FLAGSTONE RE

GLOBAL DIVERSE

Words we live by

QUALITY

SERVICE VALUE

2010 ANNUAL REPORT

Table of Contents

Letter to Shareholders

We are pleased to report that 2010 was a positive year for Flagstone. Despite unprecedented losses caused by a series of global events that took place outside North America, we were able to grow book value by 12.1 percent during the year, and increase premiums by 11.1 percent to $1.1 billion.

Since Flagstone was founded five years ago, we have worked diligently to build a platform that produces quality underwriting opportunities from around the world. We celebrated the Company's fifth anniversary in December and as we look back on our first five years, we are very proud of what we have achieved and more than satisfied with the build-out of the global platform we envisioned when the company was formed in 2005. We have seen strong business growth and diversification and are excited about the prospects for the future.

Going into our sixth year we remain committed to leveraging our existing business and operations to the best of our ability. We will continue to refine our platform, to look at ways of extracting the best value from its potential and to remain nimble in order to take advantage of compelling opportunities, should they arise.

One such opportunity was the redomestication of Flagstone Reinsurance Holdings from Bermuda to Luxembourg, which was completed in May 2010. As expected, the change has had no material external effect on our operations but internally it increased our strategic and capital flexibility, while maintaining our operating model and long-term strategy.

Flagstone was built on a set of basic operating principles to which we have remained true throughout 2010. Diversification, both by line of business and geographically, has been a key element of our strategy since inception. Flagstone began as a property catastrophe underwriter, but our goal was always to attain the 50:50 mix of property cat and specialty business, which we have now achieved. This mix allows us to participate fully in the best priced sectors of the market. While the non-cat lines have a higher loss ratio, they are generally less volatile and will result in a more consistent long term loss ratio.

While this diversification has many benefits, it also at times exposes us to likely losses from major global events outside of North America. However, despite the unprecedented activity this year, we remain confident that this strategy continues to provide sustainable opportunities for our business over the long term.

In terms of business type, we write predominantly reinsurance, but have also established a profitable insurance book of business that accounted in 2010 for 8.3 percent of our total written premiums. We are also diversified geographically, having established operations in key markets around the world enabling us to leverage our global platform to source the best business and local talent from around the world.

Our current underwriting portfolio consists of 40.1 percent of business derived from North America; 13.1 percent from Europe; 9.6 percent from the Caribbean; 6.2 percent from Japan and Australasia and the balance from worldwide and other risks. This spread of risk, together with our strict zonal limits, reduces peak zone risk, and imposes operational discipline on our underwriters. We can grow our book of business where it makes sense to do so and reduce our underwriting in specific areas when we would not otherwise be able to achieve the necessary level of comfort with particular risks.

Underpinning our underwriting ability is the need to manage Flagstone's capital in an efficient and prudent manner. In times of softening insurance and reinsurance markets, such as we experienced largely throughout 2010, capital management becomes of paramount importance.

As part of our capital management program, we took advantage of generally sluggish market conditions and low market valuations for companies in our industry to repurchase $164.3 million of Flagstone's shares during the year, representing 13.6 percent of shareholders' equity at the start of the year. These actions reduced our excess capital and were simultaneously accretive to book value. Additionally, nearer the end of the year, we successfully purchased additional protection from Montana Re, our fourth catastrophe bond transaction, further optimizing our capital structure and increasing the efficiency of our portfolio.

We are committed to a conservative investment portfolio and currently hold 87 percent of our invested assets in high grade bonds and cash. We are satisfied that, although our expectations for the overall return level may in some years be less dramatic than some of our peers, we will be able to achieve a more predictable and less volatile return on our investments. This, in turn, allows us to focus our energies on the underwriting side of our business.

All of us at Flagstone were thrilled to be named Reinsurance Company of the Year by the international trade journal *The Review* for "enhancing the stability and security of the industry". The judging panel highlighted our "innovative approach" and "nimble response" to market change in making its selection. We feel this award recognized the hard work of all the staff at Flagstone and it is a testament to the service we offer clients, our underwriting discipline, our agility in adapting to changing market conditions, and the strong financial performance we have shown during the past five years. In short, it is a testament to the success of Flagstone's initial vision.

Five years after its formation, Flagstone is a high-quality, mature multi-line insurance and reinsurance company. The company is a balanced international company, modern in outlook but allied to the time-tested principles of prudence and discipline, diversification and selectivity in risk adoption, based on the application of cutting-edge analytics.

None of this would have been possible without a dedicated staff, devoted to the company's success. To each of them, and to our clients, intermediaries, shareholders and other partners around the world: thank you.

David Brown
Chief Executive Officer

Operations Review

Our Strategy

During Flagstone's first five years our efforts to build the company have been in pursuit of a single goal: to build a profitable and sustainable franchise for the benefit of our shareholders and clients.

Reinsurance and insurance is, by definition, a long-term business. Volatility is inherently greater in our industry than it is in some others, but we have always aimed to manage this volatility with a diverse book of business and disciplined underwriting. Despite the unprecedented level of international losses sustained during 2010, we remain confident our methods will continue to provide the best opportunities for our business and shareholders over the long term.

Disciplined Underwriting

Our principal underwriting objective is to create a balanced and profitable portfolio of business. To do so, our underwriting approach has always been to source a large volume of business and devote significant time and resources to comprehensive data evaluation and risk analysis, allowing us to write selectively and allocate capital to only the best of these opportunities. As such, our underwriting focuses on diversification, strict zonal limits and maximum aggregate exposures. Internal guidelines govern the maximum levels of risk the Company will assume including the size of individual risks and the geographic concentrations of those risks.

A diversified portfolio, both geographically and by line of business, has always been a significant part of our underwriting strategy since inception.

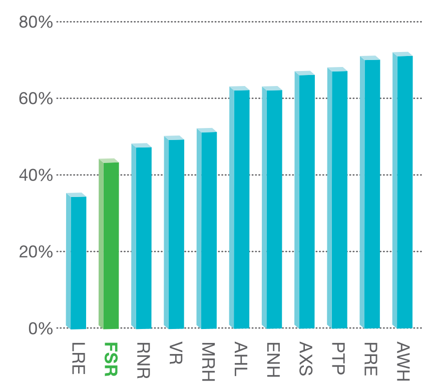
Flagstone began by writing mostly property catastrophe, an approach we believed offered the best opportunity at the time, given the significant market dislocation and capital shortage due to Hurricanes Katrina, Rita and Wilma. Over the past 5 years, we have increased the percentage of non-property catastrophe business to bring our book to the desired target of a 50:50 mix of property catastrophe and specialty lines. That has now been achieved, and it is our intention to maintain that ratio in the future, subject as always to changes in market conditions. It is this diversification, coupled with our selective underwriting approach that has resulted in our strong underwriting performance, proven by our 5 year average loss ratio of 44 percent.

Strategic Diversification

Gross Premiums Written by Line of Business

Loss Ratio Amongst Close Peers

Average Accident Year Loss Ratio (2006–2010)



Source: Company reports based on public company data.

Quality Underwriting

Our belief in strong risk management and creating opportunity through diversification continues to prove itself and we remain focused on our goal of producing strong results through technical underwriting.

Capital Management

Capital levels are paramount to our ability to underwrite quality business at the right time – allowing the company to stay selective and nimble.

We have managed our balance sheet and capital levels prudently throughout 2010 and responded to market conditions, demonstrating our discipline and agility by allocating capital to the best opportunities. Throughout 2010 we repurchased $164.3 million shares during the year, representing 13.6 percent of our January 1, 2010 Flagstone shareholders' equity. Buying back shares addresses excess capital and provides book value accretion that turns the undervaluation of the shares to Flagstone's advantage. Following our repurchases, we continue to maintain conservative capital margins and manage a significant cushion on our rating threshold.

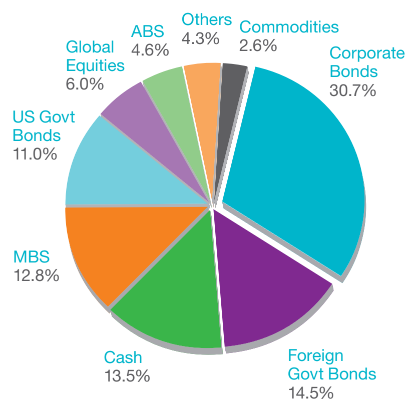
The very low interest environment, the number of international loss events and generally rising combined ratios, also reaffirms our resolve to maintain underwriting discipline and pricing.

Additionally, Flagstone has always lead the way in the Insurance Linked Securities market utilizing Cat Bonds and Sidecars to manage our capital structure and further optimize our reinsurance portfolio. As such, at the end of the fourth quarter, we successfully purchased additional protection from Montana Re. We are very pleased with the result of this transaction which exemplifies our ability to utilize capital markets effectively to lower our costs and generate incremental revenue where possible. Montana Re also illustrates our commitment to technical and modeling excellence as it is the first ever transaction to use the Paradex trigger for U.S. hurricanes, U.S. earthquakes and Japanese typhoons, in addition to being the first ever transaction to cover Cayman Islands hurricane events.

Managing Investments

At Flagstone we believe that Underwriting comes first. With this in mind, our focus is on taking risk and producing profits through our reinsurance and insurance business, not in taking risk on the assets we have on our balance sheet. Our current investment portfolio is conservatively positioned with approximately 87 percent of our portfolio investments in high grade, low duration fixed maturities and cash. The remainder is in a diversified mix of equities and other asset classes. Although the expected return of this portfolio is modest, we believe it places us in a more preferred position, one that benefits our clients and counterparties and enables us to concentrate on our primary business of underwriting.

Investment Portfolio Allocation
As at December 31st, 2010



Average duration 2.0 years.

Average credit rating AA+

Value for Shareholders

Our management team’s considerable experience enables Flagstone to use capital alternatives to both manage risk and optimize our risk and asset portfolios.

Risk Management & Analytics

Successful modern underwriting is an amalgam of quantitative analysis and the experience of the underwriters and management team supporting them. Risk analysis and cutting-edge analytics have always been a key element in our approach to risk management. We apply sophisticated and comprehensive risk analysis to Flagstone's underwriting and have invested heavily over the years in the necessary research and development to build proprietary systems that meet our needs and those of our clients. This methodology is adopted in order to provide more detailed, richer and faster data analysis, enabling us to offer exemplary service to clients and brokers. It is this service that fosters strong broker and client relationships, which is the bedrock for success in our industry.

Our innovative MOSAIC system provides our underwriters with a unique view of each risk that is assessed. CYCLONE, our high-performance computing platform, and QUARTZ, our proprietary catastrophe modeling system, enable our underwriters to analyze more risks, faster, and with more comprehensive results.

These analytics also enable real-time portfolio simulation and analysis, as well as marginal pricing analysis and underwriting. Our systems allow us to assess large volumes of submissions and select only those of the highest quality that match our desired risk profile.

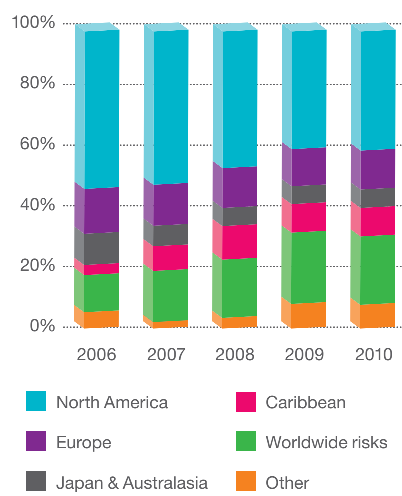
A Global Business

Flagstone has steadily built a truly global underwriting platform from which it can write a diversified book of business. We are international in our outlook, but use local talent and expertise in our 12 offices around the world to source the most attractive business.

Our global operations are managed by knowledgeable and experienced staff who are solidly grounded in the company's philosophy and bound by the company's risk management framework. By leveraging our mid-size and global reach, we can source more business and be selective on the risks we write, choosing only the highest quality business for our portfolio. While we like and have maintained profitable growth, we have no pressure for top-line growth at the expense of profitability.

In 2010, we reduced the volume of business that we wrote in North America, as we actively managed the cycle. Pricing in other markets remained at more consistent levels and Flagstone was able to continue to grow – without compromising the quality of underwriting. Flagstone is focused on the bottom line rather than sustaining market share, as such business only makes its way into our book if pricing and conditions meet our strict criteria.

Strategic Diversification
Gross Premiums Written by Geographic Area



Analytical Approach

At Flagstone, we are constantly striving to perform the most comprehensive risk analysis possible so we can make more informed underwriting decisions.

Reinsurance Company of the Year

In September 2010, Flagstone was voted Reinsurance Company of the Year at a ceremony in London. The award was made by the international trade journal *The Review*.

The award is given to the company that, in *The Review*'s opinion, best enhances the stability and security of the insurance industry. Other factors that are considered include offering consistent service and security to clients, the ability to adapt to market and industry changes, and the achievement of consistently strong financial performance.

The award recognized the hard work of all the staff at Flagstone and is, we believe, a testament to the service we offer clients, the underwriting discipline we have maintained, our ability to adapt to changing market conditions, and the strong financial performance Flagstone has shown in the past five years.

The judging panel at *The Review* highlighted Flagstone's "innovative approach" and "nimble response" to market change in making its selection. "Flagstone's strategy has focused on world class underwriting, exemplary client service and building its expertise and reputation to secure its place as an industry leader," the judges said. "Flagstone's efforts push the boundaries of traditional modeling through in-house solutions that provide more detailed, richer and faster data analysis."

Flagstone's leadership in the area of identifying and responding to potential market changes was also highlighted by the panel of judges.

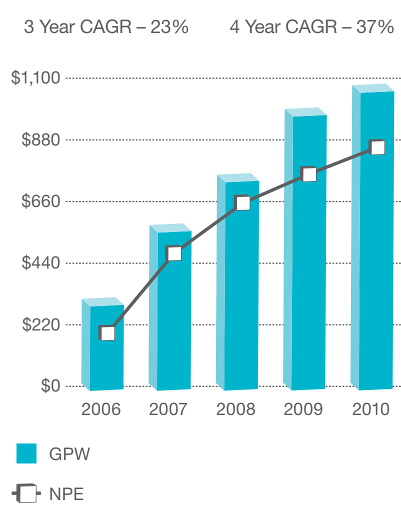
Looking Ahead

Much of management's efforts in the early years of Flagstone have gone into creating a company structure that will endure. Writing global business requires a sophisticated corporate infrastructure. With Flagstone's reach, great consideration has gone into putting in place the correct building blocks for our organization.

After five years, Flagstone has been built in what we believe to be the best possible way to support the company's operations. Changes will no doubt occur as the company grows, and we are always alert to improvements in the model, but we believe that the attention we have given to the detailed way in which the company operates will provide a solid basis on which Flagstone will build as we approach the future.

Going forward, we will continue to concentrate on assessing and optimizing the business we write in a disciplined manner, in addition to focusing on increasing productivity, enhancing efficiencies, and remaining agile in this challenging market. It is our ongoing goal to find ways to leverage our platform and provide value to shareholders.

Revenue History
Gross Premiums Written and Net Premiums Earned
Ex-reinstatement premiums ($ millions)



Best in Class Service

By leveraging our technical platform, we are able to analyze more risks, faster and with informed decisions, offering great service to clients and brokers.

Flagstone 5 Year Timeline

2005 | 2006 | 2007

December 2005
Flagstone was incorporated in Bermuda as a Class 4 licenced insurer with $550 million in capital, in response to dislocation in the global insurance markets following an unusually active and expensive Atlantic hurricane season.

February 2006
Flagstone completed its initial capitalization of more than $715 million through a private placement of its equity securities.

September 2006
Flagstone Réassurance Suisse SA was formed in Switzerland as an indirect wholly owned subsidiary of Flagstone, to serve as its European underwriting platform.

September 2006
Flagstone raised $136 million through a private sale of junior subordinated deferrable interest debentures.

March 2007
Flagstone successfully completes its initial public offering, raising $175.5 million, giving the company an initial market capitalization of $1.1 billion. Flagstone's shares trade on the New York Stock Exchange under the symbol FSR.

June 2007
Flagstone raised an additional $100 million through two private sales of junior subordinated deferrable interest debentures.

July 2007
Flagstone acquired a majority interest in Island Heritage Insurance Company Ltd., domiciled in the Cayman Islands, which specializes in insurance and insurance services in the Caribbean.

September 2007
Flagstone formed Flagstone Underwriters Latin-America Limited A.I., to expand the global underwriting platform and further expand reinsurance opportunities in the Caribbean and Latin America.

October 2007
Flagstone Underwriters Middle East Ltd., a Flagstone subsidiary, was granted authorized status by the Dubai Financial Services Authority and began operations in the Dubai International Financial Centre. The office focuses on regional property, property catastrophe and specialty line business in the region.

2008

June 2008

Flagstone bought three-year, fully collateralized retrocessional coverage on an indemnity basis from Valais Re Ltd. Cat Bond, a special purpose reinsurer established in the Cayman Islands.

June 2008

Flagstone Suisse bought 65% of Imperial Reinsurance Company Limited, which is domiciled in South Africa and writes multiple lines of reinsurance in sub-Saharan Africa. Flagstone later acquired the remaining shares of Imperial Re and the company was subsequently rebranded as Flagstone Reinsurance Africa Limited.

August 2008

Flagstone restructured its global reinsurance operations by merging its two wholly owned subsidiaries, Flagstone Reinsurance Limited of Bermuda and Flagstone Réassurance Suisse SA into one operating platform, Flagstone Réassurance Suisse SA with its existing Bermuda branch.

November 2008

Flagstone bought from the Berkshire Hathaway Group 100% of the common shares of Marlborough Underwriting Agency Limited, the managing agency for Lloyd's Syndicate 1861, which underwrites a specialist portfolio of short-tail insurance and reinsurance.

2009

September/October 2009

Flagstone's Lloyd's operation was extended through the opening of two new offices: Marlborough do Brasil Marketing Limitada in Rio de Janeiro and Mosaic Underwriting Services Inc. in New York.

November 2009

Flagstone Réassurance Suisse SA purchased three years of fully collateralized retrocessional coverage from Montana Re Ltd. Cat Bond (tranches A & B), a special purpose reinsurer established in the Cayman Islands.

2010

May 2010

Flagstone Reinsurance Holdings Limited redomiciled from Bermuda to Luxembourg.

May 2010

Marlborough Underwriting Agency Limited renamed as Flagstone Syndicate Management Limited.

September 2010

Flagstone was named Reinsurance Company of the Year by the international trade publication *The Review* at an awards presentation in London.

December 2010

Flagstone Réassurance Suisse SA purchased three years of fully collateralized retrocessional coverage from the second Montana Re Ltd. Cat Bond (tranches C, D & E).

Growth and Innovation

5 Years of Delivering Results

2005
Founded in Bermuda

$1.09B
2010 Gross Premiums Written

400+
Employees Worldwide

44%
5 Year Average Accident Year Loss Ratio

#1
Reinsurance Company of the Year 2010

12
Offices Worldwide

$1.1B
2010 Shareholders' Equity

Financial Highlights

(Expressed in thousands of U.S. dollars, except share data)

	2006	2007	2008	2009	2010
Gross premiums written	$ 302,489	$ 577,150	$ 781,889	$ 988,491	$ 1,097,850
Net premiums earned	192,063	477,137	654,168	758,455	852,084
Net operating income	138,012	155,280	96,484	194,502	43,593
Net investment income	34,212	73,808	51,398	28,531	31,482
Net income (loss)	$ 152,338	$ 167,922	$ (187,302)	$ 242,192	$ 97,084
Loss ratio	13.9%	40.4%	58.1%	37.3%	62.2%
Expense ratio	33.7%	32.4%	31.3%	37.4%	39.4%
Combined ratio	47.6%	72.8%	89.4%	74.7%	101.6%
Investments & cash[1]	$ 1,018,525	$ 1,833,863	$ 1,709,928	$ 1,950,246	$ 2,011,565
Premiums receivable	68,940	136,555	218,287	278,956	318,455
Reinsurance recoverables	–	1,355	16,422	19,270	28,183
Deferred acquisition costs	11,909	30,607	44,601	54,637	65,917
Unearned premiums ceded	8,224	14,608	31,119	52,690	68,827
Total assets	$ 1,144,502	$ 2,103,773	$ 2,215,970	$ 2,566,768	$ 2,719,202
Loss reserves	$ 22,516	$ 180,978	$ 411,565	$ 480,660	$ 721,314
Unearned premiums	98,659	175,607	270,891	330,416	378,804
Long term debt	137,159	264,889	252,575	252,402	251,122
Shareholders' equity	$ 864,519	$ 1,210,485	$ 986,013	$ 1,211,018	$ 1,134,733
Basic book value per share	$ 12.08	$ 14.17	$ 11.61	$ 14.56	$ 16.48
Diluted book value per share	$ 11.94	$ 13.87	$ 11.30	$ 13.97	$ 15.51
Diluted earnings (loss) per share	$ 2.16	$ 2.05	$ (2.20)	$ 2.87	$ 1.23

[1]Cash and investments represents the total cash and cash equivalents, restricted cash, fixed maturity investments, short term investments, equities, other investments, accrued interest receivable, and net payable for investments purchased.

Strong Financial Position

Our robust balance sheet and strong liquidity position give us a stable capital base with which to underwrite.

Excerpts from Financial Statements

For complete financial statements including auditors' opinion and notes please refer to our 2010 10-K which can be found on our website at www.flagstonere.com

Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars, except share data)

As at December 31,	2010	2009
Assets		
Investments:		
Fixed maturities, at fair value (Amortized cost: 2010 – $1,433,868; 2009 – $1,198,187)	$ 1,473,862	$ 1,228,561
Short term investments, at fair value (Amortized cost: 2010 – $14,254; 2009 – $231,609)	14,251	232,434
Equity investments, at fair value (Amortized cost: 2010 - $7,931; 2009 – $8,516)	283	290
Other investments	119,764	45,934
Total investments	1,608,160	1,507,219
Cash and cash equivalents	345,705	352,185
Restricted cash	43,413	85,916
Premium balances receivable	318,455	278,956
Unearned premiums ceded	68,827	52,690
Reinsurance recoverable	28,183	19,270
Accrued interest receivable	15,599	11,223
Receivable for investments sold	1,795	5,160
Deferred acquisition costs	65,917	54,637
Funds withheld	25,934	22,168
Goodwill	16,381	16,533
Intangible assets	31,549	35,790
Asset held for sale	2,300	–
Other assets	146,984	125,021
Total assets	**$ 2,719,202**	**$ 2,566,768**
Liabilities		
Loss and loss adjustment expense reserves	$ 721,314	$ 480,660
Unearned premiums	378,804	330,416
Insurance and reinsurance balances payable	82,134	62,864
Payable for investments purchased	3,106	11,457
Long term debt	251,122	252,402
Other liabilities	86,127	63,155
Total liabilities	1,522,607	1,200,954
Equity		
Common voting shares, 300,000,000 authorized, $0.01 par value, issued (2010 – 84,474,758; 2009 – 84,985,219) and outstanding (2010 – 68,585,588; 2009 – 82,985,219)	845	850
Common shares held in treasury, at cost (2010 –15,889,170; 2009 – 2,000,000)	(178,718)	(19,750)
Additional paid-in capital	904,235	912,547
Accumulated other comprehensive loss	(6,178)	(6,976)
Retained earnings	414,549	324,347
Total Flagstone shareholders' equity	1,134,733	1,211,018
Noncontrolling interest in subsidiaries	61,862	154,796
Total equity	1,196,595	1,365,814
Total liabilities and equity	**$ 2,719,202**	**$ 2,566,768**

For complete financial statements including auditors' opinion and notes please refer to our 2010 10-K which can be found on our website at www.flagstonere.com

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in thousands of U.S. dollars, except share and per share data)

For the years ended December 31,	2010	2009	2008
Revenues			
Gross premiums written	$ 1,097,850	$ 988,491	$ 781,889
Premiums ceded	(213,996)	(196,022)	(87,191)
Net premiums written	883,854	792,469	694,698
Change in net unearned premiums	(31,770)	(34,014)	(40,530)
Net premiums earned	852,084	758,455	654,168
Net investment income	31,482	28,531	51,398
Net realized and unrealized gains (losses) – investments	43,769	39,668	(272,206)
Net realized and unrealized gains – other	14,441	11,253	11,617
Other income	25,545	21,728	8,215
Total revenues	**967,321**	**859,635**	**453,192**
Expenses			
Loss and loss adjustment expenses	530,136	283,185	379,884
Acquisition costs	164,820	136,471	105,734
General and administrative expenses	171,693	147,138	99,026
Interest expense	10,352	12,105	18,297
Net foreign exchange losses	4,719	3,231	21,477
Total expenses	**881,720**	**582,130**	**624,418**
Income (loss) before income taxes and interest in earnings of equity investments	85,601	277,505	(171,226)
Recovery (provision) for income tax	4,053	(5,412)	(1,178)
Interest in earnings of equity investments	(1,240)	(1,356)	(1,299)
Net income (loss)	88,414	270,737	(173,703)
Less: Loss (income) attributable to noncontrolling interest	8,670	(28,545)	(13,599)
Net income (loss) attributable to Flagstone	**$ 97,084**	**$ 242,192**	**$ (187,302)**
Net income (loss)	$ 88,414	$ 270,737	$ (173,703)
Change in currency translation adjustment	607	2,600	(16,251)
Change in defined benefit pension plan obligation	191	136	(887)
Comprehensive income (loss)	89,212	273,473	(190,841)
Less: Comprehensive loss (income) attributable to noncontrolling interest	8,670	(29,986)	(12,158)
Comprehensive income (loss) attributable to Flagstone	**$ 97,882**	**$ 243,487**	**$ (202,999)**
Weighted average common shares outstanding—basic	78,656,688	84,279,777	85,328,704
Weighted average common shares outstanding—diluted	78,880,590	84,503,792	85,328,704
Net income (loss) attributable to Flagstone per common share—basic	$ 1.23	$ 2.87	$ (2.20)
Net income (loss) attributable to Flagstone per common share—diluted	$ 1.23	$ 2.87	$ (2.20)
Distributions declared per common share[1]	$ 0.16	$ 0.16	$ 0.16

[1]Distributions declared per common share are in the form of a non-dividend return of capital. Prior to the Company's Redomestication to Luxembourg on May 17, 2010, such distributions were in the form of dividends.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2010

			Flagstone Shareholders' Equity					
	Total equity	Comprehensive income	Retained earnings	Accumulated other comprehensive loss	Common voting shares	Treasury shares	Additional paid-in capital	Noncontrolling interest in subsidiaries
Beginning balance	$1,365,814	$ –	$ 324,347	$ (6,976)	$ 850	$ (19,750)	$ 912,547	$ 154,796
Repurchase of preferred shares	(79,529)							(79,529)
Comprehensive income:								
Net income	88,414	88,414	97,084					(8,670)
Other comprehensive income:								
Change in currency translation adjustment	607	607		607				
Defined benefit pension plan obligation	191	191		191				
	798	798						
Comprehensive income	**89,212**	**$ 89,212**						
Stock based compensation	18,130						18,130	
Subsidiary stock based compensation	(274)							(274)
Purchase of noncontrolling interest	(750)						(411)	(339)
Warrant repurchase	(14,200)						(14,200)	
Shares repurchased and cancelled	(5,375)				(5)		(5,370)	
Shares repurchased and held in treasury	(158,968)					(158,968)		
Distributions declared per common share[1]	(17,465)		(6,882)				(6,461)	(4,122)
Ending balance	**$1,196,595**		**$ 414,549**	**$ (6,178)**	**$ 845**	**$ (178,718)**	**$ 904,235**	**$ 61,862**

[1]Distributions declared per common share are in the form of a non-dividend return of capital. Prior to the Company's Redomestication to Luxembourg on May 17, 2010, such distributions were in the form of dividends.

For the year ended December 31, 2009

			Flagstone Shareholders' Equity					
	Total equity	Comprehensive income	Retained earnings	Accumulated other comprehensive loss	Common voting shares	Treasury shares	Additional paid-in capital	Noncontrolling interest in subsidiaries
Beginning balance	$ 1,183,463	$ –	$ 96,092	$ (8,271)	$ 848	$ –	$ 897,344	$ 197,450
Repurchase of preferred shares	(63,117)							(63,117)
Comprehensive income:								
Net loss	270,737	270,737	242,192					28,545
Other comprehensive income:								
Change in currency translation adjustment	2,600	2,600		1,159				1,441
Defined benefit pension plan obligation	136	136		136				
	2,736	2,736						
Comprehensive income	**273,473**	**$ 273,473**						
Stock based compensation	15,814						15,814	
Subsidiary stock based compensation	105							105
Subsidiary stock issuance	–						(184)	184
Purchase of noncontrolling interest	(10,989)						(771)	(10,218)
Sale of noncontrolling interest	750						344	406
Issue of shares, net	2				2			
Shares repurchased and held in treasury	(19,750)					(19,750)		
Dividends declared	(13,937)		(13,937)					
Ending balance	**$1,365,814**		**$ 324,347**	**$ (6,976)**	**$ 850**	**$ (19,750)**	**$ 912,547**	**$ 154,796**

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2008

		Flagstone Shareholders' Equity					
	Total equity	Comprehensive income	Retained earnings	Accumulated other comprehensive loss	Common voting shares	Additional paid-in capital	Noncontrolling interest in subsidiaries
Beginning balance	$1,395,263	$ –	$ 296,890	$ 7,426	$ 853	$ 905,316	$ 184,778
Repurchase of preferred shares	(6,639)						(6,639)
Acquisition of subsidiaries	7,567						7,567
Comprehensive income:							
Net income	(173,703)	(173,703)	(187,302)				13,599
Other comprehensive income:							
Change in currency translation adjustment	(16,251)	(16,251)		(14,810)			(1,441)
Defined benefit pension plan obligation	(887)	(887)		(887)			
	(17,138)	(17,138)					
Comprehensive income	**(190,841)**	**$ (190,841)**					
Stock based compensation	(4,020)					(4,020)	
Subsidiary stock based compensation	(449)						(449)
Subsidiary stock issuance	–					(126)	126
Fair value of issued warrant	3,565					3,565	
Issue of shares, net	(748)				2	(750)	
Shares repurchased and cancelled	(6,648)				(7)	(6,641)	
Dividends declared	(13,496)		(13,496)				
Other	(91)						(91)
Ending balance	**$1,183,463**		**$ 96,092**	**$ (8,271)**	**$ 848**	**$ 897,344**	**$ 197,450**

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

For the years ended December 31,	2010	2009	2008
Cash flows provided by (used in) operating activities:			
Net income (loss)	$ 88,414	$ 270,737	$ (173,703)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Net realized and unrealized (gains) losses	(58,210)	(50,921)	260,589
Net unrealized foreign exchange (gains) losses	(2,060)	710	30,792
Depreciation and amortization expense	7,400	7,125	4,797
Share based compensation expense (recovery)	17,345	15,932	(325)
Interest in earnings of equity investments	1,240	1,356	1,299
Accretion/amortization on fixed maturity investments	5,290	3,194	(11,560)
Asset impairment charge	15,883	–	–
Changes in assets and liabilities, excluding net assets acquired:			
Premium balances receivable	(35,907)	(59,999)	(42,773)
Unearned premiums ceded	(16,170)	(21,050)	(13,799)
Reinsurance recoverable	(9,666)	(1,523)	(6,615)
Deferred acquisition costs	(11,352)	(9,316)	(6,834)
Funds withheld	(3,982)	(7,561)	(7,677)
Loss and loss adjustment expense reserves	241,253	60,093	165,926
Unearned premiums	48,365	53,815	61,038
Insurance and reinsurance balances payable	18,472	35,884	5,157
Other changes in assets and liabilities, net	(13,781)	39,973	(37,905)
Net cash provided by operating activities	292,534	338,449	228,407
Cash flows (used in) provided by investing activities:			
Net cash paid in acquisition/disposal of subsidiaries	(750)	(12,354)	(37,344)
Purchases of fixed maturity investments	(3,000,458)	(2,470,554)	(1,313,953)
Sales and maturities of fixed maturity investments	2,998,971	1,887,700	1,610,242
Purchases of equity investments	–	(37,679)	(121,901)
Sales of equity investments	–	43,851	143,505
Purchases of other investments	(76,906)	(31,460)	(579,832)
Sales and maturities of other investments	39,032	15,737	592,083
Purchases of fixed assets	(31,480)	(12,831)	(21,420)
Sales of fixed asset	3,477	1,101	1,550
Change in restricted cash	42,503	(43,513)	(39,571)
Net cash (used in) provided by investing activities	(25,611)	(660,002)	233,359
Cash flows (used in) provided by financing activities:			
Issue of common shares, net of issuance costs paid	–	(586)	(878)
Shares repurchased and cancelled	(5,375)	–	(6,648)
Shares repurchased and held in treasury	(158,968)	(19,750)	–
Warrant repurchased	(14,200)	–	–
Contribution (distribution) of noncontrolling interest	–	289	(415)
Repurchase of noncontrolling interest	(79,529)	(63,117)	(6,639)
Distributions paid on common shares[1]	(12,571)	(13,414)	(13,496)
Repayment of long term debt	–	(15,042)	(9,167)
Other	852	827	(3,311)
Net cash used in financing activities	(269,791)	(110,793)	(40,554)
Effect of foreign exchange rate on cash	(3,612)	826	(129)
(Decrease) increase in cash and cash equivalents	(6,480)	(431,520)	421,083
Cash and cash equivalents – beginning of year	352,185	783,705	362,622
Cash and cash equivalents – end of year	**$ 345,705**	**$ 352,185**	**$ 783,705**
Supplemental cash flow information:			
Receivable for investments sold	**$ 1,795**	**$ 5,160**	**$ 9,634**
Payable for investments purchased	**$ 3,106**	**$ 11,457**	**$ 7,776**
Interest paid	**$ 9,327**	**$ 11,716**	**$ 17,863**

[1]Distributions paid per common share are in the form of a non-dividend return of capital. Prior to the Company's Redomestication to Luxembourg on May 17, 2010, such distributions were in the form of dividends.

For complete financial statements including auditors' opinion and notes please refer to our 2010 10-K which can be found on our website at www.flagstonere.com

Investments

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

Fixed maturity, short term, equity and other investments

The cost or amortized cost, gross unrealized gains and losses, and carrying values as at December 31, 2010 and 2009 are as follows:

As at December 31, 2010

	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed maturity investments				
U.S. government and agency securities	$ 266,329	$ 5,882	$ (375)	$ 271,836
U.S. states and political subdivisions	90	2	–	92
Other foreign governments	267,787	18,618	(480)	285,925
Corporates	586,523	20,260	(4,239)	602,544
Mortgage-backed securities	222,171	2,910	(2,224)	222,857
Asset-backed securities	90,968	261	(621)	90,608
	1,433,868	**47,933**	**(7,939)**	**1,473,862**
Short term investments				
U.S. government and agency securities	2,998	–	–	2,998
Corporates	11,256	1	(4)	11,253
	14,254	**1**	**(4)**	**14,251**
Equity investments	7,931	4	(7,652)	283
	7,931	**4**	**(7,652)**	**283**
Other investments				
Investment funds	42,728	3,798	(6,533)	39,993
Catastrophe bonds	75,484	1,226	(19)	76,691
	118,212	**5,024**	**(6,552)**	**116,684**
Totals	**$ 1,574,265**	**$ 52,962**	**$ (22,147)**	**$ 1,605,080**

As at December 31, 2009

	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed maturity investments				
U.S. government and agency securities	$ 421,215	$ 12,186	$ (1,686)	$ 431,715
U.S. states and political subdivisions	1,907	11	(15)	1,903
Other foreign governments	112,119	3,426	(1,118)	114,427
Corporates	504,855	15,763	(1,376)	519,242
Mortgage-backed securities	108,652	3,969	(554)	112,067
Asset-backed securities	49,439	253	(485)	49,207
	1,198,187	**35,608**	**(5,234)**	**1,228,561**
Short term investments				
U.S. government and agency securities	145,600	6	(2)	145,604
Other foreign governments	3,877	136	–	4,013
Corporates	80,223	1,419	(738)	80,904
Asset-backed securities	1,909	4	–	1,913
	231,609	**1,565**	**(740)**	**232,434**
Equity investments	8,516	124	(8,350)	290
	8,516	**124**	**(8,350)**	**290**
Other investments				
Investment funds	13,239	–	(7,753)	5,486
Catastrophe bonds	35,777	402	(51)	36,128
	49,016	**402**	**(7,804)**	**41,614**
Totals	**$ 1,487,328**	**$ 37,699**	**$ (22,128)**	**$ 1,502,899**

Investments

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

Other investments do not include an investment accounted for under the equity method in which the Company is deemed to have a significant influence and accordingly is not accounted for at fair value under the FASB ASC guidance for financial instruments. This investment is recorded at $3.1 million and $4.3 million at December 31, 2010 and 2009, respectively.

Proceeds from the sale and maturity of fixed maturity, short term and equity investments during the year ended December 31, 2010 and 2009 amounted to $3.0 billion and $1.9 billion, respectively.

The following table presents the contractual maturity dates of fixed maturity and short term investments as at December 31, 2010 and 2009:

As at December 31,	2010		2009	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within one year	$ 38,558	$ 39,909	$ 308,865	$ 312,253
Due after 1 through 5 years	808,954	836,825	577,634	588,707
Due after 5 through 10 years	196,683	202,136	311,819	324,095
Due after 10 years	90,788	95,778	71,478	72,753
Mortgage and asset-backed securities	313,139	313,465	160,000	163,187
Total	**$ 1,448,122**	**$ 1,488,113**	**$ 1,429,796**	**$ 1,460,995**

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

The following table presents a breakdown of the credit quality of the Company's fixed maturity and short term investments as at December 31, 2010 and 2009:

As at December 31,	2010		2009	
	Fair value	Percentage of total	Fair value	Percentage of total
Rating category				
AAA	$ 903,230	60.7%	$ 1,043,223	71.4%
AA	193,302	13.0%	111,300	7.6%
A	262,086	17.6%	214,214	14.7%
BBB	129,495	8.7%	91,723	6.3%
Below investment grade	–	0.0%	535	0.0%
Total	**$ 1,488,113**	**100.0%**	**$ 1,460,995**	**100.0%**

We have included credit rating information with respect to our investment portfolio because it enhances the reader's understanding of its composition and consistency with our investment philosophy.

Fair value disclosure

The valuation technique used to determine the fair value of 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 the Fair Value Measurements and Disclosures Topic of the FASB ASC, the Company has classified its investments in U.S. government treasury securities and listed equity securities as Level 1 in the fair value hierarchy. The fair value of these securities is the quoted market price of these securities, as provided either by independent pricing services or exchange market prices.

Investments in U.S. government agency securities, corporate bonds, mortgage-backed securities, foreign government bonds and asset-backed securities are classified as Level 2 fair value. The fair value of these securities is derived from broker quotes based on inputs that are observable for the asset, either directly or indirectly, such as yield curves and transactional history. Catastrophe bonds are classified as Level 2 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.

Investments in private equity funds and mortgage-backed investment funds are classified as Level 3 in the fair value hierarchy. The fair value of the private equity funds is determined by the investment fund managers using the net asset value provided by the administrator or manager of the funds on a quarterly basis and adjusted based on analysis and discussions with the fund managers. The fair value of the mortgage-backed investment fund is determined by the net asset valuation provided by the independent administrator of the fund. These valuations are then adjusted for cash flows since the most recent valuation, which is a methodology generally employed in the investment industry.

Investments

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

As at December 31, 2010 and 2009, the Company's investments are allocated among fair value levels as follows:

	Fair Value Measurement at December 31, 2010 using:			
	Fair value measurements	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Fixed maturity investments				
U.S. government and agency securities	$ 271,836	$ 176,831	$ 95,005	$ –
U.S. states and political subdivisions	92	–	92	–
Other foreign governments	285,925	–	285,925	–
Corporates	602,544	–	602,544	–
Commercial mortgage-backed securities	1,064	–	1,064	–
Residential mortgage-backed securities	221,793	–	221,793	–
Asset-backed securities	90,608	–	90,608	–
	1,473,862	**176,831**	**1,297,031**	**–**
Short term investments				
U.S. government and agency securities	2,998	2,998	–	–
Corporates	11,253	–	11,253	–
	14,251	**2,998**	**11,253**	**–**
Equity investments				
Financial services	283	283	–	–
	283	**283**	**–**	**–**
Other investments				
Investment funds	39,993	–	–	39,993
Catastrophe bonds	76,691	–	76,691	–
	116,684	**–**	**76,691**	**39,993**
Totals	**$ 1,605,080**	**$ 180,112**	**$ 1,384,975**	**$ 39,993**

	Fair Value Measurement at December 31, 2009 using:			
	Fair value measurements	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Fixed maturity investments				
U.S. government and agency securities	$ 431,715	$ 380,843	$ 50,872	$ –
U.S. States and political subdivisions	1,903	–	1,903	–
Other foreign governments	114,427	–	114,427	–
Corporates	519,242	–	519,242	–
Mortgage-backed securities	112,067	–	111,290	777
Asset-backed securities	49,207	–	47,686	1,521
	1,228,561	**380,843**	**845,420**	**2,298**
Short term investments				
U.S. government and agency securities	145,604	125,755	19,849	–
Other foreign governments	4,013	–	4,013	–
Corporates	80,904	–	80,904	–
Asset-backed securities	1,913	–	1,913	–
	232,434	**125,755**	**106,679**	**–**
Equity investments				
Financial services	290	290	–	–
	290	**290**	**–**	**–**
Other investments				
Investment funds	5,486	–	–	5,486
Catastrophe bonds	36,128	–	36,128	–
	41,614	**–**	**36,128**	**5,486**
Totals	**$ 1,502,899**	**$ 506,888**	**$ 988,227**	**$ 7,784**

Investments

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

Other investments do not include an investment accounted for under the equity method in which the Company is deemed to have a significant influence and accordingly is not accounted for at fair value under the FASB ASC guidance for financial instruments. This investment is recorded at $3.1 million and $4.3 million at December 31, 2010 and 2009, respectively.

The reconciliation of the fair value for the Level 3 investments for the years ended December 31, 2010 and 2009, including purchases and sales and change in realized and unrealized gains (losses) in earnings, is set out below:

For the years ended December 31, 2010 and 2009

	Fixed maturity investments	Investment funds	Catastrophe bonds	Total
Fair value, December 31, 2008	$ 926	$ 9,158	$ 39,174	$ 49,258
Total realized losses included in earnings	(148)	–	–	(148)
Total unrealized gains (losses) included in earnings	675	(4,493)	899	(2,919)
Net purchases and sales	(676)	821	(27,075)	(26,930)
Total investment income included in earnings	–	–	406	406
Transfers in (out) of Level 3	1,521	–	(13,404)	(11,883)
Fair value, December 31, 2009	**$ 2,298**	**$ 5,486**	**$ –**	**$ 7,784**
Total realized losses included in earnings	(226)	–	–	(226)
Total unrealized gains included in earnings	512	5,018	–	5,530
Purchases	–	29,489	–	29,489
Sales	(2,584)	–	–	(2,584)
Fair value, December 31, 2010	**$ –**	**$ 39,993**	**$ –**	**$ 39,993**

For the Level 3 items still held as of December 31, 2010, the total change in fair value for the year was $5.0 million. Transfers between levels, if necessary, are done as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers between levels during the year ended December 31, 2010.

Other investments

The Catastrophe bonds held pay a variable and fixed interest coupon and generate investment return, and their performance is contingent upon climatological and geological events.

The Company's investment funds consist of investments in private equity and mortgage-backed investment funds. As at December 31, 2010 and 2009, the Company had total outstanding investment commitments of $13.7 million and $3.4 million, respectively. Redemptions from these investments occur at the discretion of the general partner, board of directors or, in other cases, subject to a majority vote by the investors. The Company is not able to redeem a significant portion of these investments prior to 2017.

The following table presents the fair value of the Company's investments funds as at December 31, 2010 and 2009:

As at December 31,	2010	2009
Private equity funds	$ 8,143	$ 5,486
Mortgage-backed investment funds	31,850	–
Total	**$ 39,993**	**$ 5,486**

Investments

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

Net investment income

Net investment income for the years ended December 31, 2010, 2009 and 2008 was $31.5 million, $28.5 million, and $51.4 million, respectively. The components are set out below:

For the years ended December 31,	2010	2009	2008
Cash and cash equivalents	$ 1,435	$ 3,231	$ 13,498
Fixed maturity investments	33,307	28,283	41,784
Short term investments	1,004	1,405	566
Equity investments	–	76	79
Other investments	706	415	541
Investment expenses	(4,970)	(4,879)	(5,070)
Net investment income	**$ 31,482**	**$ 28,531**	**$ 51,398**

The following table is a breakdown of the total net realized and unrealized gains (losses) for the years ended December 31, 2010, 2009 and 2008:

For the years ended December 31,	2010	2009	2008
Net realized gains (losses) on fixed maturities	$ 24,665	$ 21,005	$ (9,143)
Net unrealized gains (losses) on fixed maturities	8,730	34,582	(14,130)
Net realized (losses) on equities	–	(1,927)	(52,410)
Net unrealized gains (losses) on equities	11	2,778	(2,401)
Net realized and unrealized gains (losses) on derivative instruments – investments	437	(15,145)	(164,016)
Net realized and unrealized gains on derivative instruments – other	14,441	11,253	11,617
Net realized and unrealized gains (losses) on other investments	9,926	(1,625)	(30,106)
Total net realized and unrealized gains (losses)	**$ 58,210**	**$ 50,921**	**$ (260,589)**

Realized investment gains (losses) on the sale of fixed maturity, short term and equity investments for the years ended December 31, 2010, 2009 and 2008 are as follows:

For the years ended December 31,	2010	2009	2008
Fixed maturity and short term investments			
Gross realized gains	$ 28,302	$ 38,051	$ 29,178
Gross realized losses	(3,637)	(17,046)	(38,321)
Equity investments			
Gross realized gains	–	1,394	39
Gross realized losses	–	(3,321)	(52,449)
Net realized gains (losses)	**$ 24,665**	**$ 19,078**	**$ (61,553)**

Pledged assets

The Company holds cash and cash equivalents and fixed maturity securities that were deposited or pledged in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions, Lloyd's of London requirements and insurance laws.

The total amount of such cash and cash equivalents and fixed maturity securities as at December 31, 2010 and 2009 are as follows:

As at December 31,	2010	2009
Cash and cash equivalents	$ 43,413	$ 85,916
Fixed maturity securities	539,738	425,109
Total	**$ 583,151**	**$ 511,025**

Derivatives

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

The Company accounts for its derivative instruments using the Derivatives and Hedging Topic of the FASB ASC, which requires an entity to recognize all derivative instruments as either assets or liabilities on the balance sheet and measure those instruments at fair value, with the fair value recorded in other assets or liabilities. The accounting for realized and unrealized gains and losses associated with changes in the fair value of derivatives depends on the hedge designation and, if designated as a hedging instrument, whether the hedge is effective in achieving offsetting changes in the fair value of the asset or liability being hedged. The realized and unrealized gains and losses on derivatives not designated as hedging instruments are included in net realized and unrealized gains and losses in the consolidated financial statements. Gains and losses associated with changes in fair value of the designated hedge instruments are recorded with the gains and losses on the hedged items, to the extent that the hedge is effective.

The Company enters into derivative instruments such as interest rate futures contracts, interest rate swaps, foreign currency forward contracts and 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 exposure to the underlying asset or index. The Company also purchases TBAs as part of its investing activities. The Company manages the exposure to these instruments based on guidelines established by management and approved by the Company's Board of Directors (the "Board").

The Company has entered into certain foreign currency forward contracts in order to hedge its net investments in foreign subsidiaries, and has designated these as hedging instruments. These foreign currency forward contracts are carried at fair value and the realized and unrealized gains and losses 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.

The details of the derivatives held by the Company as at December 31, 2010 and 2009 are as follows:

As at December 31, 2010

	Asset derivatives recorded in other assets	Liability derivatives recorded in other liabilities	Total derivatives	
	Fair value	Fair value	Net notional exposure	Fair value
Derivatives designated as hedging instruments				
Foreign currency forward contracts[1]	$ –	$ 534	$ 43,201	$ (534)
	–	534		(534)
Derivatives not designated as hedging instruments				
Purpose – risk management				
Currency swaps	$ –	$ 1,020	$ 17,375	$ (1,020)
Foreign currency forward contracts	14,701	19,396	820,114	(4,695)
Futures contracts	1,822	4,125	1,100,498	(2,303)
	16,523	24,541		(8,018)
Purpose – exposure				
Futures contracts	$ 4,866	$ 223	$ 170,105	$ 4,643
Mortgage-backed securities TBA	4	17	4,275	(13)
Other reinsurance derivatives	–	241	–	(241)
	4,870	481		4,389
	21,393	25,022		(3,629)
Total derivatives	$ 21,393	$ 25,556		$ (4,163)

Derivatives

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

As at December 31, 2009

	Asset derivatives recorded in other assets	Liability derivatives recorded in other liabilities	Total derivatives	
	Fair value	Fair value	Net notional exposure	Fair value
Derivatives designated as hedging instruments				
Foreign currency forward contracts[1]	$ 148	$ 512	$ 88,312	$ (364)
	148	512		(364)
Derivatives not designated as hedging instruments				
Purpose – risk management				
Currency swaps	$ 260	$ –	$ 18,655	$ 260
Foreign currency forward contracts	12,532	6,386	288,832	6,146
	12,792	6,386		6,406
Purpose – exposure				
Futures contracts	$ 3,847	$ –	$ 150,770	$ 3,847
Total return swaps	409	436	45,948	(27)
Mortgage-backed securities TBA	–	399	41,496	(399)
Other reinsurance derivatives	–	1,596		(1,596)
	4,256	2,431		1,825
	17,048	8,817		8,231
Total derivatives	**$ 17,196**	**$ 9,329**		**$ 7,867**

Designated

Derivatives designated as hedging instruments	Amount of Gain or (Loss) on Derivatives Recognized in: Comprehensive loss (Effective portion) For the years ended December 31,				Net income (loss) (Ineffective portion) For the years ended December 31,		
	2010	2009	2008	Location	2010	2009	2008
Foreign currency forward contracts[1]	$ (178)	$ (4,586)	$ (16,989)	Net realized and unrealized (losses) gain–other	$ (744)	$ (1,665)	$ 5,996
	$ (178)	**$ (4,586)**	**$ (16,989)**		**$ (744)**	**$ (1,665)**	**$ 5,996**

[1]Recognized as a foreign currency hedge under the Derivatives and Hedging Topic of the ASC.

Derivatives

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

Non designated

		Gain or (Loss) on Derivatives Recognized in Net Income		
Derivatives not designated		For the years ended December 31,		
as hedging instruments	Location	2010	2009	2008
Futures contracts	Net realized and unrealized gains (losses) – investments	$ 14,290	$ 12,458	$ (147,493)
Total return swaps	Net realized and unrealized gains (losses) – investments	1,105	(4,630)	(18,431)
Currency swaps	Net realized and unrealized (losses) gains – other	(1,290)	661	(783)
Interest rate swaps	Net realized and unrealized losses – investments	–	–	(295)
Interest rate swaps	Net realized and unrealized losses – other	–	–	(1,353)
Foreign currency forward contracts	Net realized and unrealized losses – investments	(15,840)	(25,375)	–
Foreign currency forward contracts	Net realized and unrealized gains – other	14,674	9,867	1,099
Mortgage-backed securities TBA	Net realized and unrealized gains – investments	882	2,402	2,203
Other reinsurance derivatives	Net realized and unrealized gains – other	1,801	2,390	6,658
		$ 15,622	**$ (2,227)**	**$ (158,395)**

Foreign currency forward contracts

The Company enters into foreign currency forward contracts for the purpose of hedging its net investment in foreign subsidiaries which are recorded as designated hedges. All other foreign currency forward contracts are not designated as hedges and are entered into for the purpose of hedging our foreign currency fixed maturities investments and our net foreign currency operational assets and liabilities.

Futures contracts

The Company uses futures contracts to gain exposure to U.S. equity, global equity, emerging market equity and commodities. The Company uses interest rate futures to manage the derivatives of the fixed maturities investments.

Total return swaps

The Company uses total return swaps to gain exposure to a global inflation linked bond index and a global equity index. 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.

Currency swaps

The Company uses currency swaps to minimize the effect of fluctuating foreign currencies. The currency swaps relate to the Company's Euro denominated debentures.

To be announced mortgage-backed securities

The Company also purchases TBAs as part of its investing activities. By acquiring a TBA, the Company makes a commitment to purchase a future issuance of mortgage-backed securities.

Other reinsurance derivatives

The Company writes certain reinsurance contracts that are classified as derivatives in accordance with the FASB ASC Topic for Derivatives and Hedging. The Company has entered into ILW transactions that may be structured as reinsurance or derivatives.

Derivatives

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

Fair value disclosure

In accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC, the fair value of derivative instruments held as at December 31, 2010 and 2009 is allocated between levels as follows:

		Fair Value Measurement at December 31, 2010, using:		
	Fair value measurements	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Description				
Futures contracts	$ 2,340	$ 2,340	$ –	$ –
Swaps	(1,020)	–	(1,020)	–
Foreign currency forward contracts	(5,229)	–	(5,229)	–
Mortgage-backed securities TBA	(13)	–	(13)	–
Other reinsurance derivatives	(241)	–	–	(241)
Total derivatives	**$ (4,163)**	**$ 2,340**	**$ (6,262)**	**$ (241)**

For the Level 3 items still held as of December 31, 2010, the total change in fair value for the year, recorded in net realized and unrealized gains (losses) – other, is $nil.

		Fair Value Measurement at December 31, 2009, using:		
	Fair value measurements	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Description				
Futures contracts	$ 3,847	$ 3,847	$ –	$ –
Swaps	233	–	233	–
Foreign currency forward contracts	5,782	–	5,782	–
Mortgage-backed securities TBA	(399)	–	(399)	–
Other reinsurance derivatives	(1,596)	–	–	(1,596)
Total derivatives	**$ 7,867**	**$ 3,847**	**$ 5,616**	**$ (1,596)**

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:

For the years ended December 31,	**2010**	2009
Other reinsurance derivatives		
Beginning balance	$ (1,596)	$ (541)
Total unrealized gains included in earnings	1,892	2,299
Net purchases	(537)	(3,354)
Closing fair value	**$ (241)**	**$ (1,596)**

Transfers between levels, if necessary, are done as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers between levels during these periods.

Segment Reporting

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

As a result of the acquisition of FSML, the managing agency for Lloyd's Syndicate 1861, the Company revised its segment structure, effective January 1, 2009, to include a new Lloyd's segment. As a result of this process, the Company now reports its results to the chief operating decision maker based on three reporting segments: Reinsurance, Lloyd's and Island Heritage (previously referred to as the Insurance segment until January 1, 2010). The Company regularly reviews its financial results and assesses performance on the basis of these three reporting segments in accordance with the Segment Reporting Topic of the FASB ASC.

The comparative information below reflects the Company's current segment structure.

Those segments are more fully described as follows:

Reinsurance

The Company's 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 the Company's most important product. The Company writes 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**. The Company also provides 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**. The Company also provides short-tail specialty and casualty reinsurance for risks such as aviation, energy, personal accident and health, satellite, marine and workers' compensation catastrophe. Most short-tail specialty and casualty reinsurance is written with loss limitation provisions.

Lloyd's

The Company's Lloyd's segment includes the business generated through the Lloyd's Syndicate 1861 and FSML. Syndicate 1861, based in London, primarily provides property and short-tail specialty and casualty insurance and reinsurance for risks such as energy, hull and cargo, marine liability, engineering and aviation. Syndicate 1861 began writing business for the benefit of Flagstone effective January 1, 2009. As such, there are no comparative numbers for the Lloyd's segment for the prior year. FSML generates fee income for the provision of services to syndicates and third parties.

Island Heritage

Island Heritage is a property and casualty insurer based in the Cayman Islands which is primarily in the business of insuring homes, condominiums, office buildings and automobiles in the Caribbean region.

Segment Reporting

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

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, and interest in earnings of equity investments, total assets and ratios for each reportable segment for the years ended December 31, 2010, 2009 and 2008:

For the year ended December 31, 2010

	Reinsurance	Lloyd's	Island Heritage	Inter-segment Eliminations[1]	Total
Gross premiums written	$ 861,388	$ 187,420	$ 90,896	$ (41,854)	$ 1,097,850
Premiums ceded	(150,820)	(24,450)	(80,580)	41,854	(213,996)
Net premiums written	710,568	162,970	10,316	–	883,854
Net premiums earned	$ 697,614	$ 145,246	$ 9,224	$ –	$ 852,084
Other related income	3,817	13,566	23,343	(15,598)	25,128
Loss and loss adjustment expenses	(413,005)	(115,711)	(1,420)	–	(530,136)
Acquisition costs	(127,498)	(34,818)	(18,102)	15,598	(164,820)
General and administrative expenses	(136,249)	(26,144)	(9,300)	–	(171,693)
Underwriting income (loss)	**$ 24,679**	**$ (17,861)**	**$ 3,745**	**$ –**	**$ 10,563**
Loss ratio[2]	59.2%	79.7%	4.4%		62.2%
Acquisition cost ratio[2]	18.3%	24.0%	55.6%		19.3%
General and administrative expense ratio[2]	19.5%	18.0%	28.6%		20.1%
Combined ratio[2]	97.0%	121.7%	88.6%		101.6%
Total assets	**$ 2,351,967**	**$ 273,454**	**$ 93,781**		**$ 2,719,202**

Reconciliation

Underwriting income	$ 10,563
Net investment income	31,482
Net realized and unrealized gains – investments	43,769
Net realized and unrealized gains – other	14,441
Other income	417
Interest expense	(10,352)
Net foreign exchange losses	(4,719)
Income before income taxes and interest in earnings of equity investments	**$ 85,601**

[1]Inter-segment eliminations relate to Flagstone Suisse quota share arrangements with Island Heritage and beginning in 2009, also with Lloyd's.

[2]For Island Heritage segment all ratios calculated using expenses divided by net premiums earned plus other related income.

Segment Reporting

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

For the year ended December 31, 2009

	Reinsurance	Lloyd's	Island Heritage	Inter-segment Eliminations[1]	Total
Gross premiums written	$ 796,984	$ 145,889	$ 84,239	$ (38,621)	$ 988,491
Premiums ceded	(140,850)	(18,504)	(75,289)	38,621	(196,022)
Net premiums written	656,134	127,385	8,950	–	792,469
Net premiums earned	$ 689,544	$ 62,130	$ 6,781	$ –	$ 758,455
Other related income	3,622	8,749	20,968	(14,187)	19,152
Loss and loss adjustment expenses	(241,358)	(40,847)	(980)	–	(283,185)
Acquisition costs	(121,837)	(14,608)	(14,213)	14,187	(136,471)
General and administrative expenses	(119,555)	(15,904)	(11,679)	–	(147,138)
Underwriting income (loss)	**$ 210,416**	**$ (480)**	**$ 877**	**$ –**	**$ 210,813**
Loss ratio[2]	35.0%	65.7%	3.5%		37.3%
Acquisition cost ratio[2]	17.7%	23.5%	51.2%		18.0%
General and administrative expense ratio[2]	17.3%	25.6%	42.1%		19.4%
Combined ratio[2]	70.0%	114.8%	96.8%		74.7%
Total assets	**$ 2,298,821**	**$ 177,355**	**$ 90,592**		**$ 2,566,768**

Reconciliation

Underwriting income	$ 210,813
Net investment income	28,531
Net realized and unrealized gains – investments	39,668
Net realized and unrealized gains – other	11,253
Other income	2,576
Interest expense	(12,105)
Net foreign exchange losses	(3,231)
Income before income taxes and interest in earnings of equity investments	**$ 277,505**

For the year ended December 31, 2008

	Reinsurance	Island Heritage	Inter-segment Eliminations[1]	Total
Gross premiums written	$ 740,169	$ 76,926	$ (35,206)	$ 781,889
Premiums ceded	(46,638)	(75,759)	35,206	(87,191)
Net premiums written	693,531	1,167	–	694,698
Net premiums earned	$ 641,500	$ 12,668	$ –	$ 654,168
Other related income	305	13,247	(9,691)	3,861
Loss and loss adjustment expenses	(377,228)	(2,656)	–	(379,884)
Acquisition costs	(101,528)	(13,897)	9,691	(105,734)
General and administrative expenses	(90,026)	(9,000)	–	(99,026)
Underwriting income	**$ 73,023**	**$ 362**	**$ –**	**$ 73,385**
Loss ratio[2]	58.8%	10.2%		58.1%
Acquisition cost ratio[2]	15.8%	53.6%		16.2%
General and administrative expense ratio[2]	14.0%	34.7%		15.1%
Combined ratio[2]	88.6%	98.5%		89.4%
Total assets	**$ 2,167,853**	**$ 48,117**		**$ 2,215,970**

Reconciliation

Underwriting income	$ 73,385
Net investment income	51,398
Net realized and unrealized losses – investments	(272,206)
Net realized and unrealized gains – other	11,617
Other income	4,354
Interest expense	(18,297)
Net foreign exchange losses	(21,477)
Loss before taxes and interest in earnings of equity investments	**$ (171,226)**

[1]Inter-segment eliminations relate to Flagstone Suisse quota share arrangements with Island Heritage and beginning in 2009, also with Lloyd's.
[2]For Island Heritage segment all ratios calculated using expenses divided by net premiums earned plus other related income.

Segment Reporting

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

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:

For the year ended December 31,	2010		2009		2008	
	Gross premiums written	Percentage of total	Gross premiums written[5]	Percentage of total	Gross premiums written	Percentage of total
Line of business						
Reinsurance and Lloyd's[1]						
Property catastrophe	$ 474,501	43.2%	$ 468,158	47.4%	$ 457,549	58.5%
Property	259,006	23.6%	202,378	20.5%	94,706	12.1%
Short-tail specialty and casualty	273,447	24.9%	233,716	23.6%	152,708	19.5%
Island Heritage						
Insurance	90,896	8.3%	84,239	8.5%	76,926	9.9%
Total	**$1,097,850**	**100.0%**	**$ 988,491**	**100.0%**	**$ 781,889**	**100.0%**

For the year ended December 31,	2010		2009		2008	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total[5]	Gross premiums written	Percentage of total
Geographic area of risk insured[2]						
Caribbean[3]	$ 105,327	9.6%	$ 94,483	9.6%	$ 88,482	11.3%
Europe	144,217	13.1%	123,938	12.5%	104,185	13.4%
Japan and Australasia	67,995	6.2%	59,466	6.0%	47,866	6.1%
North America	440,728	40.1%	391,758	39.6%	359,684	46.0%
Worldwide risks[4]	252,997	23.0%	237,207	24.0%	153,442	19.6%
Other	86,586	8.0%	81,639	8.3%	28,230	3.6%
Total	**$1,097,850**	**100.0%**	**$ 988,491**	**100.0%**	**$ 781,889**	**100.0%**

[1]Gross premiums written relating to Lloyd's segment are primarily included in property and short-tail specialty and casualty.
[2]Except as otherwise noted, each of these categories includes contracts that cover risks located primarily in the designated geographic area.
[3]Includes gross premiums written related to Island Heritage segment.
[4]Includes contracts that cover risks in two or more geographic zones.
[5]Gross premiums written in 2009 have been reclassified to conform to current year presentation.

For the years ended December 31, 2010, 2009 and 2008, gross premiums written by brokers were as follows:

For the year ended December 31,	2010		2009		2008	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total
Name of broker						
Aon Benfield	$ 343,234	31.3%	$ 366,088	37.0%	$ 369,037	47.2%
Guy Carpenter	297,429	27.1%	231,627	23.4%	162,236	20.7%
Willis Group	123,771	11.3%	95,800	9.7%	56,997	7.3%
Other brokers[1]	333,416	30.3%	294,976	29.9%	193,619	24.8%
Total	**1,097,850**	**100.0%**	**$ 988,491**	**100.0%**	**$ 781,889**	**100.0%**

[1]Other brokers includes the gross premiums related to Island Heritage segment.

Earnings (Loss) Per Common Share

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

The computation of basic and diluted earnings (loss) per common share for the years ended December 31, 2010, 2009, and 2008 is as follows:

	For the years ended December 31,		
	2010	2009	2008
Basic earnings per common share			
Net income (loss) attributable to Flagstone	$ 97,084	$ 242,192	$ (187,302)
Weighted average common shares outstanding	78,391,591	84,074,056	85,175,484
Weighted average vested restricted share units	265,097	205,721	153,220
Weighted average common shares outstanding—Basic	78,656,688	84,279,777	85,328,704
Basic earnings (loss) per common share	$ 1.23	$ 2.87	$ (2.20)
Diluted earnings per common share			
Net income (loss) attributable to Flagstone	$ 97,084	$ 242,192	$ (187,302)
Weighted average common shares outstanding	78,391,591	84,074,056	85,175,484
Weighted average vested restricted share units outstanding	265,097	205,721	153,220
	78,656,688	84,279,777	85,328,704
Share equivalents:			
Weighted average unvested restricted share units	223,902	224,015	–
Weighted average unvested performance share units	–	–	–
Weighted average common shares outstanding—Diluted	78,880,590	84,503,792	85,328,704
Diluted earnings (loss) per common share	**$ 1.23**	**$ 2.87**	**$ (2.20)**

Dilutive share equivalents have been excluded in the weighted average common shares used for the calculation of earnings per share in periods of net loss because the effect of such securities would be anti-dilutive. The number of anti-dilutive share equivalents that were excluded in the computation of diluted earnings per share for the year ended December 31, 2008, was 243,124. Also at December 31, 2010, 2009, and 2008, there was a warrant outstanding which would result in the issuance of 630,194, 8,585,747 and 8,585,747 common shares, respectively, that were excluded from the computation of diluted earnings per common share because the effect would be anti-dilutive. Because the number of shares contingently issuable under the PSU Plan depends on the average DROE over a two or three year period, the PSUs are excluded from the calculation of diluted earnings per common share until the end of the performance period, at which time the number of shares issuable under the PSU Plan will be known. As at December 31, 2010, 2009, and 2008, there were 3,998,558, 3,305,713, and 2,189,982 PSUs, respectively, which were expected to vest. The maximum number of common shares that could be issued under the PSU Plan at December 31, 2010, 2009, and 2008, was 5,751,765, 4,712,498, and 3,284,973 respectively.

Also at December 31, 2010, 2009, and 2008, there was a warrant outstanding which would result in the issuance of common shares that were excluded from the computation of diluted earnings per common share because the effect would be anti-dilutive. These securities were as follows:

	For the years ended December 31,		
	2010	2009	2008
Warrant	630,194	8,585,747	8,585,747

Shareholder Information

NYSE: FSR

BSX: FSR BH

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, 2010, 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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Chief Underwriting Officer
North America

Guy Swayne
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