shaping our OPPORTUNITIES

FLAGSTONE RE

2009 ANNUAL REPORT

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LETTER TO
SHAREHOLDERS

Mark Byrne

David Brown

We are delighted to report on Flagstone's results for the year ended December 31, 2009 – the most profitable year thus far for our organization.

The company's financial results for 2009 were excellent. Our diluted book value increased by 24.6% and our core operating results were strong, with a 74.7% combined ratio. Given that we re-allocated our assets to a conservative, high quality portfolio in October 2008, these impressive results are primarily a function of our underwriting returns and not movement in the value of our investment portfolio.

Flagstone's total written premium for 2009 was $988.5 million, up 26.4% from 2008. For the year, our loss ratio was 37.3%, producing underwriting profits of $210.8 million. These excellent results were achieved without the benefit of significant reserve releases from previous years.

These figures are not the result of chance, but are instead a product of Flagstone's deliberate and unwavering approach to underwriting and risk management. By adopting a clear and focused strategy that features diversification, the expansion of our global platform, the application of industry-leading analytics and a commitment to attracting the very best localized talent, Flagstone has succeeded in shaping our own opportunities, opportunities that we've maximized wherever possible.

It is precisely by adopting that approach that we met our objectives for 2009. We continued to grow and diversify our portfolio as planned, with the completion of the integration of our Lloyd's platform, Marlborough/Syndicate 1861, accounting for a good portion of our top line premium growth. Our three year average premium growth rate is 48%, one of the highest in our peer group, while coupled with one of the lowest loss ratios. We believe we have developed a sustainable underwriting 'edge' and global machine for producing many business possibilities to which we can apply it.

Over the past several years, Flagstone has been aiming to achieve a 50/50 split of non-cat to catastrophe-exposed business. Since 2006, we've been growing the non-property cat share of our business by about 10% per year and reached our goal of 50% in 2009. This level of diversification allows us to participate in the best priced sectors of the market while remaining less exposed to capital loss from significant catastrophic events. This, in turn, should lead to even more favorable financial ratings from the agencies. We expect this 50/50 split to continue in future years, with some tactical reallocations based on market conditions.

Through 2009, Flagstone also worked hard at restoring our balance sheet from the difficult asset-side events of 2008. Of the 24.6% increase in our diluted book value, 16% can be attributed to underwriting profit. Though Flagstone has a mid-teens return target, our capital management strategy is to deploy capital to attractive opportunities as they arise so as to exceed that target. As capital positions have been strengthened, rates are now potentially softening, and it becomes increasingly important to underwrite selectively. Thanks to the reach of our global platform, we have more opportunities to choose from and can be more selective in the risk we write.

During the past year, we sought to further diversify our book by actively seeking business from demanding clients that haven't traditionally partnered with young companies such as Flagstone. We were successful in these efforts, taking advantage of the fact that many of our larger competitors experienced difficult times in 2008 and thus clients were interested in diversifying as well. One of the ensuing benefits for Flagstone is that working with better, higher quality carriers translates into better loss results over time.

In 2009, we continued the build-out of our global platform, and through the year, focused on the full and seamless integration of our world-wide operations, fully integrating Marlborough as well as growing our South African operations and successfully establishing offices in both New York and in Rio de Janeiro where we aim to capitalize on new opportunities. We expect to continue to take advantage of our global platform, and leverage it so that Flagstone continues to write the most attractive lines of business on an ongoing basis.

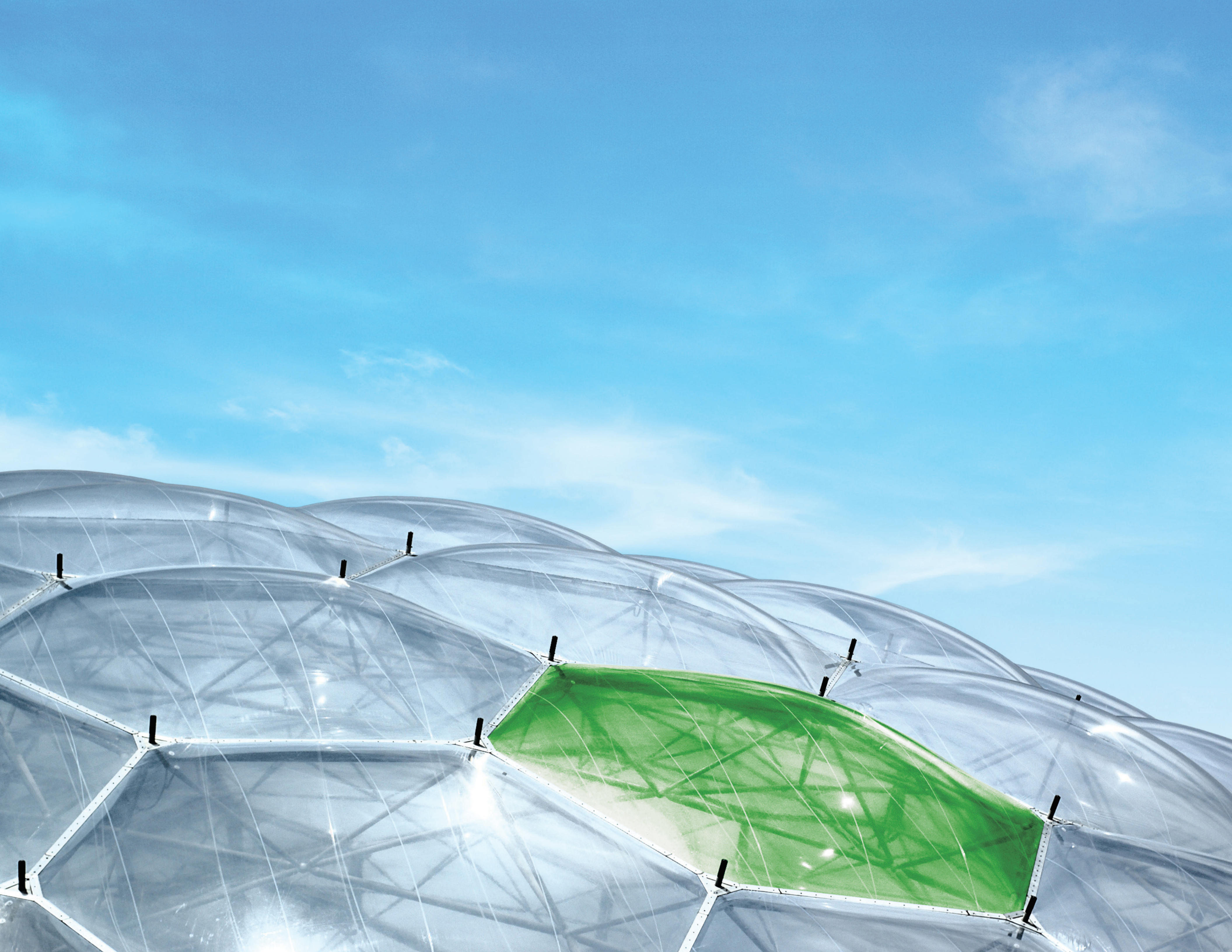
From an investments perspective, we were pleased to see the positive effects of de-risking our portfolio in late 2008. We are now committed to holding at least 85% of our investment portfolio in high grade bonds and cash for the next several years, and are content to make a lower, albeit more predictable and less volatile, return.

Flagstone is now at the point where we can build on our strengths without having to undertake any major new initiatives. We will maintain our high quality book of business and with four years of operations under our belt, look forward to taking our rightful place in the industry as a high-quality, mature multi-line insurer and reinsurer.

As always, Flagstone's successes of the past year wouldn't have been possible without the hard work and dedication of our employees and management team, as well as the support and loyalty of our shareholders and clients. We extend our gratitude and appreciation to you all.

Mark Byrne
Executive Chairman

David Brown
Chief Executive Officer
& Deputy Chairman



WE SOURCE MORE BUSINESS AND ATTRACT MORE LOCAL TALENT DUE TO THE EFFICIENCY OF OUR GLOBAL PLATFORM

COMPANY OVERVIEW

Extending our reach worldwide has always been one of Flagstone's key objectives. With 16 offices in 14 countries, we have established our presence in mature and emerging markets around the globe.

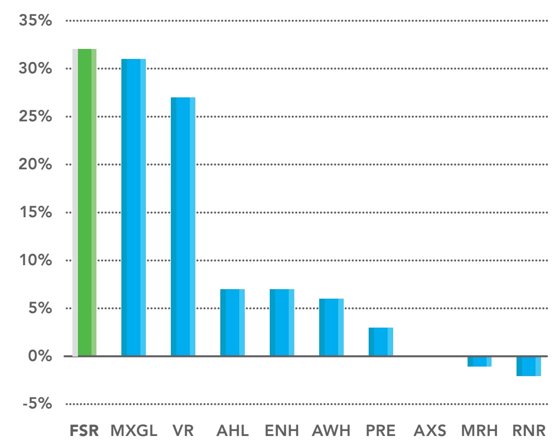
As our results demonstrate, there are many benefits to maintaining such a broad platform. Not only is Flagstone able to source significant amounts of business around the world, but the efficiency of our platform means we can allocate our capacity to the most attractive opportunities available. We have the unique ability to take advantage of our expertise in distinct geographic locations and market segments, and to leverage that knowledge to undertake high quality, high volume analysis on a wide range of risks.

Having offices around the globe means we can respond to submissions quickly and effectively, and our professionals are available around the clock to offer outstanding levels of service to our clients. We are proud to have been runner-up for three awards in 2009 for customer service.

We continue to generate opportunities to deploy capital, often in underserved and growing markets. In 2009, Flagstone further strengthened our global platform by opening two new offices. The Marlborough office in Rio de Janeiro, Brazil, illustrates our model growth strategy to operate in regions where we will have a competitive advantage and where the prospects for continual growth are high. Through this office, we have gained access to the rapidly growing Brazilian market which now represents 50% of the whole South American insurance market. Our agency, Mosaic Underwriting Services Inc., in New York, opened up the North American Marine and Energy market on both a primary and reinsurance basis.

Simply put, our global platform provides Flagstone with a unique and sustainable competitive advantage.

2007 – 2009 Compound Annual Growth Rate Gross Written Premiums (ex-Reinstatement Premiums)



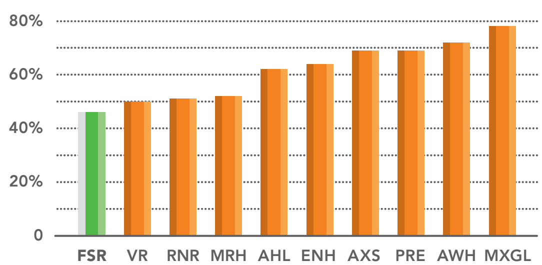
Source: Company reports based on public company data

WE CAN ANALYZE MORE RISKS, FASTER AND WITH MORE COMPREHENSIVE RESULTS, UTILIZING OUR

CUTTING-EDGE ANALYTICS

Underwriting Profitability

Underwriting Profitability – Loss Ratio (ex-Releases) 3 year average



Source: Company reports based on public company data

Applying sophisticated and comprehensive risk analysis is the foundation of Flagstone's approach to underwriting. We've never been satisfied to accept existing technologies as the only tools at our disposal; instead, we've undertaken the necessary research and development to build proprietary systems to meet our requirements – and those of our clients. The result? Superior risk analysis and industry-leading customer service.

Our innovative MOSAIC system provides our underwriters with a proprietary view of risk. Combined with CYCLONE, our high performance computing platform, and our proprietary cat modeling system, QUARTZ, these technologies enable our underwriters to analyze more risks, faster, and with more comprehensive results. Our industry-leading analytics also enable real-time portfolio simulation and analysis, as well as marginal pricing analysis and underwriting. These cutting-edge analytics allow us to process large volumes of submissions, before selecting only those of the highest quality. Ultimately, the investment we make in systems and technology results in an excellent loss ratio – realizing value for our shareholders and clients.

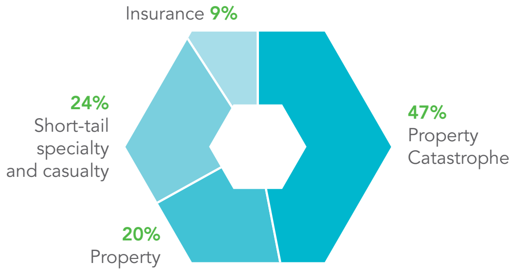
Flagstone continues to push the boundaries of traditional modeling through in-house solutions that provide more detailed, richer and faster data analysis. We built and released our proprietary Japanese quake model as well as a new proprietary South African quake model. We also deployed our real-time predictive storm modeling expertise with a 'Live Cat' transaction in Japan, further proving the profitability of our modeling techniques.

Our investment in analytics continues to translate into an excellent loss ratio, improved service for our clients and increased value for our shareholders.

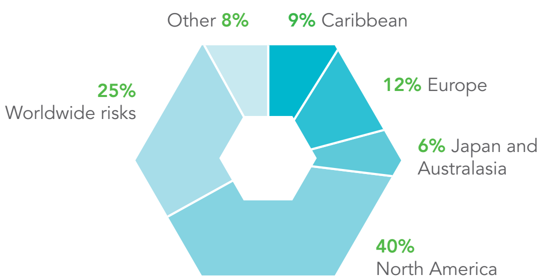
PROVIDING SECURITY AND PROTECTION THROUGH

DIVERSIFICATION

Gross Premiums Written by Lines of Business
For the year ended December 31, 2009



Gross Premiums Written by Geography
For the year ended December 31, 2009



Diversification is one of the cornerstones of Flagstone's success and is an integral part of our overall strategy. We diversify by geography, by line of business and by choice of risk – a balanced approach that provides long-term security, sustainability and profitability.

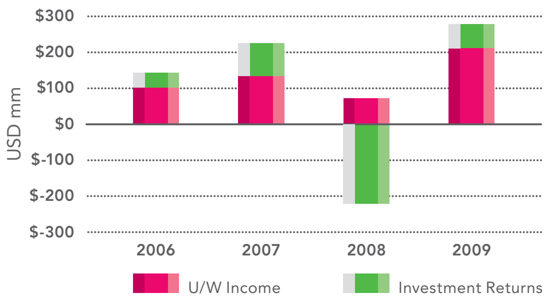
Our book is significantly diversified on a geographic basis, with underwriting offices in North America, South America, Europe, the Caribbean, the Middle East and South Africa. This diversification enables us to limit our peak zonal exposures which, in turn, protects our balance sheet against out-sized potential loss from large industry events while still producing volumes of profitable global business. The increased premium leverage this diversification affords us, combined with an excellent loss ratio as measured over annual periods, results in superior operating profitability for Flagstone shareholders.

As a multi-line reinsurer and insurer, Flagstone has diversified by offering a broad range of coverage, including property catastrophe, property, specialty and short-tail casualty risks. In 2009, we realized our objective of achieving a 50/50 split of property cat and non-cat specialty lines in our book of business. In addition to diversifying our book globally, Flagstone also completed the integration of Marlborough, our Lloyd's platform, which has a focus on non-cat specialty business, including Engineering, Aviation and Marine & Energy risks.

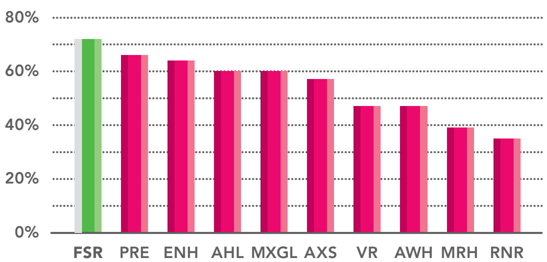
Through this targeted, selective approach to diversification, Flagstone grew our premium base significantly in 2009 and outperformed the industry with an annual loss ratio of 37.3%. The company is extremely well positioned for continued growth and success.

SEEING AND WRITING MORE QUALITY BUSINESS AS A RESULT OF OUR INVESTMENT IN LOCALIZED TALENT

Drivers of Group Profits



Diversification & Use of Capital
Net Premiums Written to Average Capital
For the year ended December 31, 2009



Source: Company reports based on public company data

Flagstone recognizes the vital role human capital plays in our organization's achievements. That's why attracting and retaining the most qualified professionals to join our highly skilled and specialized teams is a Flagstone priority and one of our core differentiators.

The ongoing investment Flagstone makes in the recruitment, training and professional development of our people emphasizes the importance we place on building dedicated underwriting, research and development, and support teams that are highly skilled and rich in talent. The result is an energetic corporate culture where technical expertise is deep, where employees focus on providing timely, responsive and expert support to our clients, and where people strive to develop and enhance best practices. In addition, our human resources help build profitable relationships through industry-leading knowledge, service and responsiveness. Our people make a difference, and that's one of the primary drivers of our success to date.

With close to 500 employees, Flagstone knows the value of having localized talent on board, not only to source and explore high quality regional opportunities as they arise, but also to provide insight into the local customs and ways of doing business. In particular, we always make an effort to draw on the expertise available in the areas where we've chosen to establish a presence, with a view to expanding our set of opportunities and growing where others might not recognize the potential.

We believe our commitment to and investment in localized talent is an important strategy that will continue to pay dividends for years to come.


SMITH NEW COURT PLC

BUSINESS

HIGHLIGHTS

The year ended December 31, 2009 was Flagstone's most successful yet. In addition to posting record results, the company strengthened and further diversified its global platform while adhering to a rigorous underwriting approach that leveraged our cutting-edge analytics.

The highlights of 2009:

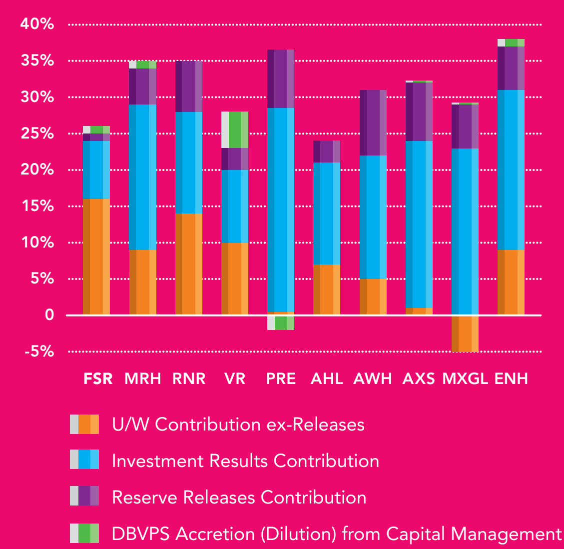
- We achieved an excellent loss ratio of **37.3%** and a combined ratio of **74.7%** for the year, producing underwriting profits of **$210.8M**. These results demonstrate the value created by our investment in leading-edge analytics and the quality of our global platform.

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

- The company successfully purchased coverage from **Montana Re**, the second in a series of 144A Cat Bonds. This transaction enables Flagstone to diversify our reinsurance, as well as provide us with multi-year capital relief, and access to the capital markets.

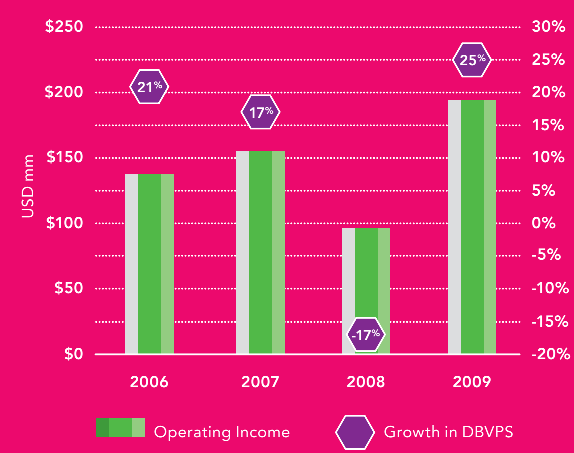
- Flagstone's diluted book value increased by **24.6%** over the year, resulting in the most profitable year in the company's operating history.

Contribution to DBVPS Growth 2009



Source: Company reports based on public company data

Operating Income & Growth in DBVPS



EXCERPTS FROM

FINANCIAL STATEMENTS

For complete financial statements including auditors' opinion and notes please refer to our 2009 10-K which can be found on our website at www.flagstonere.com

CONSOLIDATED BALANCE SHEETS

As at December 31, 2009 and 2008
(Expressed in thousands of U.S. dollars, except share data)

	2009	2008
ASSETS		
Investments:		
Fixed maturities, at fair value (Amortized cost: 2009 – $1,198,187; 2008 – $787,792)	$ 1,228,561	$ 784,355
Short term investments, at fair value (Amortized cost: 2009 – $231,609; 2008 – $30,491)	232,434	30,413
Equity investments, at fair value (Cost: 2009 – $8,516; 2008 – $16,266)	290	5,313
Other investments	45,934	54,655
Total Investments	1,507,219	874,736
Cash and cash equivalents	352,185	783,705
Restricted cash	85,916	42,403
Premium balances receivable	278,956	218,287
Unearned premiums ceded	52,690	31,119
Reinsurance recoverable	19,270	16,422
Accrued interest receivable	11,223	7,226
Receivable for investments sold	5,160	9,634
Deferred acquisition costs	54,637	44,601
Funds withheld	22,168	14,433
Goodwill	16,533	17,141
Intangible assets	35,790	32,873
Other assets	125,021	123,390
Total Assets	$ 2,566,768	$ 2,215,970
LIABILITIES		
Loss and loss adjustment expense reserves	$ 480,660	$ 411,565
Unearned premiums	330,416	270,891
Insurance and reinsurance balances payable	62,864	31,123
Payable for investments purchased	11,457	7,776
Long term debt	252,402	252,575
Other liabilities	63,155	58,577
Total Liabilities	1,200,954	1,032,507
EQUITY		
Common voting shares, 300,000,000 authorized, $0.01 par value, issued and outstanding (2009 – 82,985,219; 2008 – 84,801,732)	850	848
Common shares held in treasury, at cost (2009 – 2,000,000; 2008 – nil)	(20)	—
Additional paid-in capital	892,817	897,344
Accumulated other comprehensive loss	(6,976)	(8,271)
Retained earnings	324,347	96,092
Total Flagstone Shareholders' Equity	1,211,018	986,013
Noncontrolling Interest in Subsidiaries	154,796	197,450
Total Equity	1,365,814	1,183,463
Total Liabilities and Equity	$ 2,566,768	$ 2,215,970

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the years ended December 31, 2009, 2008 and 2007
(Expressed in thousands of U.S. dollars, except share data and per share data)

	2009	2008	2007
REVENUES			
Gross premiums written	$ 988,491	$ 781,889	$ 577,150
Premiums ceded	(196,022)	(87,191)	(50,119)
Net premiums written	792,469	694,698	527,031
Change in net unearned premiums	(34,014)	(40,530)	(49,894)
Net premiums earned	758,455	654,168	477,137
Net investment income	28,531	51,398	73,808
Net realized and unrealized gains (losses) – investments	39,668	(272,206)	17,174
Net realized and unrealized gains (losses) – other	11,253	11,617	(9,821)
Other income	21,728	8,215	5,811
Total revenues	859,635	453,192	564,109
EXPENSES			
Loss and loss adjustment expenses	283,185	379,884	192,859
Acquisition costs	136,471	105,734	82,292
General and administrative expenses	147,138	99,026	72,461
Interest expense	12,105	18,297	18,677
Net foreign exchange losses (gains)	3,231	21,477	(5,289)
Total expenses	582,130	624,418	361,000
Income (loss) before income taxes and interest in earnings of equity investments	277,505	(171,226)	203,109
Provision for income tax	(5,412)	(1,178)	(783)
Interest in earnings of equity investments	(1,356)	(1,299)	1,390
Net income (loss)	270,737	(173,703)	203,716
Less: Income attributable to noncontrolling interest	(28,545)	(13,599)	(35,794)
NET INCOME (LOSS) ATTRIBUTABLE TO FLAGSTONE	$ 242,192	$ (187,302)	$ 167,922
Net income (loss)	$ 270,737	$ (173,703)	$ 203,716
Change in currency translation adjustment	2,600	(16,251)	7,945
Change in defined benefit pension plan obligation	136	(887)	—
Comprehensive income (loss)	273,473	(190,841)	211,661
Less: Comprehensive income attributable to noncontrolling interest	(29,986)	(12,158)	(35,794)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO FLAGSTONE	$ 243,487	$ (202,999)	$ 175,867
Weighted average common shares outstanding—Basic	84,279,777	85,328,704	81,975,384
Weighted average common shares outstanding—Diluted	84,503,792	85,328,704	82,111,590
Net income (loss) attributable to Flagstone per common share—Basic	$ 2.87	$ (2.20)	$ 2.05
Net income (loss) attributable to Flagstone per common share—Diluted	$ 2.87	$ (2.20)	$ 2.05
Dividends declared per common share	$ 0.16	$ 0.16	$ 0.08

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2009
(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2009

			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	$ 1,183,463	$ —	$ 96,092	$ (8,271)	$ 848	$ 897,344	$ 197,450
Repurchase of preferred shares	(63,117)						(63,117)
Comprehensive income:							
Net income	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)				(20)	(19,730)	
Dividends declared	(13,937)		(13,937)				
Ending balance	**$ 1,365,814**		**$ 324,347**	**$ (6,976)**	**$ 830**	**$ 892,817**	**$ 154,796**

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2008
(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 loss	(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**

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2007
(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2007

			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	$ 864,519	$ —	$ 139,954	$ (4,528)	$ 715	$ 728,378	$ —
Acquisition of subsidiaries	148,984						148,984
Comprehensive income:							
Net income	203,716	203,716	167,922				35,794
Other comprehensive income:							
Change in currency translation adjustment	7,945	7,945		7,945			
	7,945	7,945					
Comprehensive income	**211,661**	**$ 211,661**					
Stock based compensation	8,289					8,289	
Cumulative effect adjustment from adoption of new accounting principle SFAS 159	—		(4,009)	4,009			
Issue of shares, net	185,626				138	185,488	
Issuance costs (related party: 2008 - $nil; 2007 – $3,430)	(16,839)					(16,839)	
Dividends declared	(6,977)		(6,977)				
Ending balance	**$ 1,395,263**		**$ 296,890**	**$ 7,426**	**$ 853**	**$ 905,316**	**$ 184,778**

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2009, 2008 and 2007
(Expressed in thousands of U.S. dollars)

	2009	2008	2007
Cash flows provided by (used in) operating activities:			
Net income (loss)	$ 270,737	$ (173,703)	$ 203,716
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Net realized and unrealized (gains) losses	(50,921)	260,589	(7,353)
Net unrealized foreign exchange gains	710	30,792	5,718
Depreciation and amortization expense	7,125	4,797	2,647
Share based compensation expense (recovery)	15,932	(325)	8,136
Interest in earnings of equity investments	1,356	1,299	(1,390)
Accretion/amortization on fixed maturities	3,194	(11,560)	(8,196)
Changes in assets and liabilities, excluding net assets acquired:			
Reinsurance premium receivable	(59,999)	(42,773)	(53,278)
Unearned premiums ceded	(21,050)	(13,799)	(9,619)
Deferred acquisition costs	(9,316)	(6,834)	(13,549)
Funds withheld	(7,561)	(7,677)	(6,666)
Loss and loss adjustment expense reserves	60,093	165,926	158,078
Unearned premiums	53,815	61,038	57,942
Insurance and reinsurance balances payable	35,884	5,157	(8,474)
Reinsurance recoverable	(1,523)	(6,615)	(1,355)
Other changes in assets and liabilities, net	39,973	(37,905)	9,081
Net cash provided by operating activities	338,449	228,407	335,438
Cash flows (used in) provided by investing activities:			
Net cash (paid) received in acquisitions of subsidiaries	(11,373)	(37,344)	2,643
Net cash paid in disposal of subsidiaries	(981)	—	—
Purchases of fixed income securities	(2,470,554)	(1,313,953)	(1,699,537)
Sales and maturities of fixed income securities	1,887,700	1,610,242	1,391,198
Purchases of equity securities	(37,679)	(121,901)	(98,774)
Sales of equity securities	43,851	143,505	34,533
Purchases of other investments	(31,460)	(579,832)	(225,156)
Sales and maturities of other investments	15,737	592,083	13,872
Purchases of fixed assets	(12,831)	(21,420)	(9,668)
Sale of fixed asset under a sale lease-back transaction	—	—	18,500
Sales of fixed asset	1,101	1,550	—
Change in restricted cash	(43,513)	(39,571)	(2,832)
Net cash (used in) provided by investing activities	(660,002)	233,359	(575,221)
Cash flows (used in) provided by financing activities:			
Issue of common shares, net of issuance costs paid	(586)	(885)	171,644
Shares repurchased and held in treasury	(19,750)	(6,641)	—
Issue of notes, net of issuance costs paid	—	—	123,673
Contribution (distribution) of noncontrolling interest	289	(415)	84,322
Repurchase of noncontrolling interest	(63,117)	(6,639)	(14,353)
Dividend paid on common shares	(13,414)	(13,496)	(6,823)
Repayment of long term debt	(15,042)	(9,167)	—
Repayment of loan under a sale lease-back transaction	—	—	(17,063)
Other	827	(3,311)	(5,166)
Net cash (used in) provided by financing activities	(110,793)	(40,554)	336,234
Effect of foreign exchange rate on cash	826	(129)	4,819
(Decrease) increase in cash and cash equivalents	(431,520)	421,083	101,270
Cash and cash equivalents – beginning of year	783,705	362,622	261,352
Cash and cash equivalents – end of period	$ 352,185	$ 783,705	$ 362,622
Supplemental cash flow information:			
Receivable for investments sold	$ 5,160	$ 9,634	$ —
Payable for investments purchased	$ 11,457	$ 7,776	$ 41,750
Interest paid	$ 11,716	$ 17,863	$ 16,271

For complete financial statements including auditors' opinion and notes please refer to our 2009 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 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, 2009 and 2008 are as follows:

As at December 31, 2009	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Fixed maturities				
U.S. government and government agency	$ 421,215	$ 12,186	$ (1,686)	$ 431,715
U.S. states and political subdivision	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
Total fixed maturities	**$ 1,198,187**	**$ 35,608**	**$ (5,234)**	**$ 1,228,561**
Short term investments				
U.S. government and government agency	$ 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
Total short term investments	**$ 231,609**	**$ 1,565**	**$ (740)**	**$ 232,434**
Equity investments	**$ 8,516**	**$ 124**	**$ (8,350)**	**$ 290**
Total investments	**$ 1,438,312**	**$ 37,297**	**$ (14,324)**	**$ 1,461,285**

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				
U.S. government and government agency	$ 30,491	$ —	$ (78)	$ 30,413
Total short term investments	**$ 30,491**	**$ —**	**$ (78)**	**$ 30,413**
Equity investments	**$ 16,266**	**$ 784**	**$ (11,737)**	**$ 5,313**
Total investments	**$ 834,549**	**$ 17,160**	**$ (31,628)**	**$ 820,081**

Proceeds from the sale of fixed maturity, short term and equity investments during the year ended December 31, 2009 and 2008 amounted to $1.9 billion and $1.8 billion, respectively.

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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, 2009 and 2008 are as follows:

	As at December 31,			
	2009		2008	
	Amortized	Fair Value	Amortized	Fair Value
Due within one year	$ 308,865	$ 312,253	$ 96,578	$ 96,660
Due after 1 through 5 years	577,634	588,707	305,089	301,166
Due after 5 through 10 years	311,819	324,095	142,447	142,939
Due after 10 years	71,478	72,753	128,210	132,119
Mortgage and asset-backed securities	160,000	163,187	145,959	141,884
Total	**$ 1,429,796**	**$ 1,460,995**	**$ 818,283**	**$ 814,768**

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

At December 31, 2009, the Company's entire fixed maturity investment portfolio, with the exception of $0.5 million, was invested in securities which were investment grade. 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. As at December 31, 2009 and 2008, 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,	
	2009	2008
Investment funds	$ 5,486	$ 9,805
Catastrophe bonds	36,128	39,174
Equity investment	4,320	5,676
Total other investments	**$ 45,934**	**$ 54,655**

The 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, 2009 and 2008 they had net realized gains of $2.0 and $0.3 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.

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INVESTMENTS

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

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 the Fair Value Measurements and Disclosures Topic of the FASB ASC, the Company determined that its investments in U.S. government treasury securities, listed equity securities and exchange traded funds are stated at Level 1 fair value as determined by 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 stated at Level 2 fair value 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 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 catastrophe bonds held prior to September 30, 2009, and still held at December 31, 2009, were transferred from Level 3 to Level 2 due to the increase in pricing sources obtained and the increased activity within the market.

The Company has reviewed its Level 3 investments, and the valuation methods are as follows: The fair value of the investment funds, being private equity funds, is determined by the investment fund managers using the net asset value provided by the 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 the investment funds is consistent with the methodology that is generally employed in the investment industry. Additionally, there are two mortgage-backed securities and one asset backed security that were classified as Level 3 due to the limited availability of the pricing sources which may be indicative of a less active market. Their fair value is determined using broker quotes.

As at December 31, 2009 and 2008, the Company's investments are allocated between levels as follows:

		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				
U.S. government and government agency	$ 431,715	$ 380,843	$ 50,872	$ —
U.S. states and political subdivisions	1,903	—	1,903	—
Other foreign government	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
Equity investments	290	290	—	—
Short term investments	232,434	125,755	106,679	—
	1,461,285	506,888	952,099	2,298
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**

For reconciliation purposes, the table above does not include an equity investment of $4.3 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 the FASB ASC guidance for financial instruments.

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INVESTMENTS

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

		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				
U.S. government and government agency	$ 486,842	$ 447,226	$ 39,616	$ —
Other foreign government	15,206	—	15,206	—
Corporates	140,423	—	140,423	—
Mortgage-backed securities	112,074	—	111,148	926
Asset-backed securities	29,810	—	29,810	—
	784,355	447,226	336,203	926
Equity investments	5,313	5,313	—	—
Short term investments	30,413	30,413	—	—
	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 the FASB ASC guidance for financial instruments.

For the Level 3 items still held as of December 31, 2009, the total change in fair value for the year ended December 31, 2009, is $(4.5) million. The catastrophe bonds held prior to September 30, 2009, and still held at December 31, 2009, were transferred from Level 3 to Level 2 due to the increase in pricing sources obtained and the increased activity within the market. The amount of the catastrophe bonds transferred between Level 3 to Level 2 as of December 31, 2009 was $13.4 million.

The reconciliation of the fair value for the Level 3 investments for the years ended December 31, 2009 and 2008, including net purchases and sales and change in unrealized gains, is set out below:

	For the year ended December 31, 2009			
	Fixed maturities	Investment funds	Catastrophe bonds	Total
Description				
Fair value, December 31, 2007	$ —	$ 11,208	$ 36,619	$ 47,827
Total realized gains included in earnings	—	644	278	922
Total unrealized losses included in earnings	—	(4,296)	(1,140)	(5,436)
Transfers in Level 3	926	—	—	926
Net purchases and sales	—	1,602	3,417	5,019
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) Level 3	1,521	—	(13,404)	(11,883)
Fair value, December 31, 2009	**$ 2,298**	**$ 5,486**	**$ —**	**$ 7,784**

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INVESTMENTS

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

Net Investment Income

Net investment income for the years ended December 31, 2009, 2008, and 2007 was $28.5 million, $51.4 million, and $73.8 million, respectively. The components are set out below:

	For the years ended December 31,		
	2009	2008	2007
Interest and dividend income			
Cash and cash equivalents	$ 3,231	$ 13,498	$ 12,911
Fixed maturities	31,600	30,579	45,830
Short term	1,687	138	150
Equity investments	76	79	308
Other investments	9	518	7,456
Amortization income			
Fixed maturities	(3,317)	11,205	8,128
Short term	(282)	428	102
Other investments	406	23	—
Investment expenses	(4,879)	(5,070)	(1,077)
Net investment income	**$ 28,531**	**$ 51,398**	**$ 73,808**

Net realized and unrealized gains and losses

Realized investment gains (losses) on the sale of fixed maturity, short term and equity investments for the years ended December 31, 2009, 2008 and 2007 are as follows:

	For the years ended December 31,		
	2009	2008	2007
Fixed maturity and short term investments			
Gross realized gains	$ 38,051	$ 29,178	$ 5,854
Gross realized losses	(17,046)	(38,321)	(13,106)
Equities			
Gross realized gains	1,394	39	9,362
Gross realized losses	(3,321)	(52,449)	—
Net realized gains (losses)	**$ 19,078**	**$ (61,553)**	**$ 2,110**

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INVESTMENTS

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

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

	For the years ended December 31,		
	2009	2008	2007
Net realized gains (losses) on fixed maturities	$ 21,005	$ (9,143)	$ (7,252)
Net unrealized gains (losses) on fixed maturities	34,582	(14,130)	15,069
Net realized (losses) gains on equities	(1,927)	(52,410)	9,362
Net unrealized gains (losses) on equities	2,778	(2,401)	346
Net realized and unrealized (losses) on derivative instruments - investments	(15,145)	(164,016)	(983)
Net realized and unrealized gains (losses) on derivative instruments - other	11,253	11,617	(9,821)
Net realized and unrealized (losses) gains on other investments	(1,625)	(30,106)	632
Total net realized and unrealized gains (losses)	**$ 50,921**	$ (260,589)	$ 7,353

Pledged Assets

As at December 31, 2009 and 2008, approximately $85.9 million and $42.4 million, respectively, of cash and cash equivalents and approximately $425.1 million and $327.2 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.

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DERIVATIVES

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 in 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 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.

The details of the derivatives held by the Company as of December 31, 2009 and 2008 are as follows:

As at December 31, 2009

	Asset Derivatives			Liability Derivatives			Total Derivatives	
	Balance Sheet Location	Derivative Exposure	Fair Value	Balance Sheet Location	Derivative Exposure	Fair Value	Derivative Exposure	Net Fair Value
Derivatives designated as hedging instruments								
Foreign currency forward contracts[1]	Other Assets	$ 44,444	$ 148	Other Liabilities	$ 117,592	$ 512	$ 162,036	$ (364)
			148			512		(364)
Derivatives not designated as hedging instruments								
Purpose – risk management								
Currency swaps	Other Assets	$ 18,655	$ 260	Other Liabilities	$ —	$ —	$ 18,655	$ 260
Foreign currency forward contracts	Other Assets	378,627	12,532	Other Liabilities	137,864	6,386	516,491	6,146
			12,792			6,386		6,406
Purpose – exposure								
Futures contracts	Other Assets	$ 150,770	$ 3,847	Other Liabilities	$ —	$ —	$ 150,770	$ 3,847
Total return swaps	Other Assets	6,384	409	Other Liabilities	39,564	436	45,948	(27)
Mortgage backed securities TBA	Other Assets	—	—	Other Liabilities	41,496	399	41,496	(399)
Other reinsurance derivatives	Other Assets	—	—	Other Liabilities	—	1,596	—	(1,596)
			4,256			2,431		1,825
Total Derivatives			**$ 17,196**			**$ 9,329**		**$ 7,867**

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DERIVATIVES

	As at December 31, 2008							
	Asset Derivatives			Liability Derivatives			Total Derivatives	
	Balance Sheet Location	Derivative Exposure	Fair Value	Balance Sheet Location	Derivative Exposure	Fair Value	Derivative Exposure	Net Fair Value
Derivatives designated as hedging instruments								
Foreign currency forward contracts[1]	Other Assets	$ 43,327	$ 1,419	Other Liabilities	$ 294,385	$ 7,103	$ 337,712	$ (5,684)
			1,419			7,103		(5,684)
Derivatives not designated as hedging instruments								
Purpose – risk management								
Currency swaps	Other Assets	$ —	$ —	Other Liabilities	$ 18,071	$ 315	$ 18,071	$ (315)
Foreign currency forward contracts	Other Assets	54,768	1,493	Other Liabilities	60,924	5,317	115,692	(3,824)
			1,493			5,632		(4,139)
Purpose – exposure								
Futures contracts	Other Assets	$ 40,530	$ 333	Other Liabilities	$ 21,356	$ 190	$ 61,886	$ 143
Total return swaps	Other Assets	58,395	5,564	Other Liabilities	12,473	1,852	70,868	3,712
Mortgage backed securities TBA	Other Assets	63,937	648	Other Liabilities	—	—	63,937	648
Other reinsurance derivatives	Other Assets	—	—	Other Liabilities	—	541	—	(541)
			6,545			2,583		3,962
Total Derivatives			**$ 9,457**			**$ 15,318**		**$ (5,861)**

Designated

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

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

Non Designated

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

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DERIVATIVES

The non-designated derivatives are carried at fair value, with the fair value recorded in other assets and liabilities and 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.

Foreign currency forward contracts

The Company has entered into 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, with the ineffective portion recorded in realized and unrealized gains and losses included in the income statement. All other foreign currency forward contracts are not designated as hedges, and are also 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.

Futures contracts

The Company uses futures contracts to gain exposure to certain markets or indexes. The Company has entered into equity index, commodity index, and bond index futures as part of its investment strategy.

Total return swaps

The Company uses total return swaps to gain exposure to a global inflation inked 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 TBA mortgage-backed securities 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 Industry Loss Warranty ("ILW") transactions that may be structured as reinsurance or derivatives.

For complete financial statements including auditors' opinion and notes please refer to our 2009 10-K which can be found on our website at www.flagstonere.com

DERIVATIVES

Fair value disclosure

In accordance with Fair Value Measurements and Disclosures Topic of the FASB ASC, the fair value of derivative instruments held as of December 31, 2009 and December 31, 2008 is allocated between levels as follows:

		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)**

For the Level 3 items still held as of December 31, 2009, the total change in fair value for the year is $(1.6) million.

		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				
Futures contracts	$ 143	$ 143	$ –	$ –
Swaps	3,397	–	3,397	–
Foreign currency forward contracts	(9,508)	–	(9,508)	–
Mortgage backed securities TBA	648	–	648	–
Other reinsurance derivatives	(541)	–	–	(541)
Total derivatives	**$ (5,861)**	**$ 143**	**$ (5,463)**	**$ (541)**

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,	
	2009	2008
Other reinsurance derivatives		
Opening fair value	$ (541)	$ (1,305)
Total unrealized gains included in earnings	2,299	4,140
Net purchases and sales	(3,354)	(3,376)
Closing fair value	**$ (1,596)**	**$ (541)**

There were no transfers in or out of Level 3 during these periods.

For complete financial statements including auditors' opinion and notes please refer to our 2009 10-K which can be found on our website at www.flagstonere.com

SEGMENT REPORTING

As a result of the acquisition of Marlborough, 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 is now reporting its results to the chief operating decision maker based on three reporting segments: Reinsurance, Lloyd's and Insurance. The Company regularly reviews its financial results and assesses performance on the basis of these three reporting segments.

The Lloyd's segment includes the business generated for Lloyd's Syndicate 1861 by Marlborough. Syndicate 1861, based in London, primarily provides property and short-tail specialty and insurance and casualty 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 years. Marlborough generates fee income for the provision of services to Syndicates and third parties.

The insurance segment includes the business generated by 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 insurance segment for the year ended December 31, 2007 include the results of Island Heritage for six months only.

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, 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 Marlborough. Syndicate 1861 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. Marlborough generates fee income for the provision of services to Syndicates and third parties.

Insurance

The Company's Insurance segment includes insurance business generated through Island Heritage. Island Heritage is 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.

For complete financial statements including auditors' opinion and notes please refer to our 2009 10-K which can be found on our website at www.flagstonere.com

SEGMENT REPORTING

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 and ratios for each of the Company's business segments for the years ended December 31, 2009, 2008 and 2007:

	For the year ended December 31, 2009					For the year ended December 31, 2008				For the year ended December 31, 2007			
	Reinsurance	**Lloyd's**	**Insurance**	**Inter-segment Eliminations[1]**	**Total**	**Reinsurance**	**Insurance**	**Inter-segment Eliminations[1]**	**Total**	**Reinsurance**	**Insurance**	**Inter-segment Eliminations[1]**	**Total**
Gross premiums written	$ 796,984	$ 145,889	$ 84,239	$ (38,621)	$ 988,491	$ 740,169	$ 76,926	$ (35,206)	$ 781,889	$ 544,255	$ 33,026	$ (131)	$ 577,150
Premiums ceded	(140,850)	(18,504)	(75,289)	38,621	(196,022)	(46,638)	(75,759)	35,206	(87,191)	(30,592)	(20,375)	848	(50,119)
Net premiums written	656,134	127,385	8,950	–	792,469	693,531	1,167	–	694,698	513,663	12,651	717	527,031
Net premiums earned	$ 689,544	$ 62,130	$ 6,781	$ –	$ 758,455	$ 641,500	$ 12,668	$ –	$ 654,168	$ 464,200	$ 13,031	$ (94)	$ 477,137
Other related income	3,622	8,749	20,968	(14,187)	19,152	305	13,247	(9,691)	3,861	1,182	3,246	–	4,428
Loss and loss adjustment expenses	(241,358)	(40,847)	(980)	–	(283,185)	(377,228)	(2,656)	–	(379,884)	(191,269)	(1,590)	–	(192,859)
Acquisition costs	(121,837)	(14,608)	(14,213)	14,187	(136,471)	(101,528)	(13,897)	9,691	(105,734)	(75,880)	(6,506)	94	(82,292)
General and administrative expenses	(119,555)	(15,904)	(11,679)	–	(147,138)	(90,026)	(9,000)	–	(99,026)	(68,929)	(3,532)	–	(72,461)
Underwriting Income (Loss)	**$ 210,416**	**$ (480)**	**$ 877**	**$ –**	**$ 210,813**	**$ 73,023**	**$ 362**	**$ –**	**$ 73,385**	**$ 129,304**	**$ 4,649**	**$ –**	**$ 133,953**
Loss ratio[2]	35.0%	65.7%	3.5%		37.3%	58.8%	10.2%		58.1%	41.2%	9.8%		40.4%
Acquisition cost ratio[2]	17.7%	23.5%	51.2%		18.0%	15.8%	53.6%		16.2%	16.3%	40.0%		17.2%
General and administrative expense ratio[2]	17.3%	25.6%	42.1%		19.4%	14.0%	34.7%		15.1%	14.9%	21.7%		15.2%
Combined ratio[2]	70.0%	114.8%	96.8%		74.7%	88.6%	98.5%		89.4%	72.4%	71.5%		72.8%
Total assets	**$ 2,298,821**	**$ 177,355**	**$ 90,592**		**$ 2,566,768**	**$ 2,167,853**	**$ 48,117**		**$ 2,215,970**	**$ 2,034,077**	**$ 69,696**		**$ 2,103,773**
Reconciliation:													
Underwriting income					$ 210,813				$ 73,385				$ 133,953
Net investment income					28,531				51,398				73,808
Net realized and unrealized gains (losses) – investments					39,668				(272,206)				17,174
Net realized and unrealized gains (losses) – other					11,253				11,617				(9,821)
Other income					2,576				4,354				1,383
Interest expense					(12,105)				(18,297)				(18,677)
Net foreign exchange losses					(3,231)				(21,477)				5,289
Income before income taxes and interest in earnings of equity investments					**$ 277,505**				**$ (171,226)**				**$ 203,109**

[1]Inter segment eliminations relate to Flagstone Suisse quota share arrangements with Island Heritage and Lloyd's. 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 related income.

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SEGMENT REPORTING

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, 2009		Year ended December 31, 2008		Year ended December 31, 2007	
	Gross premiums written	**Percentage of total**	**Gross premiums written**	**Percentage of total**	**Gross premiums written**	**Percentage of total**
Line of business[1]						
Property catastrophe	$ 468,158	47.4%	$ 457,549	58.5%	$ 378,671	65.6%
Property	202,378	20.5%	94,706	12.1%	94,503	16.4%
Short-tail specialty and casualty	233,716	23.6%	152,708	19.5%	71,081	12.3%
Insurance	84,239	8.5%	76,926	9.9%	32,895	5.7%
Total	**$ 988,491**	**100.0%**	**$ 781,889**	**100.0%**	**$ 577,150**	**100.0%**

	Year ended December 31, 2009		Year ended December 31, 2008		Year ended December 31, 2007	
	Gross premiums written	**Percentage of total**	**Gross premiums written**	**Percentage of total**	**Gross premiums written**	**Percentage of total**
Geographic area of risk insured[2]						
Caribbean[3]	$ 93,628	9.5%	$ 88,482	11.3%	$ 48,103	8.3%
Europe	122,269	12.4%	104,185	13.4%	79,894	13.8%
Japan and Australasia	58,633	5.9%	47,866	6.1%	39,547	6.9%
North America	392,375	39.7%	359,684	46.0%	297,928	51.6%
Worldwide risks[4]	244,416	24.7%	153,442	19.6%	99,365	17.2%
Other	77,170	7.8%	28,230	3.6%	12,313	2.2%
Total	**$ 988,491**	**100.0%**	**$ 781,889**	**100.0%**	**$ 577,150**	**100.0%**

[1]Gross premiums written relating to Lloyd's segment are primarily included in short-tail specialty and casualty and property.

[2]Except as otherwise noted, each of these categories includes contracts that cover risks located primarily in the designated geographic area.

[3]Gross written premiums related to the Insurance segment are included in the Caribbean geographic area.

[4]This geographic area includes contracts that cover risks in two or more geographic zones.

For the years ended December 31, 2009, 2008 and 2007, premiums produced by brokers were as follows:

	Year ended December 31, 2009		Year ended December 31, 2008		Year ended December 31, 2007	
	Gross premiums written	**Percentage of total**	**Gross premiums written**	**Percentage of total**	**Gross premiums written**	**Percentage of total**
Name of broker						
Aon Benfield	$ 367,428	37.2%	$ 369,037	47.2%	$ 245,664	42.6%
Guy Carpenter	230,663	23.3%	162,236	20.7%	153,781	26.6%
Willis Group	98,662	10.0%	56,997	7.3%	77,030	13.3%
Other brokers[1]	291,738	29.5%	193,619	24.8%	100,675	17.5%
Total	**$ 988,491**	**100.0%**	**$ 781,889**	**100.0%**	**$ 577,150**	**100.0%**

[1]Other brokers includes the gross written premiums related to the insurance segment

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ACQUISITIONS AND DISPOSITIONS

Flagstone Africa

On November 10, 2009, Flagstone Suisse purchased 1,999,998 shares (representing the remaining 35% noncontrolling interest) in Flagstone Africa for a purchase price of $11.4 million. The acquisition of the non-controlling interest did not result in a change of control of Flagstone Africa. As a result, the transaction was accounted for as an equity transaction using the Consolidation Topic of the FASB ASC, resulting in the elimination of the related minority interest and $0.8 million recorded to additional paid-in capital.

Flagstone Africa is domiciled in South Africa and writes multiple lines of reinsurance in sub-Saharan Africa.

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.

During the first quarter of 2009, the Company finalized the allocation of the purchase price for the acquisition of Flagstone Alliance. At December 31, 2008, the estimated purchase price allocation included $1.1 million of goodwill, which was reduced to $nil at March 31, 2009.

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	9,298	
Deferred acquisition costs	7,930	
Intangible asset – indefinite useful life	1,056	
Fixed assets	31,247	
Other assets	1,611	
Assets acquired		158,160
Liabilities acquired		
Loss reserves	61,032	
Unearned premiums	34,404	
Insurance and reinsurance balances payable	14,908	
Other liabilities	2,514	
Liabilities acquired		112,858
Excess purchase price (Goodwill)		**$ —**

On June 30, 2009, Flagstone Alliance disposed of 100% of the share capital in Uni-Alliance Holdings Limited, a subsidiary of Flagstone Alliance since January 1, 2007. The transaction was completed with Mr. Khader Hemsi, Chief Executive Officer of Flagstone Alliance, who retired from Flagstone Alliance during the third quarter of 2009. The sale was completed to eliminate conflict with existing broker relationships and resulted in a net loss of $1.2 million, which has been recorded in other income.

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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, 2009, 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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Venkateswara Rao Mandava
Chief Information Officer

Gary Prestia
Chief Underwriting Officer
North America

Brenton Slade
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Guy Swayne
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Frédéric Traimond
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DIRECTORS & COMMITTEES

Board of Directors

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

David Brown
Chief Executive Officer & Deputy Chairman
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Gary Black
Former Chief Claims Executive & Senior Vice President
OneBeacon Insurance Company

Stephen Coley
Director Emeritus
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Thomas Dickson
CEO & Founder
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