranded Imperial Re in South Africa (renamed Flagstone Reinsurance Africa Limited) and Alliance Re in Cyprus (renamed Flagstone Alliance Insurance & Reinsurance PLC), and succeeded in improving both organizations' credit ratings. Their swift integration is a true accomplishment, as well as a testament to our management team and employees, as these entities are already generating diversified and substantial revenue to Flagstone on three continents.

The acquisition of Marlborough Underwriting Agency Limited (Lloyd's Syndicate 1861) was also a significant achievement. Flagstone now has a quality Lloyd's operation, accompanied by some fee-based business. In addition, we have new access to Lloyd's capacity for our marine, energy, engineering, and aviation underwriters and can take advantage of the Syndicate's global licensing and market reach.

In 2008, Flagstone merged its Bermuda and Swiss operations, and restructured to operate from a Swiss platform. This reorganization means the company now has the security that comes from operating from a single consolidated balance sheet, and the corresponding capital efficiency, fiscal, and market benefits.

Despite the difficult circumstances that accompanied 2008, Flagstone managed to produce impressive top-line growth – a reflection of the new business we saw from our global platform. The extra global reach allowed us to source more business while remaining extremely selective in our choices. A particularly good achievement given the tough reinsurance market of the past year. In addition, the company posted a combined ratio of 89.4%. This excellent result was one of the best of our peer group and demonstrates that our investment in technology continues to pay off.

On the technology side, we continue to expand the functionality and capabilities of our innovative MOSAIC system, a software platform running on our parallel super-computer that gives our underwriters a proprietary view of risk and a wealth of support for their analysis. For example, the system's Live-Cat capabilities enable us to run a variety of tropical storm forecasts on live storms, and predict both track and damage in near-real time. This allows us to trade live derivatives on these storms.

Of course, the decline in our book value per share is unsatisfactory and is a result we aim to reverse in the years ahead. The losses were primarily on the investment side and are a consequence of the worst investment climate in over 100 years. Though we are disappointed, we believe the outcome is better than that of many others who had goals, like we did, of taking a portion of their risk on the asset side. Our losses were not caused by credit, but by our exposure to globally diversified equity indices and commodities. Our investment portfolio is now conservative, allowing us to take advantage of the hardening cycle in the reinsurance markets.

We would like to extend our gratitude to our management team and employees for their skill and dedication and to our shareholders and clients for their ongoing confidence and support. Thanks to you all.

Mark Byrne
Executive Chairman

David Brown
Chief Executive Officer
& Vice Chairman

Everyone would agree that 2008 was a challenging year for insurance and reinsurance companies worldwide. The far-reaching negative effects of the global economic downturn were further exacerbated by higher than normal catastrophe losses fueled by an active hurricane season in the U.S. Consequently, many companies in our industry suffered losses and posted disappointing results for the year ended December 31, 2008.

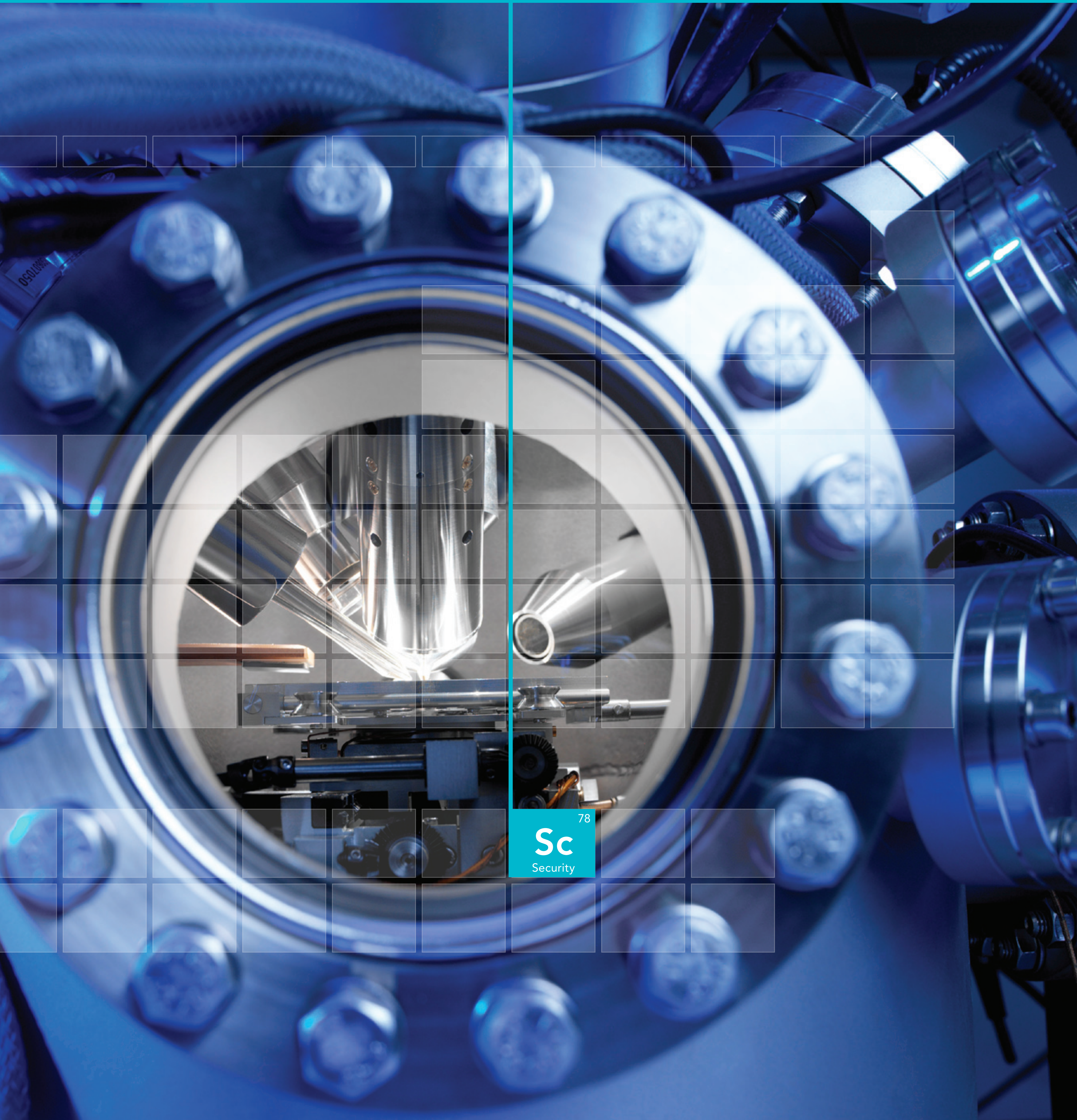
Flagstone did not escape the impact of these volatile circumstances. The company's book value declined due to our investment losses – losses that were incurred not because of exposure to subprime or Alt-A securities, but because of our previous allocation to global equity indices, and the worst performance of those equities in more than a century. The reallocation of the assets in our investment portfolio in October 2008 to risk-averse holdings – predominately high grade fixed income securities – means that Flagstone is now conservatively positioned and better able to manage future uncertainty in the financial markets.

YEAR IN REVIEW

From an underwriting perspective, the company managed to weather the catastrophe losses extremely well. Our net combined loss from Hurricanes Ike and Gustav was $140.2 million at year-end and our loss ratio for 2008 was 58.1%. This puts Flagstone's underwriting profits for the year at $73.4 million – impressive results to achieve in one of the worst years ever for natural catastrophes and without any material benefit of releases from prior years' reserves.

At Flagstone, we're looking back on 2008 as a year of growth, where we took the time to put the building blocks in place for our future successes. In addition to our ongoing investment in industry-leading technology and high quality analytical staff, the company expanded geographically – through acquisitions in South Africa, Cyprus, and Lloyd's of London – and continued to diversify our business lines. From this platform of diversification and strength, Flagstone is strategically positioned to seek out and capitalize on opportunities that we expect will materialize out of the current market dislocation.

Measurable security. Financial ratings to underwriting results.



Flagstone Reinsurance Holdings Limited (through its operating subsidiaries) is a global multi-line reinsurance and insurance company that focuses on specialty, property, property catastrophe, and short-tail casualty insurance and reinsurance.

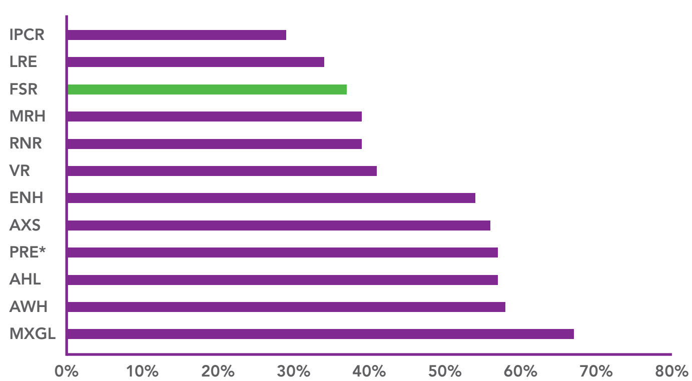
COMPANY OVERVIEW

Since our inception in 2005, the company has focused on leading the industry with cutting-edge analytics, superior service, and a unique global infrastructure.

Over the years, Flagstone has grown – both organically and by acquisition – and the tradition continued through 2008 as we expanded by adding operations in South Africa and Cyprus. This geographic diversification gives us further access to business opportunities in sub-Saharan Africa, as well as the Middle East North Africa (MENA) region, and strengthens the quality of our global platform. Flagstone now operates out of 15 offices in 12 countries, employing more than 400 people worldwide.

The company also purchased Marlborough Underwriting Agency Limited, operators of Lloyd's Syndicate 1861. This strategic acquisition adds strength and diversification to our book of business and further enables us to achieve our goal of being a multi-line reinsurer and insurer in selected global markets. In particular, the addition of Marlborough allows us to enhance our specialty lines in the areas of aviation, engineering, marine, and energy in both insurance and reinsurance.

We also strengthened our overall organization by restructuring our global reinsurance operations. We merged Flagstone Reinsurance Limited of Bermuda and our Swiss entity into one operating



3 YEAR LOSS RATIO AVERAGE (AS REPORTED)**

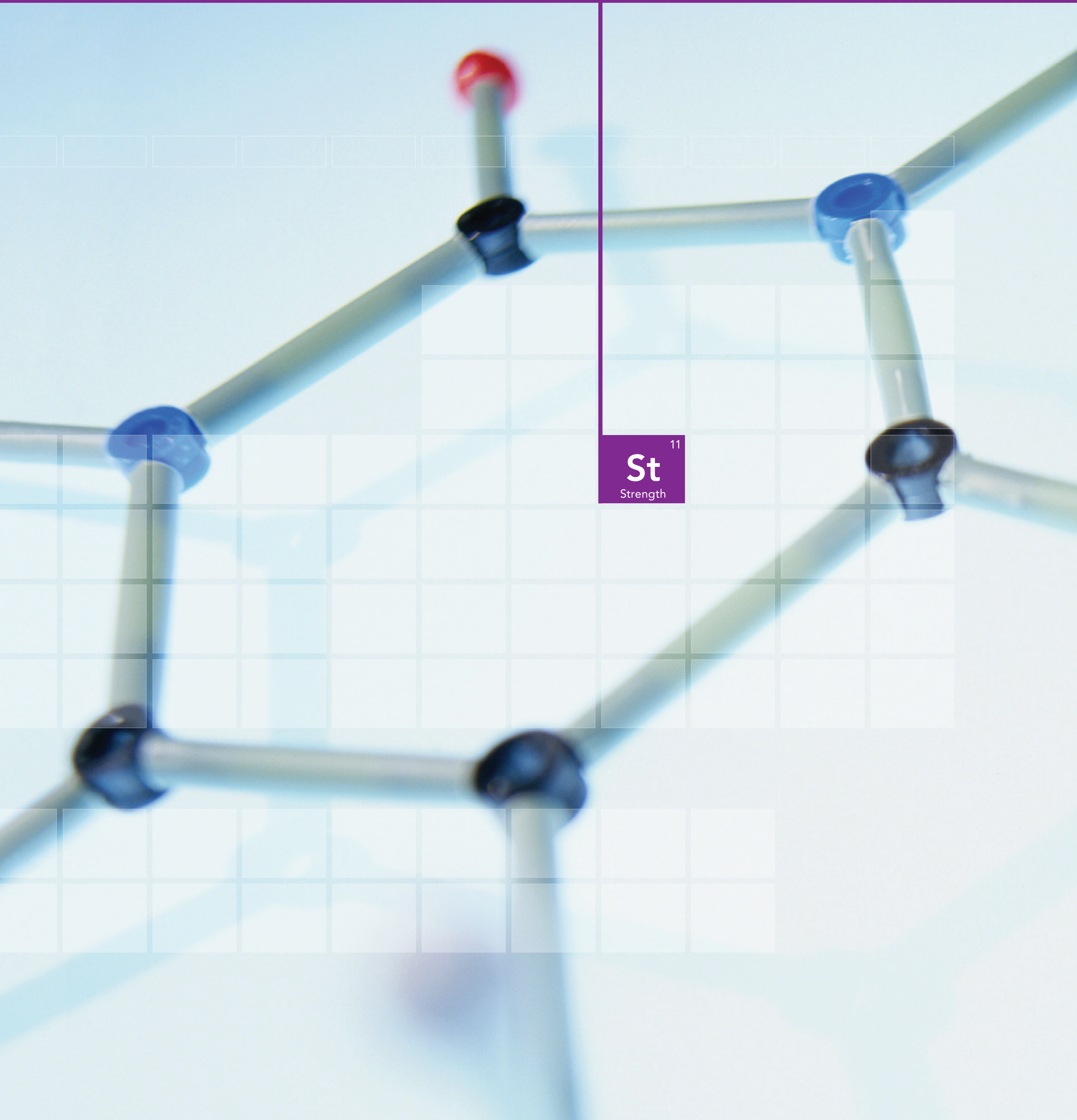
For year ended 31st December 2008

*Loss ratio for non-life segment

**Calculated as a straight average of 3 ratios

Source: Company Reports

The strategic bonding of our global platform makes our whole stronger than the sum of our parts.



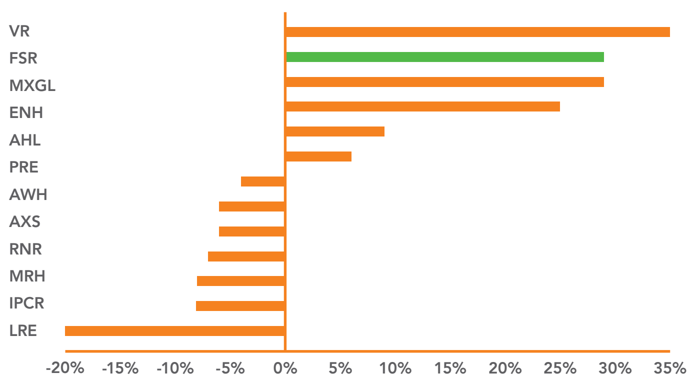
platform, Flagstone Réassurance Suisse SA, giving us a solid, single capital base to support Flagstone's reinsurance business. Clients now have a choice of either Bermuda or Swiss underwriting access and the advantage of full participation in both the important Bermuda market and the global markets served through Switzerland.

Flagstone remains committed to supporting our expert teams of underwriters and analysts with advanced technology and resources. The company's 89.4% combined ratio for 2008 demonstrates our underwriting expertise and the value of our investment in industry-leading technologies and human talent. We believe that our solid operating results can be attributed to the quality and efficiency of our global platform and team of professionals.

COMPANY OVERVIEW

Our capital markets experience and expertise continue to give Flagstone an edge as we use sidecars and catastrophe bonds as alternatives to traditional forms of cover. These capabilities enable us to manage the cycle with confidence and provide us with the capital we require to take advantage of opportunities as they arise.

At Flagstone, we've worked hard to instill a culture of service into all our global operations. Our geographic diversification across multiple time zones means our experts are available to provide timely, accurate, and comprehensive responses to clients 24 hours a day. Ultimately, this dedication to service attracts the high quality caliber of clients that is critical to Flagstone's success.



TOP-LINE GROWTH (EX-REINSTATEMENT PREMIUM)
For year ended 31st December 2008

Source: Company Reports

We forge binding, symbiotic relationships with clients by reacting quickly to their needs.

OPERATIONAL OVERVIEW

Flagstone's strong underwriting results were particularly impressive given that 2008 was a highly active year globally for catastrophes.

Flagstone's allocation of resources and assessment of performance are reviewed according to two separate segments: reinsurance and insurance.

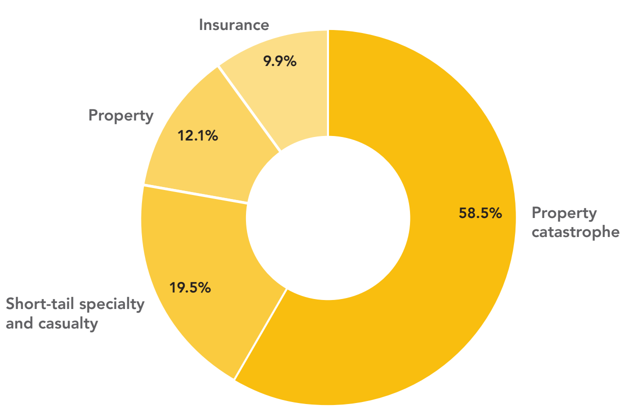
The reinsurance segment consists of three main units: property catastrophe, property, and short-tail specialty and casualty. Flagstone's property catastrophe reinsurance contracts are typically "all risk" in nature (e.g. protection against earthquakes and hurricanes) and are primarily written on an excess of loss basis. We also provide property reinsurance on a pro rata share basis and per risk excess of loss basis. The short-tail specialty and casualty reinsurance Flagstone offers covers risks such as aviation, energy, engineering, personal accident and life catastrophe, space, marine, and workers' compensation catastrophe.

Gross premiums written for the reinsurance segment for 2008 were $740.2 million, up 36% from last year's total of $544.3 million. This total includes gross premiums written of $457.5 million for property catastrophe, $94.7 million of other property, and $152.7 million for specialty, compared with $378.7 million, $94.5 million, and $71.1 million, respectively, for the year ended December 31, 2007.

Flagstone established a new insurance reporting segment for the year ended December 31, 2008, which included business generated through Island Heritage, a property insurer based in the Cayman Islands and focused primarily on insuring homes, condominiums, and office buildings in the Caribbean. Flagstone gained a controlling interest in Island Heritage in the third quarter of 2007, and consequently, the comparatives for the year ended December 31, 2007 include the Island Heritage results for the last six months of 2007 only.

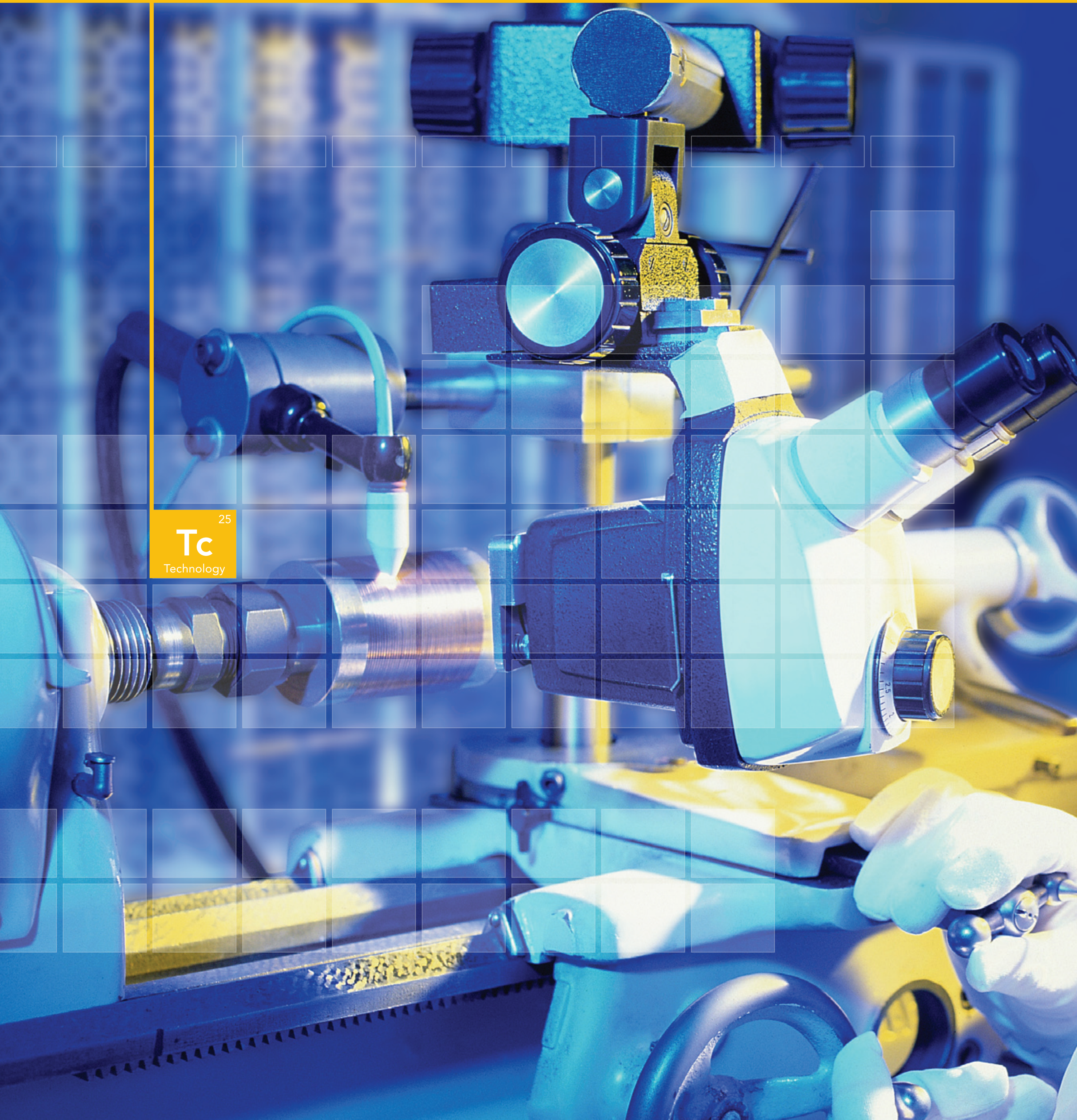
Gross premiums written for the insurance segment for 2008 were $76.9 million, compared to $32.9 million for the six months ended December 31, 2007. Contracts are written on a per risk basis and consist primarily of property lines. We expect to increase the premiums written for the insurance segment with the addition of Marlborough.

Flagstone's financial ratings from three internationally recognized agencies demonstrate the continued strength and stability we achieve through our rigorous underwriting philosophy and disciplined approach. Through 2008, the company maintained its A- ratings from both A.M. Best and Fitch Ratings, as well as an A3 rating from Moody's Investors Service. In addition, we received positive recognition from these agencies for our proactive risk management and quick rebalance of our investment portfolio to risk-averse securities.



GROSS PREMIUMS WRITTEN BY LINE OF BUSINESS
For year ended 31st December 2008

Through qualitative and quantitative analysis, we make underwriting decisions by dissecting risk down to its basic components.



BUSINESS HIGHLIGHTS

Throughout 2008, Flagstone focused on the continued strengthening and diversification of the organization by expanding geographically and creating value by investing in technology. Consider some of the company's highlights of the past year:

- Acquired Marlborough Underwriting Agency Limited, a Lloyd's syndicate that underwrites a specialist portfolio of short-tail insurance and reinsurance. This strategic addition is an excellent complement to the company's existing business and should further diversify our portfolio of business.

- Loss ratio of 58.1% for FY 2008, and 3 year average of 37.5%* – excellent results, near the very top of our peer rankings.

- Purchased a controlling interest in Imperial Reinsurance Company Limited, a multi-line reinsurer focused on sub-Saharan Africa with headquarters in Johannesburg, South Africa. The company has been rebranded as Flagstone Reinsurance Africa Limited and received an "A-" rating from A.M. Best.

- Acquired Alliance International Reinsurance Public Company Limited, a specialist property and casualty reinsurer servicing global markets and in particular the MENA region. The company has been rebranded as Flagstone Alliance Insurance & Reinsurance PLC.

- Restructured global operations by merging Flagstone Reinsurance Limited of Bermuda and Flagstone Réassurance Suisse SA into one operating platform: Flagstone Réassurance Suisse SA with its existing Bermuda Branch.

- Opened Flagstone Towers office building in Hyderabad, India to further enhance our underwriting support services and enable efficient scalability of our operations.

- Leveraged proprietary models and Live-Cat capabilities to provide the earliest Hurricane Ike industry loss estimate of $10 billion – $16 billion.

*Calculated as a straight average of 3 ratios.

EXCERPTS FROM FINANCIAL STATEMENTS

For complete financial statements including auditor's opinion and notes please refer to our 2008 10-K which can be found on our website at www.flagstonere.com

CONSOLIDATED BALANCE SHEETS

As at December 31, 2008 and 2007
(Expressed in thousands of U.S. dollars, except share data)

	2008	2007
ASSETS		
Investments:		
Fixed maturities, at fair value (Amortized cost: 2008 – $787,792; 2007 – $1,099,149)	**$ 784,355**	$ 1,109,105
Short term investments, at fair value (Amortized cost: 2008 – $30,491; 2007 – $23,660)	**30,413**	23,616
Equity investments, at fair value (Cost: 2008 – $16,266; 2007 – $73,603)	**5,313**	74,357
Other investments	**54,655**	293,166
Total Investments	**874,736**	1,500,244
Cash and cash equivalents	**783,705**	362,622
Restricted cash	**42,403**	2,832
Premium balances receivable	**218,287**	136,555
Unearned premiums ceded	**31,119**	14,608
Reinsurance recoverable	**16,422**	1,355
Accrued interest receivable	**7,226**	9,915
Receivable for investments sold	**9,634**	–
Deferred acquisition costs	**44,601**	30,607
Funds withheld	**14,433**	6,666
Goodwill	**17,141**	10,781
Intangible assets	**32,873**	775
Other assets	**123,390**	26,813
Total Assets	**$ 2,215,970**	$ 2,103,773
LIABILITIES		
Loss and loss adjustment expense reserves	**$ 411,565**	$ 180,978
Unearned premiums	**270,891**	175,607
Insurance and reinsurance balances payable	**31,123**	12,088
Payable for investments purchased	**7,776**	41,750
Long-term debt	**252,575**	264,889
Other liabilities	**58,577**	33,198
Total Liabilities	**1,032,507**	708,510
Minority Interest	**197,450**	184,778
SHAREHOLDERS' EQUITY		
Common voting shares, 150,000,000 authorized, $0.01 par value, issued and outstanding (2008 – 84,801,732; 2007 – 85,309,107)	**848**	853
Additional paid-in capital	**897,344**	905,316
Accumulated other comprehensive (loss) income	**(8,271)**	7,426
Retained earnings	**96,092**	296,890
Total Shareholders' Equity	**986,013**	1,210,485
Total Liabilities, Minority Interest and Shareholders' Equity	**$ 2,215,970**	$ 2,103,773

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

For the years ended December 31, 2008, 2007 and 2006
(Expressed in thousands of U.S. dollars, except share data and per share data)

	2008	2007	2006
REVENUES			
Gross premiums written	**$ 781,889**	$ 577,150	$ 302,489
Premiums ceded	**(87,191)**	(50,119)	(19,991)
Net premiums written	**694,698**	527,031	282,498
Change in net unearned premiums	**(40,530)**	(49,894)	(90,435)
Net premiums earned	**654,168**	477,137	192,063
Net investment income	**51,398**	73,808	34,212
Net realized and unrealized (losses) gains – investments	**(272,206)**	17,174	10,304
Net realized and unrealized gains (losses) – other	**11,617**	(9,821)	1,943
Other income	**8,215**	5,811	6,099
Total revenues	**453,192**	564,109	244,621
EXPENSES			
Loss and loss adjustment expenses	**$ 379,884**	$ 192,859	$ 26,660
Acquisition costs	**105,734**	82,292	29,939
General and administrative expenses	**99,026**	72,461	34,741
Interest expense	**18,297**	18,677	4,648
Net foreign exchange losses (gains)	**21,477**	(5,289)	(2,079)
Total expenses	**624,418**	361,000	93,909
(Loss) income before income taxes, minority interest and interest in (loss) earnings of equity investments	**(171,226)**	203,109	150,712
Provision for income tax	**(1,178)**	(783)	(128)
Minority interest	**(13,599)**	(35,794)	–
Interest in (loss) earnings of equity investments	**(1,299)**	1,390	1,754
NET (LOSS) INCOME	**$ (187,302)**	$ 167,922	$ 152,338
Change in net unrealized losses	**–**	–	(4,008)
Change in currency translation adjustment	**(14,810)**	7,945	(520)
Change in defined benefit pension plan obligation	**(887)**	–	–
COMPREHENSIVE (LOSS) INCOME	**$ (202,999)**	$ 175,867	$ 147,810
Weighted average common shares outstanding—Basic	**85,328,704**	81,975,384	70,054,087
Weighted average common shares outstanding—Diluted	**85,328,704**	82,111,590	70,393,821
Net (loss) income per common share outstanding—Basic	**$ (2.20)**	$ 2.05	$ 2.17
Net (loss) income per common share outstanding—Diluted	**$ (2.20)**	$ 2.05	$ 2.16
Dividends declared per common share	**$ 0.16**	$ 0.08	$ –

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2008, 2007 and 2006
(Expressed in thousands of U.S. dollars, except share data)

	2008	2007	2006
Common voting shares:			
Balance at beginning of year	**85,309,107**	71,547,891	55,239,491
Issued during the year	**–**	13,750,000	16,308,400
Conversion of restricted share units, net	**190,224**	11,216	–
Shares repurchased and cancelled	**(697,599)**	–	–
Balance at end of year	**84,801,732**	85,309,107	71,547,891
Share capital:			
Common voting shares			
Balance at beginning of year	**$ 853**	$ 715	$ 552
Issued during the year, net	**2**	138	163
Shares repurchased and cancelled	**(7)**	–	–
Balance at end of year	**848**	853	715
Additional paid-in capital			
Balance at beginning of year	**905,316**	728,378	559,466
Issue of shares, net	**(750)**	185,488	162,921
Shares repurchased and cancelled	**(6,641)**	–	–
Subsidiary stock issuance	**(126)**	–	–
Issuance costs (related party: 2008 – $nil ; 2007 – $3,430; 2006 – $nil)	**–**	(16,839)	(251)
Fair value of issued warrant	**3,565**	–	3,372
Share based compensation expense	**(4,020)**	8,289	2,870
Balance at end of year	**897,344**	905,316	728,378
Accumulated other comprehensive (loss) income			
Balance at beginning of year	**7,426**	(4,528)	–
Change in net unrealized losses	**–**	–	(4,008)
Change in currency translation adjustment	**(14,810)**	7,945	(520)
Defined benefit pension plan obligation	**(887)**	–	–
Cumulative effect adjustment from adoption of new accounting principle SFAS 159	**–**	4,009	–
Balance at end of year	**(8,271)**	7,426	(4,528)
Retained earnings (accumulated deficit)			
Balance at beginning of year	**296,890**	139,954	(12,384)
Cumulative effect adjustment from adoption of accounting principle	**–**	(4,009)	–
Dividends declared	**(13,496)**	(6,977)	–
Net (loss) income for the year	**(187,302)**	167,922	152,338
Balance at end of year	**96,092**	296,890	139,954
Total Shareholders' Equity	**$ 986,013**	$ 1,210,485	$ 864,519

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2008, 2007 and 2006
(Expressed in thousands of U.S. dollars)

	2008	2007	2006
Cash flows provided by (used in) operating activities:			
Net (loss) income	**$ (187,302)**	$ 167,922	$ 152,338
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Net realized and unrealized losses (gains)	**260,589**	(7,353)	(12,247)
Net unrealized foreign exchange losses (gains)	**30,792**	5,718	(484)
Minority interest	**13,599**	35,794	–
Depreciation expense	**4,797**	2,647	1,018
Share based compensation expense	**(325)**	8,136	6,208
Interest in earnings of equity investments	**1,299**	(1,390)	(1,754)
Accretion/amortization on fixed maturities	**(11,560)**	(8,196)	156
Changes in assets and liabilities, excluding net assets acquired:			
Reinsurance premium receivable	**(42,773)**	(53,278)	(68,940)
Unearned premiums ceded	**(13,799)**	(9,619)	(8,224)
Deferred acquisition costs	**(6,834)**	(13,549)	(11,909)
Funds withheld	**(7,677)**	(6,666)	–
Loss and loss adjustment expense reserves	**165,926**	158,078	22,516
Unearned premiums	**61,038**	57,942	98,659
Insurance and reinsurance balances payable	**5,157**	(8,474)	–
Reinsurance recoverable	**(6,615)**	(1,355)	–
Other changes in assets and liabilities, net	**(37,905)**	9,081	(5,431)
Net cash provided by operating activities	**228,407**	335,438	171,906
Cash flows provided by (used in) investing activities:			
Net cash (paid) received in acquisitions of subsidiaries	**(37,344)**	2,643	(12,702)
Purchases of fixed income securities	**(1,313,953)**	(1,699,537)	(1,712,280)
Sales and maturities of fixed income securities	**1,610,242**	1,391,198	1,030,738
Purchases of equity securities	**(121,901)**	(98,774)	(99,682)
Sales of equity securities	**143,505**	34,533	101,889
Purchases of other investments	**(579,832)**	(225,156)	(57,117)
Sales of other investments	**592,083**	13,872	–
Purchases of fixed assets	**(21,420)**	(9,668)	(6,023)
Sale of fixed asset under a sale lease-back transaction	–	18,500	–
Sale of fixed asset	**1,550**	–	–
Change in restricted cash	**(39,571)**	(2,832)	–
Net cash provided by (used in) investing activities	**233,359**	(575,221)	(755,177)
Cash flows (used in) provided by financing activities:			
Issue of common shares, net of issuance costs paid	**(885)**	171,644	162,833
Shares repurchased and cancelled	**(6,641)**	–	–
Issue of notes, net of issuance costs paid	**–**	123,673	132,810
Contribution of minority interest	**(415)**	84,322	–
Repurchase of minority interest	**(6,639)**	(14,353)	–
Dividend paid on common shares	**(13,496)**	(6,823)	–
Repayment of long term debt	**(9,167)**	–	–
Repayment of loan under a sale lease-back transaction	**–**	(17,063)	–
Other	**(3,311)**	(5,166)	725
Net cash (used in) provided by financing activities	**(40,554)**	336,234	296,368
Effect of foreign exchange rate on cash	**(129)**	4,819	–
Increase (decrease) in cash and cash equivalents	**421,083**	101,270	(286,903)
Cash and cash equivalents – beginning of year	**362,622**	261,352	548,255
Cash and cash equivalents – end of year	**$ 783,705**	$ 362,622	$ 261,352
Supplemental cash flow information:			
Receivable for investments sold	**$ 9,634**	$ –	$ 3,599
Payable for investments purchased	**$ 7,776**	$ 41,750	$ 9,531
Interest paid	**$ 17,863**	$ 16,271	$ 3,861

INVESTMENTS

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

Fixed maturity, short term and equity investments

The cost or amortized cost, gross unrealized gains and losses, and carrying values of the Company's fixed maturity, short term and equity investments as at December 31, 2008 and 2007, were as follows:

	As at December 31, 2008			
	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed maturities				
U.S. government and government agency	$ 487,667	$ 9,533	$ (10,359)	$ 486,841
Other foreign governments	15,109	104	(7)	15,206
Corporates	139,057	4,298	(2,931)	140,424
Mortgage-backed securities	115,478	2,406	(5,810)	112,074
Asset-backed securities	30,481	35	(706)	29,810
Total fixed maturities	**$ 787,792**	**$ 16,376**	**$ (19,813)**	**$ 784,355**
Short term investments	**$ 30,491**	**$ –**	**$ (78)**	**$ 30,413**
Equity investments	**$ 16,266**	**$ 784**	**$ (11,737)**	**$ 5,313**

	As at December 31, 2007			
	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed maturities				
U.S. government and government agency	$ 479,462	$ 14,508	$ (1)	$ 493,969
Other foreign governments	545	15	(2)	558
Corporates	265,569	909	(5,786)	260,692
Mortgage-backed securities	198,242	2,807	(2,315)	198,734
Asset-backed securities	155,331	289	(468)	155,152
Total fixed maturities	**$ 1,099,149**	**$ 18,528**	**$ (8,572)**	**$ 1,109,105**
Short term investments	**$ 23,660**	**$ 5**	**$ (49)**	**$ 23,616**
Equity investments	**$ 73,603**	**$ 754**	**$ –**	**$ 74,357**

Proceeds from the sale of fixed maturity, short term and equity investments during the year ended December 31, 2008 and 2007 amounted to $1.8 billion and $1.4 billion, respectively.

INVESTMENTS

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

The contractual maturity dates of fixed maturity and short term investments as at December 31, 2008 and 2007 are as follows:

	As at December 31,			
	2008		2007	
	Amortized cost	Fair value	Amortized	Fair value
Due within one year	$ 96,578	$ 96,660	$ 57,039	$ 57,033
Due after 1 through 5 years	305,089	301,166	373,643	372,338
Due after 5 through 10 years	142,447	142,939	202,990	209,821
Due after 10 years	128,210	132,119	135,564	139,643
Mortgage and asset-backed securities	145,959	141,884	353,573	353,886
Total	**$ 818,283**	**$ 814,768**	**$ 1,122,809**	**$ 1,132,721**

Actual maturities may differ from contractual maturities because certain borrowers have the right to prepay certain obligations with or without prepayment penalties.

At December 31, 2008, the Company's entire fixed maturity investment portfolio, with the exception of $0.3 million, was invested in securities which were investment grade. At December 31, 2007, 100% of the Company's fixed maturity investment portfolio was invested in securities which were investment grade. As at December 31, 2008 and 2007, the Company did not hold any security with direct exposure to the sub-prime markets.

Other investments

The Company's other investments include:

	As at December 31,	
	2008	2007
Investment funds	$ 9,805	$ 31,249
Catastrophe bonds	39,174	36,619
Real estate investment trusts	–	12,204
Fixed income fund	–	212,982
Other investments	5,676	112
Total other investments	**$ 54,655**	**$ 293,166**

Catastrophe bonds held pay a variable interest coupon and their return, from interest and return of principal, is contingent upon climatological and geological events. The catastrophe bonds are recorded at fair value and as at December 31, 2008 and 2007 they had net realized gains of $0.3 million and $0.8 million for the years then ended, respectively.

The investment funds consist of investments in private equity funds. The Company accounts for its other investments at fair value based on the most recent financial information available from fund managers and third party administrators, plus fair value adjustments where it is deemed appropriate based on analysis and discussions with the fund managers.

Other investments consist of equity investments in which the Company is deemed to have a significant influence.

Fair value disclosure

The valuation technique used to fair value the financial instruments is the market approach which uses prices and other relevant information generated by market transactions involving identical or comparable assets. In accordance with SFAS No. 157, the Company determined that its investments in U.S. government securities, listed equity securities and fixed income fund are stated at Level 1 fair value. Investments in corporate bonds, mortgage-backed securities, equity exchange traded funds, investment funds that are hedge funds, asset backed securities, real estate investment trust ("REITs") and REIT funds are stated at Level 2, whereas the investment funds that are private placement investments, catastrophe bonds and two corporate bond securities are stated at Level 3 fair value.

INVESTMENTS

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

The Company has reviewed its Level 3 investments and the valuation methods. Catastrophe bonds are stated at fair value as determined by reference to broker indications. Those indications are based on current market conditions, including liquidity and transactional history, recent issue price of similar catastrophe bonds and seasonality of the underlying risks. The private equity investments are valued based on valuations received from the investment fund managers using the valuations and financial statements provided by the underlying general partners of the funds on a quarterly basis. These valuations are then adjusted by the investment fund managers for cash flows since the most recent valuation. The valuation methodology used for investment funds is consistent with the methodology that is generally employed in the investment industry. The Company also transferred two corporate bonds at fair value from Level 2 into Level 3 as of December 31, 2008 due to limited availability of market data and significant reliance on model valuation by the pricing sources.

As at December 31, 2008 and 2007, the Company's investments are allocated between levels as follows:

	Fair Value Measurement at December 31, 2008, using:			
	Fair Value Measurements	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Description				
Fixed maturity investments	$ 784,355	$ 447,226	$ 336,203	$ 926
Short term investments	30,413	30,413	–	–
Equity investments	5,313	5,313	–	–
	820,081	482,952	336,203	926
Other Investments				
Investment funds	9,805	–	647	9,158
Catastrophe bonds	39,174	–	–	39,174
	48,979	–	647	48,332
Totals	**$ 869,060**	**$ 482,952**	**$ 336,850**	**$ 49,258**

For reconciliation purposes, the table above does not include an equity investment of $5.7 million in which the Company is deemed to have a significant influence and is accounted for under the equity method and as such, is not accounted for at fair value under SFAS 159.

	Fair Value Measurement at December 31, 2007, using:			
	Fair Value Measurements	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Description				
Fixed maturity investments	$ 1,109,105	$ 471,811	$ 637,294	$ –
Short term investments	23,616	4,914	18,702	–
Equity investments	74,357	74,357	–	–
	1,207,078	551,082	655,996	–
Other Investments				
Real estate investment trusts	12,204	–	12,204	–
Investment funds	31,249	–	20,041	11,208
Catastrophe bonds	36,619	–	–	36,619
Fixed income fund	212,982	212,982	–	–
	293,054	212,982	32,245	47,827
Totals	**$ 1,500,132**	**$ 764,064**	**$ 688,241**	**$ 47,827**

For reconciliation purposes, the table above does not include an equity investment of $112,000 in which the Company is deemed to have a significant influence and is accounted for under the equity method and as such, is not accounted for at fair value under SFAS 159.

INVESTMENTS

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

The reconciliation of the fair value for the Level 3 investments for the years ended December 31, 2008 and 2007, including net purchases and sales, realized gains and change in unrealized gains (losses), is set out below:

	2008		
	Fixed Maturities Investments	Investment Funds	Catastrophe Bonds
Description			
Fair value, December 31, 2007	$ –	$ 11,208	$ 36,619
Total realized gains included in earnings	–	644	278
Total unrealized losses included in earnings	–	(4,296)	(1,140)
Transfers in Level 3	926	–	–
Net purchases and sales	–	1,602	3,417
Fair value, December 31, 2008	**$ 926**	**$ 9,158**	**$ 39,174**

	2007		
	Fixed Maturities Investments	Investment Funds	Catastrophe Bonds
Description			
Fair value, December 31, 2006	$ –	$ 8,378	$ 35,847
Total realized gains included in earnings	–	1,124	772
Net purchases and sales	–	1,706	–
Fair value, December 31, 2007	**$ –**	**$ 11,208**	**$ 36,619**

The total change in fair value of the Level 3 items still held as of December 31, 2008 is $(6.2) million.

Net investment income

Net investment income for the years ended December 31, 2008, 2007 and 2006 was $51.4 million, $73.8 million and $34.2 million, respectively. The components are set out below:

	Year ended December 31,		
	2008	2007	2006
Interest and dividend income			
Cash and cash equivalents	$ 13,498	$ 12,911	$ 18,176
Fixed maturities	30,579	45,830	13,380
Short term	138	150	3,440
Equity investments	79	308	381
Other investments	518	7,456	–
Amortization income			
Cash and cash equivalents	–	–	11
Fixed maturities	11,205	8,128	(155)
Short term	428	102	–
Other investments	23	–	27
Investment expenses	(5,070)	(1,077)	(1,048)
Net investment income	**$ 51,398**	**$ 73,808**	**$ 34,212**

INVESTMENTS

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

Net realized and unrealized gains and losses

Realized investment (losses) gains on the sale of fixed maturity, short term and equity investments for the years ended December 31, 2008, 2007 and 2006 are as follows:

	Year ended December 31,		
	2008	2007	2006
Fixed maturity and short term investments			
Gross realized gains	$ 29,178	$ 5,854	$ 2,529
Gross realized losses	(38,321)	(13,106)	(3,803)
Equities			
Gross realized gains	39	9,362	2,207
Gross realized losses	(52,449)	–	–
Net realized (losses) gains	**$ (61,553)**	**$ 2,110**	**$ 933**

The following table is a breakdown of the net realized and unrealized (losses) gains recorded in the consolidated statements of operations:

	Year ended December 31,		
	2008	2007	2006
Net realized losses on fixed maturities	$ (9,143)	$ (7,252)	$ (1,274)
Net unrealized (losses) gains on fixed maturities	(14,130)	15,069	–
Net realized (losses) gains on equities	(52,410)	9,362	2,207
Net unrealized (losses) gains on equities	(2,401)	346	–
Net realized and unrealized (losses) gains on derivative instruments – investments	(164,016)	(983)	8,382
Net realized and unrealized gains (losses) on derivative instruments – other	11,617	(9,821)	1,943
Net realized and unrealized (losses) gains on other investments	(30,106)	632	989
Total net realized and unrealized (losses) gains	**$ (260,589)**	**$ 7,353**	**$ 12,247**

Pledged Assets

As at December 31, 2008 and 2007, approximately $42.4 million and $2.8 million, respectively, of cash and cash equivalents and approximately $327.2 million and $82.0 million, respectively, of fixed maturity securities were deposited or pledged in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

DERIVATIVES

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

The Company writes certain reinsurance contracts that are classified as derivatives under SFAS 133. In addition, the Company enters into derivative instruments such as interest rate futures contracts, interest rate swaps, foreign currency forward contracts and foreign currency swaps in order to manage portfolio duration and interest rate risk, borrowing costs and foreign currency exposure. The Company enters into index futures contracts and total return swaps to gain or reduce its exposure to the underlying asset or index. The Company also purchases "to be announced" mortgage-backed securities ("TBAs") as part of its investing activities and futures options on weather indexes as part of its reinsurance activities. The Company manages the exposure to these instruments based on guidelines established by management and approved by the Board of Directors.

The Company has entered into certain foreign currency forward contracts that it has designated as hedges in order to hedge its net investments in foreign subsidiaries. These foreign currency forward contracts are carried at fair value and the gains and losses associated with changes in fair value of the designated hedge instruments are recorded in other comprehensive income as part of the cumulative translation adjustment, to the extent that these are effective as hedges. All other derivatives are not designated as hedges, and accordingly, these instruments are carried at fair value, with the fair value recorded in other assets or liabilities with the corresponding realized and unrealized gains and losses included in net realized and unrealized gains and losses.

Interest rate swaps

The Company has used interest rate swap contracts in the portfolio as protection against unexpected shifts in interest rates, which would affect the fair value of the fixed maturity portfolio. By using interest rate swaps, the overall duration or interest rate sensitivity of the portfolio can be altered. The Company has also used interest rate swaps to manage its borrowing costs on its long term debt. As of December 31, 2008, the Company did not have any interest rate swaps and as of December 31, 2007, there were a total of $389.9 million of interest rate swaps in the portfolio with a total fair value of $2.3 million. During the year ended December 31, 2008, the Company recorded realized and unrealized losses on interest rate swaps of $0.2 million, and for the year ended December 31 2007, the Company recorded realized and unrealized gains of $0.5 million.

Foreign currency swaps

The company periodically uses foreign currency swaps to minimize the effect of fluctuating foreign currencies. The swaps had a fair value of $(0.3) million and $2.5 million as at December 31, 2008 and December 31, 2007, respectively. During the year ended December 31, 2008 and 2007, the Company recorded realized and unrealized losses of $0.8 million and realized and unrealized gains of $2.0 million, respectively on foreign currency swaps.

Foreign currency forwards

The Company and its subsidiaries use foreign currency forward contracts to manage currency exposure. The net contractual amount of these contracts as at December 31, 2008 and 2007 was $432.4 million and $311.1 million, respectively, and these contracts had a fair value of $(9.5) million and $(7.1) million, respectively. The Company has designated $337.7 million and $264.4 million of foreign currency forwards contractual value as hedging instruments, which had a fair value of $(5.7) million and $(3.4) million as at December 31, 2008 and December 31, 2007, respectively. During the years ended December 31, 2008 and 2007, the Company recorded $7.1 million of realized and unrealized gains and $14.0 million of realized and unrealized losses, respectively, on foreign currency forward contracts. During the years ended December 31, 2008 and 2007, the Company recorded $17.0 million and $3.5 million of realized and unrealized losses, respectively, directly into comprehensive income as part of the cumulative translation adjustment for the effective portion of the hedge.

Total return swaps

The Company uses total return swaps to gain exposure to the U.S. real estate market. The total return swaps allow the Company to earn the return of the underlying index while paying floating interest plus a spread to the counterparty. As of December 31, 2008, there were total return swaps with a notional amount of $70.9 million and a fair value of $3.7 million in the portfolio and as of December 31, 2007, the notional amount of the total return swaps was $14.2 million with a fair value of $(4.9) million. During the years ended December 31, 2008 and 2007, the Company recorded $20.3 million and $4.7 million of realized and unrealized losses, respectively, on total return swaps.

DERIVATIVES

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

To be announced mortgage backed securities

By acquiring a TBA, the Company makes a commitment to purchase a future issuance of mortgage-backed securities. For the period between purchase of the TBA and issuance of the underlying security, the Company's position is accounted for as a derivative in the consolidated financial statements. At December 31, 2008 and 2007, the notional principal amount of TBAs was $63.9 million and $18.2 million and the fair value was $0.6 million and $0.2 million, respectively. During the year ended December 31, 2008, the Company recorded $2.2 million of realized and unrealized gains on TBAs and for the year ended December 31, 2007, the Company recorded $0.8 million of realized and unrealized losses on TBAs.

Futures

The Company has entered into equity index, commodity index, bond index and interest rate futures. At December 31, 2008 and 2007, the notional amount of these futures was $61.9 million and $421.0 million, respectively. The net fair value of futures contracts was $0.1 million and $(2.2) million as at December 31, 2008 and 2007, respectively. During the years ended December 31, 2008 and 2007, the Company recorded $147.5 million of realized and unrealized losses and $4.4 million of realized and unrealized gains, respectively, on futures.

Other reinsurance derivatives

The Company has entered into industry loss warranty ("ILW") transactions that may be structured as reinsurance or derivatives. For those transactions determined to be derivatives, the fair value was $(0.5) million and $(1.3) million at December 31, 2008 and 2007, respectively. During the years ended December 31, 2008 and 2007, the Company recorded $4.1 million and $1.7 million, respectively, of realized and unrealized gains on ILWs determined to be derivatives.

Beginning in 2008, the Company entered into futures options contracts, both purchased and written, on major hurricane indexes that are traded on the Chicago Mercantile Exchange. The net notional exposure is determined based on the futures exchange futures specifications. The Company did not hold futures option contacts as of December 31, 2008. The realized and unrealized gains recorded on the hurricane indexes were $2.5 million during the year ended December 31, 2008.

Fair value disclosure

In accordance with SFAS 157, the fair value of derivative instruments held as of December 31, 2008 and December 31, 2007 is allocated between levels as follows:

	Fair Value Measurement at December 31, 2008, using:			
	Fair Value Measurements	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Derivatives				
Futures contracts	$ 143	$ 143	$ –	$ –
Swaps	3,397	–	3,397	–
Forward currency forwards	(9,508)	–	(9,508)	–
Mortgage backed securities TBA	648	–	648	–
Other reinsurance derivatives	(541)	–	–	(541)
Total derivatives	**$ (5,861)**	**$ 143**	**$ (5,463)**	**$ (541)**

The total change in fair value of the Level 3 items still held as of December 31, 2008 is ($0.5) million.

DERIVATIVES

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

As at December 31, 2008 derivatives of $9.4 million are recorded in other assets and $15.3 million are recorded in other liabilities.

	Fair Value Measurement at December 31, 2007, using:			
	Fair Value Measurements	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Derivatives				
Futures contracts	$ (2,228)	$ (2,228)	$ –	$ –
Swaps	(153)	–	(153)	–
Forward currency forwards	(7,067)	–	(7,067)	–
Mortgage backed securities TBA	173	–	173	–
Other reinsurance derivatives	(1,305)	–	–	(1,305)
Total derivatives	**$ (10,580)**	**$ (2,228)**	**$ (7,047)**	**$ (1,305)**

The reconciliation of the fair value for the Level 3 derivative instruments, including net purchases and sales, realized gains and changes in unrealized gains, is as follows:

	Year ended December 31,	
	2008	2007
Other reinsurance derivatives		
Opening fair value	$ (1,305)	$ (197)
Total unrealized gains included in earnings	–	1,749
Total realized gains included in earnings	4,140	–
Net purchases and sales	(3,376)	(2,857)
Closing fair value	**$ (541)**	**$ (1,305)**

SEGMENT REPORTING

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

The Company holds a controlling interest in Island Heritage, whose primary business is insurance. As a result of the strategic significance of the insurance business to the Company, and given the relative size of revenues generated by the insurance business, the Company modified its internal reporting process and the manner in which the business is managed and as a result the Company revised its segment structure, effective January 1, 2008, to include a new Insurance segment. As a result of this process the company is now reporting its results to the chief operating decision maker based on two reporting segments: Reinsurance and Insurance. The 2007 comparative information below reflects our current segment structure. As the Company did not undertake any insurance business prior to its acquisition of Island Heritage in the third quarter of 2007, there is no 2006 comparative information. The Company regularly reviews its financial results and assesses performance on the basis of these two reporting segments.

Those segments are more fully described as follows:

Reinsurance

Our Reinsurance segment has three main units:

1) *Property Catastrophe Reinsurance.* Property catastrophe reinsurance contracts are typically "all risk" in nature, meaning that they protect against losses from earthquakes and hurricanes, as well as other natural and man-made catastrophes such as tornados, wind, fires, winter storms, and floods (where the contract specifically provides for coverage). Losses on these contracts typically stem from direct property damage and business interruption. To date, property catastrophe reinsurance has been our most important product. We write property catastrophe reinsurance primarily on an excess of loss basis. In the event of a loss, most contracts of this type require us to cover a subsequent event and generally provide for a premium to reinstate the coverage under the contract, which is referred to as a "reinstatement premium". These contracts typically cover only specific regions or geographical areas, but may be on a worldwide basis.

2) *Property Reinsurance.* We also provide reinsurance on a pro rata share basis and per risk excess of loss basis. Per risk reinsurance protects insurance companies on their primary insurance risks on a single risk basis, for example, covering a single large building. All property per risk and pro rata business is written with loss limitation provisions, such as per occurrence or per event caps, which serve to limit exposure to catastrophic events.

3) *Short-tail Specialty and Casualty Reinsurance.* We also provide short-tail specialty and casualty reinsurance for risks such as aviation, energy, accident and health, satellite, marine and workers' compensation catastrophe. Most short-tail specialty and casualty reinsurance is written with loss limitation provisions.

Insurance

The Company has established an Insurance segment as a result of the insurance business operated through Island Heritage, a property insurer based in the Cayman Islands which is primarily in the business of insuring homes, condominiums and office buildings in the Caribbean region. The Company gained a controlling interest in Island Heritage in the third quarter of 2007, and as a result, the comparatives for the year December 31, 2007 include the results of Island Heritage for six months only.

SEGMENT REPORTING

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

The following tables provide a summary of gross and net written and earned premiums, underwriting results, a reconciliation of underwriting income to income before income taxes, minority interest and interest in earnings of equity investments, total assets, reserves and ratios for each of our business segments for the years ended December 31, 2008, 2007 and 2006. There was only one segment for the year ended December 31, 2006:

	Year Ended December 31,								
	2008				2007				2006
	Reinsurance	Insurance	Inter-segment Eliminations[1]	Total	Reinsurance	Insurance	Inter-segment Eliminations[1]	Total	Total
Gross premiums written	$ 740,169	$ 76,926	$ (35,206)	$ 781,889	$ 544,255	$ 33,026	$ (131)	$ 577,150	$ 302,489
Premiums ceded	(46,638)	(75,759)	35,206	(87,191)	(30,592)	(20,375)	848	(50,119)	(19,991)
Net premiums written	693,531	1,167	–	694,698	513,663	12,651	717	527,031	282,498
Net premiums earned	$ 641,500	$ 12,668	$ –	$ 654,168	$ 464,200	$ 13,031	$ (94)	$ 477,137	$ 192,063
Other insurance related income	305	13,247	(9,691)	3,861	1,182	3,246	–	4,428	933
Loss and loss adjustment expenses	377,228	2,656	–	379,884	191,269	1,590	–	192,859	26,660
Acquisition costs	101,528	13,897	(9,691)	105,734	75,880	6,506	(94)	82,292	29,939
General and administrative expenses	90,026	9,000	–	99,026	68,929	3,532	–	72,461	34,741
Underwriting Income	**$ 73,023**	**$ 362**	**$ –**	**$ 73,385**	**$ 129,304**	**$ 4,649**	**$ –**	**$ 133,953**	**$ 101,656**
Loss ratio[2]	58.8%	10.2%		58.1%	41.2%	9.8%		40.4%	13.9%
Acquisition cost ratio[2]	15.8%	53.6%		16.2%	16.3%	40.0%		17.2%	15.6%
General and administrative expense ratio[2]	14.0%	34.7%		15.1%	14.9%	21.7%		15.2%	18.1%
Combined ratio[2]	88.6%	98.5%		89.4%	72.4%	71.5%		72.8%	47.6%
Total assets	**$ 2,167,853**	**$ 48,117**		**$ 2,215,970**	**$ 2,034,077**	**$ 69,696**		**$ 2,103,773**	**$ 1,144,502**
Reconciliation:									
Underwriting income				$ 73,385				$ 133,953	$ 101,656
Net investment income				51,398				73,808	34,212
Net realized and unrealized (losses) gains – investments				(272,206)				17,174	10,304
Net realized and unrealized gains (losses) – other				11,617				(9,821)	1,943
Other income				4,354				1,383	5,166
Interest expense				(18,297)				(18,677)	(4,648)
Net foreign exchange (losses) gains				(21,477)				5,289	2,079
(Loss) Income before income taxes, minority interest and interest in earnings of equity investments				**$ (171,226)**				**$ 203,109**	**$ 150,712**

(1) Inter segment eliminations for 2008 relate to a quota share arrangement between Flagstone Suisse and Island Heritage. For 2007 the eliminations relate to reinsurance purchased by Island Heritage from Flagstone Reinsurance Limited.

(2) For insurance segment all ratios calculated using expenses divided by net premiums earned plus other insurance related income.

SEGMENT REPORTING

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

The following tables set forth a breakdown of the Company's gross premiums written by line of business and geographic area of risks insured for the periods indicated:

	Year Ended December 31, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total	Gross Percentage of total	Percentage of total
Line of business						
Property catastrophe	$ 457,549	58.5%	$ 378,671	65.6%	$ 219,102	72.4%
Property	94,706	12.1%	94,503	16.4%	56,417	18.7%
Short-tail specialty and casualty	152,708	19.5%	71,081	12.3%	26,970	8.9%
Insurance	76,926	9.9%	32,895	5.7%	–	0.0%
Total	**$ 781,889**	**100.0%**	**$ 577,150**	**100.0%**	**$ 302,489**	**100.0%**

	Year Ended December 31, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total	Gross Percentage of total	Percentage of total
Geographic area of risk insured[1]						
Caribbean[2]	$ 88,482	11.3%	$ 48,103	8.3%	$ 10,291	3.4%
Europe	104,185	13.4%	79,894	13.8%	45,737	15.1%
Japan and Australasia	47,866	6.1%	39,547	6.9%	31,690	10.5%
North America	359,684	46.0%	297,928	51.6%	160,384	53.0%
Worldwide risks[3]	153,442	19.6%	99,365	17.2%	37,815	12.5%
Other	28,230	3.6%	12,313	2.2%	16,572	5.5%
Total	**$ 781,889**	**100.0%**	**$ 577,150**	**100.0%**	**$ 302,489**	**100.0%**

(1) Except as otherwise noted, each of these categories includes contracts that cover risks located primarily in the designated geographic area.

(2) Gross written premiums related to the Insurance segment are included in the Caribbean geographic area.

(3) This geographic area includes contracts that cover risks in two or more geographic zones.

For the years ended December 31, 2008, 2007 and 2006, premiums produced by brokers were as follows:

	Year Ended December 31, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total	Gross Percentage of total	Percentage of total
Name of broker						
Aon Benfield	$ 369,037	47.2%	$ 245,664	42.6%	$ 141,892	46.9%
Guy Carpenter	162,236	20.7%	153,781	26.6%	49,845	16.5%
Willis Group	56,997	7.3%	77,030	13.3%	72,424	23.9%
Other brokers	193,619	24.8%	100,675	17.5%	38,328	12.7%
Total	**$ 781,889**	**100.0%**	**$ 577,150**	**100.0%**	**$ 302,489**	**100.0%**

ACQUISITIONS

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

Flagstone Africa

On June 26, 2008, Flagstone Suisse purchased 3,714,286 shares (representing a 65% interest) in Flagstone Africa for a purchase price of $18.6 million. The Company recorded $1.1 million of goodwill on the date of acquisition. In July, 2008, the South Africa Registrar of Companies recorded a change of name from Imperial Re to Flagstone Africa. Flagstone Africa is domiciled in South Africa and writes multiple lines of reinsurance in sub-Saharan Africa.

The fair value of the net assets acquired and allocation of the purchase price is summarized as follows:

		As at June 26, 2008
Total purchase price		**$ 18,631**
Assets acquired		
Cash and cash equivalents	$ 24,629	
Investments	7,757	
Reinsurance premium balances receivable	1,906	
Unearned premiums ceded	2,497	
Deferred acquisition costs	189	
Other assets	3,360	
Assets acquired		40,338
Liabilities acquired		
Loss reserves	7,301	
Unearned premiums	3,550	
Insurance and reinsurance balances payable	179	
Other liabilities	2,368	
Liabilities acquired		13,398
Minority interest acquired		9,429
Excess purchase price (Goodwill)		**$ 1,120**

ACQUISITIONS

(Amounts in tables expressed in thousands of U.S. dollars, except for ratios, share and per share amounts)

Flagstone Alliance

During 2008, the Company acquired 100% of Alliance Re (renamed Flagstone Alliance) for total consideration of $45.3 million. In June 2008, the Company purchased 9,977,664 shares (representing 14.6% of Flagstone Alliance's common shares) for $6.8 million and on August 12, 2008, purchased 10,498,164 shares (representing 15.4% of Flagstone Alliance's common shares) for $6.8 million, from current shareholders. During September 2008, the Company acquired a further 4,427,189 shares on the open market for total consideration of $3.0 million. The remainder of the 43,444,198 shares were acquired during the fourth quarter of 2008 for total consideration of $28.7 million. Flagstone Alliance, domiciled in the Republic of Cyprus is a specialist property and casualty reinsurer writing multiple lines of business in Europe, Asia, and the Middle East and North Africa region.

The fair value of the net assets acquired and allocation of the purchase price is summarized as follows:

	As at October 1, 2008	
Total purchase price		**$ 45,302**
Assets acquired		
Cash and cash equivalents	$ 40,066	
Investments	22,488	
Reinsurance premium balances receivable	41,916	
Unearned premiums ceded	2,548	
Reinsurance recoverable	8,306	
Deferred acquisition costs	7,930	
Intangible asset – indefinite useful life	1,056	
Fixed assets	32,015	
Other assets	1,611	
Assets acquired		157,936
Liabilities acquired		
Loss reserves	61,187	
Unearned premiums	34,404	
Insurance and reinsurance balances payable	14,908	
Other liabilities	3,191	
Liabilities acquired		113,690
Excess purchase price (Goodwill)		**$ 1,056**

The Company recorded $1.1 million of goodwill on the acquisition and recorded intangible assets of $1.1 million related to the value of licenses which are estimated to have an indefinite useful life. The Company is in the process of determining the value of certain net assets acquired, therefore the allocation of the purchase price is subject to change to account for the outcome of the valuation.

While the Company does not consider any of the acquisitions during 2008 to be material (including the acquisition of Flagstone Alliance), the following unaudited financial information related to the Company's acquisition of Flagstone Alliance for the years ended December 31, 2008, 2007 and 2006 illustrates the results of the acquired entity for each of the periods presented.

ACQUISITIONS

As at December 31, 2008 and 2007
(Expressed in thousands of U.S. dollars, except share data)

	Year ended December 31, 2008 (unaudited)	Year ended December 31, 2007 (unaudited)	Year ended December 31, 2006 (unaudited)
Revenue	$ 36,118	$ 42,567	$ 36,169
Net (loss) income	$ (22,666)	$ (6,551)	$ 2,261
Net (loss) income per common share – Basic	$ (0.27)	$ (0.08)	$ 0.03
Net (loss) income per common share – Diluted	$ (0.27)	$ (0.08)	$ 0.03

Marlborough

On October 17, 2008, the Company announced that it had entered into an agreement to acquire 100% of the common shares of Marlborough Underwriting Agency Limited, the managing agency for Lloyd's Syndicate 1861 – a Lloyd's syndicate underwriting a specialist portfolio of short-tail insurance and reinsurance, from the Berkshire Hathaway Group. The acquisition does not include the existing corporate Lloyd's member or any liability for business written during or prior to 2008. The acquisition closed on November 18, 2008, following receipt of approval from Lloyd's and UK Financial Services Authority. Total consideration for the acquisition of the shares of Marlborough was $48.4 million, including $1.0 million of acquisition costs paid to external parties. The Company licensed its own corporate capital vehicle, Flagstone Corporate Name Limited, to be the capital provider for Lloyd's Syndicate 1861 for fiscal year 2009 onwards. The acquisition provides the Company with a Lloyd's platform with access to both London business and that sourced globally from our network of offices.

The fair value of the net assets acquired and allocation of purchase price is summarized as follows:

	As at November 18, 2008	
Total purchase price		**$ 48,386**
Assets acquired		
Cash and cash equivalents	$ 13,562	
Intangible asset - indefinite useful life	23,480	
Intangible asset -finite useful life	8,823	
Other assets	1,948	
Assets acquired		47,813
Liabilities acquired		
Accounts payable and accrued liabilities	2,519	
Liabilities acquired		2,519
Excess purchase price (Goodwill)		**$ 3,092**

The Company recorded $3.1 million of goodwill on the acquisition including the value of the workforce and recorded intangible assets of $23.5 million related to syndicate capacity, $3.4 million related to the distribution network, $1.4 million related to the trade name and $4.0 million related to software. Syndicate capacity represents Marlborough's authorized premium income limit to write insurance business in the Lloyd's market. The capacity is renewed annually at no cost to Marlborough, but may be freely purchased or sold, subject to Lloyd's approval. The ability to write insurance business under the syndicate capacity is indefinite with the premium income limit being set yearly by Marlborough, subject to Lloyd's approval. The trade name and distribution network are estimated to have finite useful lives of 10 years and 20 years, respectively, and the software is estimated to have a finite useful life of 10 years. The trade name and software are amortized on a straight line basis over the periods indicated and the distribution network is amortized on an accelerated method basis. Syndicate capacity and goodwill are estimated to have indefinite useful lives.

Island Heritage

On June 30, 2008, the Company acquired an additional 16,919 shares in Island Heritage (representing 5% of its common shares) for total consideration of $3.3 million. The Company recorded $1.3 million of goodwill on the acquisition.

NYSE: FSR
BSX: FSR

SHAREHOLDER INFORMATION

Compliance with NYSE Governance Requirements

The Company has filed the Annual CEO Certification regarding the Company's compliance with the New York Stock Exchange's (''NYSE'') Corporate Governance listing standards as required by Section 303A-12(a) of the NYSE Listed Company Manual with the NYSE. In addition, the Company has filed as exhibits to the annual report on Form 10-K for the year ended December 31, 2008, the applicable certifications of its Chief Executive Officer and its Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of the Company's public disclosures.

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Patrick Boisvert
Chief Financial Officer

David Flitman
Chief Actuary

DIRECTORS & COMMITTEES

Board of Directors

Mark Byrne, *Chairman*
Executive Chairman
Flagstone Reinsurance Holdings Limited

Gary Black
Former Chief Claims Executive
& Senior Vice President
OneBeacon Insurance Company

David Brown
Chief Executive Officer & Vice Chairman
Flagstone Reinsurance Holdings Limited

Stephen Coley
Director Emeritus
McKinsey & Company

Thomas Dickson
President & CEO
Meetinghouse LLC

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Dr. Anthony Knap
President, Director & Senior Research Scientist
Bermuda Institute of Ocean Sciences

Anthony Latham
Former Executive
RSA Group

Jan Spiering
Former Chairman & Managing Partner
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Wray T. Thorn
Managing Director of Private Equity
Marathon Asset Management, LLC

Peter F. Watson
Former Chief Executive Officer
Attorney's Liability Assurance Society
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Thomas Dickson
Stewart Gross
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E. Daniel James, *Chairman*
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Governance Committee

Stephen Coley, *Chairman*
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