

Flagstone Reinsurance Holdings Ltd  
Form S-4/A  
April 09, 2010

As filed with the Securities and Exchange Commission on April 9, 2010

**Registration No. 333-165614**

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

**AMENDMENT NO. 2  
TO  
FORM S-4**

**REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

**FLAGSTONE REINSURANCE HOLDINGS LIMITED**

(Exact Name of Registrant as Specified in Its Charter)

Bermuda  
(State or Other Jurisdiction of  
Incorporation or Organization)

6331  
(Primary Standard Industrial  
Classification Code Number)

98-0481623  
(I.R.S. Employer  
Identification Number)

**Crawford House  
23 Church Street  
Hamilton HM 11  
Bermuda  
(441) 278-4300**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**CT Corporation System  
111 Eighth Avenue, 13th Floor  
New York, New York 10011  
(212) 590-9331**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

*Copies to:*

**Ronald Cami, Esq.  
Cravath, Swaine & Moore LLP  
Worldwide Plaza  
825 Eighth Avenue  
New York, NY 10019  
(212) 474-1000**

**Approximate date of commencement of proposed sale of the securities to the public:** As promptly as practicable after this registration statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding

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company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accredited filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

**The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**Flagstone Reinsurance Holdings Limited  
Crawford House  
23 Church Street  
Hamilton HM 11, Bermuda**

April 9, 2010

Dear Shareholder:

You are cordially invited to attend the 2010 Annual General Meeting of Shareholders (the Annual General Meeting ) of Flagstone Reinsurance Holdings Limited (the Company or we ). The meeting will be held on May 14, 2010, at 8:30 a.m. (local time) at The Mid Ocean Club, Tucker s Town, St. George s, Bermuda. Details of the business to be conducted at the Annual General Meeting can be found in the attached Notice of Annual General Meeting and the attached Proxy Statement.

In addition to the normal business to be conducted at our Annual General Meeting, including electing directors and ratifying the appointment of our independent auditors, we will be asking you to approve the change of our jurisdiction of incorporation from Bermuda to Luxembourg, a number of changes to our charter documents to facilitate this change, and a number of organizational matters required under Luxembourg law. We call this process, in which the Company will continue to exist as the same company but will discontinue its Bermuda existence and continue its corporate existence under a different name in Luxembourg as Flagstone Reinsurance Holdings, S.A., the Redomestication .

After careful consideration of this decision, our Board of Directors and management team believe that changing our place of incorporation to Luxembourg is in the best interests of the Company and its shareholders. Luxembourg is a major financial center known for its stability as well as its financial sophistication, and we believe this move will increase our strategic and capital flexibility while requiring no changes to our operating model or our long-term strategy. Luxembourg has a network of excellent relations with major developed and developing countries around the world. In addition to our listings on the New York Stock Exchange and the Bermuda Stock Exchange, this change in incorporation has the potential to make a listing of our common shares on a European exchange more attractive. This change will result in our holding and principal operating companies being in Europe and settles our identity as a European company. Given the presence of our investment management operations there, we will also benefit from our familiarity with the regulatory and legal environment and the ability to use our existing Luxembourg office as our new corporate holding company office.

Our reinsurance and insurance operations worldwide will continue to operate without material changes, and our principal operating company will remain in Switzerland. We do not expect the Redomestication to have any material change on our operations or financial results. Our common shares will continue to be listed on the New York Stock Exchange ( NYSE ) under the ticker symbol FSR and on the Bermuda Stock Exchange. Flagstone will continue to be registered with the U.S. Securities and Exchange Commission ( SEC ) and remain subject to SEC reporting requirements, the mandates of the Sarbanes-Oxley Act of 2002, and the corporate governance rules of the NYSE. Finally, the Company will continue to report its consolidated financial results in U.S. dollars using U.S. generally accepted accounting principles.

We encourage you to read the attached documents carefully. **You should carefully consider Risk Factors beginning on page 12 for a discussion of risks related to the Redomestication proposals before voting.**

Whether or not you plan to attend the Annual General Meeting in person, it is important that your shares be represented and voted at the meeting. After reading the enclosed Notice and Proxy Statement, please submit your proxy or voting instructions. If you attend the meeting in person, you may revoke your proxy and vote your shares in person.

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I look forward to greeting those of you who are able to attend.

Sincerely,

/s/ David A. Brown  
David A. Brown  
Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities commission, nor any similar authority in Bermuda or Luxembourg, has approved or disapproved of the securities to be issued in the transaction or determined if this Proxy Statement is truthful or complete. Any representation to the contrary is a criminal offense.**

The attached Proxy Statement is dated April 9, 2010. The Proxy Statement, accompanying proxy card, Notice of Annual General Meeting and Annual Report are first being mailed to shareholders on or about April 16, 2010.

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# NOTICE OF ANNUAL GENERAL MEETING

**Flagstone Reinsurance Holdings Limited  
Crawford House  
23 Church Street  
Hamilton HM 11, Bermuda**

## NOTICE OF ANNUAL GENERAL MEETING TO BE HELD ON MAY 14, 2010

NOTICE IS HEREBY GIVEN that the 2010 Annual General Meeting of Shareholders (the Annual General Meeting ) of Flagstone Reinsurance Holdings Limited (the Company or we ) will be held on May 14, 2010, at 8:30 a.m. local time for the following purposes:

- To elect four (4) Class C directors (David Brown, Stephen Coley, Dr. Anthony Knap, Ph.D and Peter F. Watson) to hold office until the 2013 Annual General Meeting of Shareholders or until their respective successors have been duly elected or appointed.
- To approve the appointment of Deloitte & Touche to serve as the Company's independent auditor for fiscal year 2010 and until our 2011 Annual General Meeting of Shareholders and to refer the determination of the auditor's remuneration to the Board of Directors.
- To approve amendments to the Performance Share Unit Plan.
- To consider and approve the Redomestication from Bermuda to Luxembourg, the authorizing of the Board of Directors to abandon or delay the Redomestication for any reason at any time prior to it becoming effective notwithstanding the approval of the Shareholders, and the granting of a power of attorney to each member of the Board of Directors (or such persons appointed attorney in Luxembourg) to appear before a Luxembourg public notary and to take all necessary steps and to sign all necessary documents to effect the Redomestication.
- If the Redomestication is approved, to approve the change of the Company's corporate name to Flagstone Reinsurance Holdings, S.A.
  - If the Redomestication is approved, to approve the Company's corporate purpose.
  - If the Redomestication is approved, to fix the Company's registered office in Luxembourg.
  - If the Redomestication is approved, to approve the Company's Luxembourg articles of incorporation.
  - If the Redomestication is approved, to approve the Company's issued share capital.
  - If the Redomestication is approved, to approve the Company's authorized share capital.
- If the Redomestication is approved, to waive any preferential or pre-emptive subscription rights under Luxembourg law.
- If the Redomestication is approved, to allow the Company and its subsidiaries to acquire and own shares of the Company.
  - If the Redomestication is approved, to approve the fiscal year of the Company.
- If the Redomestication is approved, to approve the date and time for future Annual General Meetings of Shareholders.
  - If the Redomestication is approved, to confirm the appointment of the Company's directors.
  - If the Redomestication is approved, to confirm the Company's independent auditor.

17. If the Redomestication is approved, to elect the Company's statutory auditor.
  18. If the Redomestication is approved, to acknowledge an independent auditors' report for the Company.
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19. If there are insufficient votes at the time of the meeting to approve the Redomestication, to approve the motion to adjourn the meeting to a later date to solicit additional proxies.

20. To hear a report from the Chairman.

We refer to the proposals conditioned on approval of the Redomestication, i.e., proposals 5 through 18 above, as the Luxembourg Organizational Proposals. The Luxembourg Organizational Proposals, which authorize changes to our charter documents to facilitate the Redomestication and organizational matters required under Luxembourg law, are included solely to give effect to the Redomestication. See Summary of the Redomestication The Redomestication.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR ALL OF THE PROPOSALS.**

In addition, we will consider any other business as may properly come before the Annual General Meeting or any adjournment(s) thereof. The Company's audited financial statements for the fiscal year ended December 31, 2009 will be presented at the Annual General Meeting. At the Annual General Meeting, shareholders may also be asked to consider and take action with respect to such other matters as may properly come before the Annual General Meeting or any adjournment(s) thereof.

The Board of Directors has fixed the close of business on March 23, 2010 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual General Meeting. The Proxy Statement, this Notice of Annual General Meeting, the accompanying proxy card and the Annual Report are first being mailed to shareholders on or about April 16, 2010.

**Shareholders are encouraged to complete, sign, date and return the enclosed proxy card in the return envelope furnished for that purpose. Please sign the accompanying proxy card exactly as your name appears on your share certificate(s). Signing and returning a proxy card will not prohibit you from attending the Annual General Meeting. If you later decide to revoke your proxy for any reason, you may do so in the manner described in the attached Proxy Statement.**

By order of the Board of Directors

/s/ William Fawcett

William Fawcett  
Corporate Secretary  
Hamilton, Bermuda

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**This Proxy Statement incorporates by reference important business and financial information about Flagstone Reinsurance Holdings Limited from documents filed with the Securities and Exchange Commission ( SEC ) that have not been included herein or delivered herewith. This information is available without charge at the website that the SEC maintains at <http://www.sec.gov>, as well as from other sources. See **Where You Can Find More Information** . In addition you may request copies of the information incorporated by reference in this Proxy Statement from us, without charge, upon written request to Bank of New York Mellon Shareowner Services, PO Box 358015, Pittsburgh, PA 15252-8015, by e-mail at [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com), or upon oral request by phone at 1-877-296-3711 (1-201-680-6685 outside the U.S.). In order to receive timely delivery of those materials, you must make your requests no later than five business days before the date of the Annual General Meeting.**

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# PROXY STATEMENT

## General

This Proxy Statement has information about the Annual General Meeting and was prepared by our management at the direction of Flagstone Reinsurance Holdings Limited's Board of Directors (the Board of Directors or Board). This Proxy Statement is being mailed through the U.S. postal service to shareholders on or around April 16, 2010.

Except where the context otherwise requires or where otherwise indicated, (i) the term Flagstone (Bermuda) refers to Flagstone Reinsurance Holdings Limited, (ii) the term Flagstone (Luxembourg) refers to Flagstone Reinsurance Holdings, S.A. (the continuation of Flagstone (Bermuda) as a Luxembourg company), (iii) the term Redomestication refers to the change of Flagstone (Bermuda)'s jurisdiction of incorporation from Bermuda to Luxembourg, changes to Flagstone (Bermuda)'s charter documents to facilitate this change, and a number of organizational matters required under Luxembourg law in which Flagstone (Bermuda) will continue to exist as the same company but will discontinue its Bermuda existence and continue its corporate existence in Luxembourg as Flagstone (Luxembourg), (iv) the terms we, us, our, Flagstone, Flagstone Reinsurance and the Company refer, as applicable, to Flagstone (Bermuda) consolidated subsidiaries before the Redomestication and Flagstone (Luxembourg) and its consolidated subsidiaries after the Redomestication and (v) the term Luxembourg Company Law refers to the Law of August 10, 1915 on Commercial Companies, as amended.

## Annual General Meeting

Date: May 14, 2010  
Time: 8:30 a.m. local time  
Place: The Mid Ocean Club, Tucker's Town, St. George's, Bermuda

## Persons Making the Solicitation

Proxies in the form enclosed are being solicited by the Board of Directors. The persons named in the accompanying proxy card have been designated as proxies by the Board of Directors. Such persons designated as proxies serve as officers of the Company.

## Board Recommendation

Your Board of Directors recommends you vote For all of the proposals.

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## **QUESTIONS AND ANSWERS**

### **Voting**

#### **Why did I receive this Proxy Statement?**

The Company sent this Proxy Statement, together with the enclosed proxy card, because our Board of Directors is soliciting your proxy to vote at the Annual General Meeting on May 14, 2010. This Proxy Statement contains information about the items being voted on at the Annual General Meeting.

#### **Who is entitled to vote?**

Each holder of record of our shares on March 23, 2010, the record date for the Annual General Meeting, is entitled to attend and vote at the Annual General Meeting.

#### **How many votes do I have?**

Generally, each holder of a share on the record date will be entitled to one vote per share on each matter presented at the Annual General Meeting, except that the total voting power of any shareholder who is a U.S. person controlling more than 9.9% of our common shares will be reduced to 9.9% of the voting power of our common shares. For a more detailed description of the operation of this rule, see [The Shareholder Meeting](#) [Voting Securities and Record Date](#) [Voting Rights](#) .

On the record date, there were 80,001,073 shares outstanding and entitled to vote at the Annual General Meeting. As of the record date, we believe together our directors, executive officers and affiliates hold 43.9% of our outstanding common shares. Some members of this group may have their voting rights reduced, and the group's voting rights could be less than 43.9%.

#### **What proposals are being presented at the Annual General Meeting?**

We intend to present several proposals for shareholder consideration and approval at the Annual General Meeting in connection with both routine corporate matters and our Redomestication involving our discontinuance from Bermuda and our continuance as a Luxembourg company. These proposals are:

To elect four (4) Class C directors (David Brown, Stephen Coley, Dr. Anthony Knap, Ph.D and Peter F. Watson) to hold office until the 2013 Annual General Meeting of Shareholders or until their respective successors have been duly elected or appointed.

To approve the appointment of Deloitte & Touche to serve as the Company's independent auditor for fiscal year 2010 and until our 2011 Annual General Meeting of Shareholders and to refer the determination of the auditor's remuneration to the Board of Directors.

To approve amendments to the Performance Share Unit Plan.

To consider and approve the Redomestication from Bermuda to Luxembourg, the authorizing of the Board of Directors to abandon or delay the Redomestication for any reason at any time prior to it becoming effective notwithstanding the approval of the Shareholders, and the granting of a power of attorney to each member of the Board of Directors (or such persons appointed attorney in Luxembourg) to appear before a Luxembourg public notary

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and to take all necessary steps and to sign all necessary documents to effect the Redomestication.

If the Redomestication is approved, to approve the change of the Company's corporate name to Flagstone Reinsurance Holdings, S.A.

If the Redomestication is approved, to approve the Company's corporate purpose.

If the Redomestication is approved, to fix the Company's registered office in Luxembourg.

If the Redomestication is approved, to approve the Company's Luxembourg articles of incorporation.

If the Redomestication is approved, to approve the Company's issued share capital.

If the Redomestication is approved, to approve the Company's authorized share capital.

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If the Redomestication is approved, to waive any preferential or pre-emptive subscription rights under Luxembourg law.

If the Redomestication is approved, to allow the Company and its subsidiaries to acquire and own shares of the Company.

If the Redomestication is approved, to approve the fiscal year of the Company.

If the Redomestication is approved, to approve the date and time for future Annual General Meetings of Shareholders.

If the Redomestication is approved, to confirm the appointment of the Company's directors.

If the Redomestication is approved, to confirm the Company's independent auditor.

If the Redomestication is approved, to elect the Company's statutory auditor.

If the Redomestication is approved, to acknowledge an independent auditors' report for the Company.

If there are insufficient votes at the time of the meeting to approve the Redomestication, to approve the motion to adjourn the meeting to a later date to solicit additional proxies.

### **How do I attend the Annual General Meeting?**

All shareholders are invited to attend the Annual General Meeting. For admission to the Annual General Meeting, shareholders of record should bring valid proof of identification as a shareholder. Those who have beneficial ownership of shares held by a bank, brokerage firm or other nominee must bring account statements or letters from their banks or brokers showing that they own shares of the Company as of the record date.

### **What should I do now to vote?**

The meeting will take place on May 14, 2010. After carefully reading and considering the information contained in this Proxy Statement and the documents incorporated by reference, please indicate on the enclosed proxy card how you want to vote. Submit your proxy by following the instructions on the enclosed proxy card as soon as possible so that your shares may be represented at the meeting.

### **What if I return my proxy or voting instruction card but do not mark it to show how I am voting?**

Your shares will be voted according to the instructions you have indicated on your proxy. If you sign and return your proxy card but do not indicate instructions for voting, your shares will be voted **FOR** each of the proposals described in this Proxy Statement and, with respect to any other matter which may properly come before the Annual General Meeting, at the discretion of the proxy holders.

### **May I change or revoke my vote after I return my proxy or voting instruction card?**

You may change your vote in one of three ways at any time before it is exercised:

notify our Secretary in writing before the Annual General Meeting that you are revoking your proxy; submit another proxy card (or voting instruction card if you hold your shares in street name) with a later date; or if you are a holder of record, or a beneficial holder with a proxy from the holder of record, vote in person at the Annual General Meeting.

Your presence without voting at the meeting will not automatically revoke your proxy, and any revocation during the meeting will not affect votes previously taken. If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee in revoking your previously granted



proxy.

### **What constitutes a quorum?**

The presence, in person or by proxy, of two or more of the holders representing in excess of 50% of the total shares outstanding and entitled to vote at the Annual General Meeting constitutes a quorum for the conduct of business.

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## **What vote is required in order to approve each proposal?**

Under Proposal 1, the nominees for election as directors at the Annual General Meeting who receive the highest number of FOR votes will be elected as directors. This is called plurality voting. All other proposals require the affirmative FOR vote of a majority of those shares present, in person or by proxy, at the meeting and entitled to vote on the proposal.

## **How will voting on any other business be conducted?**

Other than matters incidental to the conduct of the Annual General Meeting, we do not know of any business or proposals to be considered at the Annual General Meeting other than those set forth in this Proxy Statement. If any other business is proposed and properly presented at the Annual General Meeting, the proxies received from our shareholders give the proxy holders the authority to vote on the matter at their discretion.

## **Redomestication**

### **What is the Redomestication?**

In the Redomestication, the Company will discontinue its existence as a Bermuda company and continue as a Luxembourg company.

### **Why do we want to change our jurisdiction of incorporation from Bermuda to Luxembourg?**

We believe that the Redomestication is in the best interests of Flagstone and our shareholders. This determination was based in part on our belief that the Redomestication will:

- increase our strategic and capital flexibility;
- build upon our existing European presence with few risks to our operating model or our long-term strategy; and
- help reduce reputational, political, regulatory and financial risks to the Company.

We have chosen to redomesticate to Luxembourg, among other reasons, because it:

- is a leading financial center with political, economic and regulatory stability;
- has a sophisticated financial and regulatory environment;
- has a network of excellent relations with major developed and developing countries around the world;
- is party to an extensive network of commercial and tax treaties, significantly with the United States and certain members of the European Union;
- settles our identity as a European company;
- leverages our regulatory and legal familiarity with and office space in Luxembourg given the existing presence of our investment management operations there; and
- potentially makes a listing of our common shares on a European exchange more attractive.

### **Will the Redomestication affect the Company's current or future operations?**

We believe that the Redomestication should have no material impact on how we conduct our day-to-day operations.

## **Will the Redomestication dilute my economic interest?**

The Redomestication will not dilute your economic interest in the Company. Immediately after the Redomestication, the number of our issued and outstanding shares will be the same as the number of our issued and outstanding shares immediately before the Redomestication.

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## **Will the Redomestication alter my rights with respect to shares I hold in the Company?**

The completion of the Redomestication will change the governing law that applies to our shareholders from Bermuda law to Luxembourg law. Many of the principal attributes of our shares will be similar. There are, however, differences between your rights under Luxembourg law and under Bermuda law, and there are differences between our current Memorandum of Association and Bye-Laws and the proposed Luxembourg articles of incorporation (the Articles) that will apply to us after we continue as a Luxembourg company. We discuss these differences under Proposal 4 Approval of the Redomestication Description of Flagstone (Luxembourg) Shares and Proposal 4 Approval of the Redomestication Comparison of Rights of Shareholders. A copy of the English version of the Flagstone (Luxembourg) Articles is attached as Annex A to this Proxy Statement.

In addition, to mitigate certain potential adverse U.S. federal income tax consequences to U.S. shareholders, our current Bye-Laws reduce the total voting power of any shareholder who is a U.S. person controlling more than 9.9% of our common shares to 9.9% of the voting power of our common shares. For a more detailed description of the operation of this rule, see The Shareholder Meeting Voting Securities and Record Date Voting Rights. After the Redomestication, each share will be entitled to one vote with no potential reduction in voting power. Thus, as a result of the Redomestication and the corresponding removal of the 9.9% voting limitation from the Company's corporate documents, there may be an increase in the voting rights of certain U.S. shareholders and a dilution of the voting rights of other shareholders. This change will be undertaken for Luxembourg legal reasons and could result in adverse U.S. federal income tax consequences to U.S. shareholders controlling 10% or more of our common shares. See Risk Factors Tax Risk Factors After the Redomestication, U.S. persons holding shares in Flagstone (Luxembourg) with an aggregate voting power of 10% or greater may be subject to current U.S. federal income tax with respect to certain income earned by Flagstone (Luxembourg) and its subsidiaries.

## **When do you expect the Redomestication to be completed?**

Assuming the Redomestication is approved by the requisite shareholder vote, we expect to complete the Redomestication as soon as practicable following such approval. We expect to complete the Redomestication soon after the Annual General Meeting (the Effective Time). The Redomestication may be abandoned or delayed for any reason by our Board of Directors at any time prior to the Effective Time, even though the Redomestication may have been approved by our shareholders and all conditions to the Redomestication may have been satisfied.

## **What effect will the Redomestication have on my current shares?**

If you hold shares in certificated form, you do not need to take any action as a result of the Redomestication. Your certificated shares will still be valid and continue to represent your interest in the Company.

If you hold your shares through a broker, dealer, commercial bank, trust company or similar institution, you should not need to take any action as a result of the Redomestication. Since the Redomestication will not impact the number of shares you own, we expect the account statements from your institution will look largely the same after the Redomestication.

If you hold direct registration shares, after the Redomestication the Company will be required to issue you certificated shares.

**Can I trade shares between the date of this Proxy Statement and the Effective Time?**

Yes. Our shares will continue to trade during this period.

**After the Redomestication, will the shares still be listed on the New York Stock Exchange?**

Yes. We will submit an application so that immediately following the Redomestication our shares will continue to be listed on the New York Stock Exchange under the symbol FSR , the same symbol under which our shares currently are listed.

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**What are the material tax consequences of the Redomestication?**

The Company will not be subject to U.S. federal income tax as a result of the Redomestication. For U.S. federal income tax purposes, holders of Flagstone (Bermuda) shares will not recognize gain or loss solely as a result of the Redomestication. See Proposal 4 Approval of the Redomestication Material Tax Considerations Material U.S. Tax Consequences of the Redomestication .

For Luxembourg tax purposes, holders of Flagstone (Bermuda) shares should not realize a taxable gain solely as a result of the Redomestication. See Proposal 4 Approval of the Redomestication Material Tax Considerations Material Luxembourg Tax Consequences of the Redomestication .

**Will there be Luxembourg withholding tax on any future dividends?**

Regular dividends are, in principle, subject to a Luxembourg withholding tax of 15%. Any repurchase of shares or repayment of capital or share premium is, under certain circumstances, also subject to a 15% Luxembourg withholding tax, for example, if the Company has distributable reserves or profits generated post-Redomestication. If Flagstone (Luxembourg) were to make any such taxable payment, it would in principle be required to withhold at the 15% rate and remit the withheld amounts to the Luxembourg tax authorities.

However, it is our intention to make payments to shareholders in the form of share capital reductions and share premium reductions in such a way that no Luxembourg withholding tax is due. As such, we expect that a substantial amount of any potential future payments to be made by Flagstone (Luxembourg) may be exempt from Luxembourg withholding tax. Flagstone recommends that each shareholder consult his or her own tax advisor as to the tax consequences of holding shares in and receiving share capital, share premium and dividend payments from Flagstone (Luxembourg). See Risk Factors After the Redomestication, dividends you receive may be subject to Luxembourg dividend withholding tax and Luxembourg income tax and Material Tax Consequences Relating to the Redomestication Luxembourg Tax Considerations Post-Redomestication Consequences to Flagstone (Luxembourg) Shareholders .

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## SUMMARY OF THE REDOMESTICATION

*This summary highlights selected information from this Proxy Statement. It does not contain all of the information that is important to you. For a better understanding of the Redomestication, and for a more complete legal description of the Redomestication, you should read carefully the entire Proxy Statement, including the annexes. The Articles, which are attached as Annex A to this Proxy Statement, will govern us after the completion of the Redomestication. We encourage you to read those documents.*

### The Company

Flagstone Reinsurance Holdings Limited  
Crawford House  
23 Church Street  
Hamilton HM 11  
Bermuda  
(441) 278-4300

The Company, a global reinsurance and insurance company, was incorporated under the laws of Bermuda in October 2005 and commenced operations in December 2005. The Company is currently organized into three business segments: Reinsurance, Lloyd's and Insurance. Through our Reinsurance segment, we write primarily property, property catastrophe and short-tail specialty and casualty reinsurance. Through our Lloyd's segment we primarily write property and short-tail specialty and casualty insurance and reinsurance for risks such as energy, hull and cargo, marine liability, engineering and aviation. Through our Insurance segment, we primarily write property insurance for homes, condominiums and office buildings in the Caribbean region. We diversify our risks across business lines by risk zones, each of which combines a geographic zone with one or more types of peril (for example, Texas Windstorm, Florida Hurricane or California Earthquake). The majority of our reinsurance contracts contain loss limitation provisions such as fixed monetary limits to our exposure and per event caps. We specialize in underwriting where sufficient data exists to analyze effectively the risk/return profile, and where we are subject to legal systems we deem reasonably fair and reliable.

### The Redomestication

At the Annual General Meeting, we will be asking you to approve the change of our jurisdiction of incorporation from Bermuda to Luxembourg and to approve a number of organizational matters necessary to accomplish the Redomestication. The Redomestication will be effected by our discontinuing our existence as a Bermuda company, as provided in Section 132G of The Companies Act 1981 of Bermuda, and continuing our existence as a Luxembourg société anonyme ( S.A. ). We also will be asking you to approve a number of changes to our charter documents to facilitate the Redomestication and a number of organizational matters required under Luxembourg law. Under Luxembourg law, a number of these matters must be voted on separately, and so we will present multiple proposals (the Luxembourg Organizational Proposals ) to be voted on at the Annual General Meeting. We have summarized these proposals below.

First, we will ask you to approve the Redomestication.

Second, Luxembourg law requires that a number of matters be specifically approved by shareholders, including our corporate purpose, our registered office, the Articles, our issued share capital, our authorized share capital, the waiver

of preferential and pre-emptive subscription rights under Luxembourg law, the ability of the Company to purchase and hold its own shares, our fiscal year, our Annual General Meeting, our directors, our independent auditor, our statutory auditor and the acknowledgement of an auditors report.

We anticipate that the Redomestication will become effective as soon as practicable following approval of the shareholders, with the exact date and time being determined by our Board of Directors. Subject to filing the relevant documents with the Bermuda Registrar of Companies, the Redomestication will become effective upon the execution of the required notarial deed at the meeting to be held before the public notary in Luxembourg.

As of the record date for the Annual General Meeting, there were 80,001,073 shares outstanding.



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## **Reasons for the Redomestication**

We believe that the Redomestication is in the best interests of Flagstone and our shareholders. This determination was based in part on our belief that the Redomestication will:

increase our strategic and capital flexibility;  
build upon our existing European presence with few risks to our operating model or our long-term strategy; and  
help reduce reputational, political, regulatory and financial risks to the Company.

We have chosen to redomesticate to Luxembourg, among other reasons, because it:

is a leading financial center with political, economic and regulatory stability;  
has a sophisticated financial and regulatory environment;  
has a network of excellent relations with major developed and developing countries around the world;  
is party to an extensive network of commercial and tax treaties, significantly with the United States and certain members of the European Union;

settles our identity as a European company;  
leverages our regulatory and legal familiarity with and office space in Luxembourg given the existing presence of our investment management operations there; and  
potentially makes a listing of our common shares on a European exchange more attractive.

Our reinsurance and insurance operations worldwide will continue to operate without material changes, and our principal operating company will remain in Switzerland. We do not expect the Redomestication to have any material change on our operations or financial results. Our common shares will continue to be listed on the New York Stock Exchange ( NYSE ) under the ticker symbol FSR and on the Bermuda Stock Exchange. We will continue to be registered with the U.S. Securities and Exchange Commission ( SEC ) and remain subject to SEC reporting requirements, the mandates of the Sarbanes-Oxley Act of 2002, and the corporate governance rules of the NYSE. Finally, we will continue to report our consolidated financial results in U.S. dollars using U.S. generally accepted accounting principles ( U.S. GAAP ).

## **Effects of the Redomestication**

After the Redomestication, we will remain in existence as the same company, but as a Luxembourg company rather than a Bermuda company. You will continue to own an interest in the same company that will continue to conduct the same business operations as conducted by, and to own the same assets as owned by, it before the Redomestication.

The number of shares you will own will be the same as the number of shares you owned immediately prior to the Redomestication, and your relative economic interest will be unchanged.

Upon completion of the Redomestication, we will continue to be responsible for our existing obligation to deliver shares in connection with awards granted under our incentive plans, warrants or other outstanding rights. Immediately after the Redomestication, we will have issued and outstanding the same number of shares as we had issued and outstanding immediately before the completion of the Redomestication.

Upon completion of the Redomestication, we will remain subject to SEC reporting requirements, the mandates of the Sarbanes-Oxley Act and the applicable corporate governance rules of the NYSE, and we will continue to report our financial results in U.S. dollars and under U.S. GAAP.

## Voting

To mitigate potential U.S. federal income tax consequences, our current Bye-Laws reduce the total voting power of any shareholder who is a U.S. person controlling more than 9.9% of our common shares to 9.9% of the voting power of our common shares. After the Redomestication, each share will be entitled to one vote with no potential reduction in voting power. For a more detailed description of the operation of this rule and potential adverse U.S. federal income tax implications to shareholders resulting from its removal, see The

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Shareholder Meeting Voting Securities and Record Date Voting Rights and Risk Factors Tax Risk Factors After the Redomestication, U.S. persons holding shares in Flagstone (Luxembourg) with an aggregate voting power of 10% or greater may be subject to current U.S. federal income tax with respect to certain income earned by Flagstone (Luxembourg) and its subsidiaries .

## **Rights of Shareholders**

The completion of the Redomestication will change the governing law that applies to our shareholders from Bermuda law to Luxembourg law. Many of the principal attributes of our shares will be similar. There are, however, differences between your rights under Luxembourg law and under Bermuda law, and there are differences between our current Memorandum of Association and Bye-Laws and the Articles that will apply to us after we continue as a Luxembourg company. We discuss certain of the main differences under Proposal 4 Approval of the Redomestication Description of New Luxembourg Shares and Proposal 4 Approval of the Redomestication Comparison of Rights of Shareholders . A copy of the English version of the Articles is attached as Annex A to this Proxy Statement.

## **Stock Exchange Listing**

We will submit an application so that our shares will continue to be listed on the NYSE under the symbol FSR , the same symbol under which our shares currently are listed. Our shares are also currently listed on the Bermuda Stock Exchange, and we expect that they will continue to be listed on the Bermuda Stock Exchange after the Redomestication.

## **Accounting Treatment**

Under U.S. GAAP, the assets and liabilities in our financial statements after the Redomestication will be reflected at their historical value in our financial statements at the time of the Redomestication.

## **Tax Considerations of the Redomestication**

The Company will not be subject to U.S. federal income tax as a result of the Redomestication. For U.S. federal income tax purposes, holders of Flagstone (Bermuda) shares will not recognize gain or loss solely as a result of the Redomestication. See Proposal 4 Approval of the Redomestication Material Tax Considerations Material U.S. Tax Consequences of the Redomestication .

For Luxembourg tax purposes, holders of Flagstone (Bermuda) shares should not realize a taxable gain solely as a result of the Redomestication. See Proposal 4 Approval of the Redomestication Material Tax Considerations Material Luxembourg Tax Consequences of the Redomestication .

**Please refer to Proposal 4 Approval of the Redomestication Material Tax Considerations for a description of certain material U.S. federal, Luxembourg and Bermuda tax consequences of the Redomestication to Flagstone Reinsurance shareholders. Determining the actual tax consequences to you may be complex and will depend on your specific situation. Accordingly, the tax consequences summarized above may not apply to all holders of Flagstone Reinsurance shares and you should consult your own tax advisors regarding the particular U.S. (federal, state and local), Luxembourg, Bermuda and other non-U.S. tax consequences of the Redomestication and ownership and disposition of the Flagstone (Luxembourg) shares in light of your particular situation.**



TABLE OF CONTENTS**Selected Financial Data**

The following table presents selected financial data for the Company. Statement of operations data and balance sheet data of the Company are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. The historical financial information may not be indicative of the Company's future performance. The data should be read in conjunction with the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and the Company's financial statements, related notes and other financial information incorporated by reference in this Proxy Statement.

(in thousands, except per share data)	Years Ended December 31,				Period
	2009	2008	2007	2006	October 4, 2005 through December 31, 2005
<b>Summary Statement of Operations Data:</b>					
Net premiums written	792,469	694,698	527,031	282,498	
Net income (loss)	242,192	(187,302)	167,922	152,338	(12,384 )
Net income (loss) per common share outstanding Basic	2.87	(2.20 )	2.05	2.17	(0.22 )
Dividends declared per common share	0.16	0.16	0.08		
	As at December 31,				
<b>Summary Balance Sheet Data:</b>	2009	2008	2007	2006	2005
Total assets	2,566,768	2,215,970	2,103,773	1,144,502	548,356
Total investments, cash and cash equivalents and restricted cash	1,945,320	1,700,844	1,865,698	1,018,126	548,255
Long term debt	252,402	252,575	264,889	137,159	
Loss and loss adjustment reserves	480,660	411,565	180,978	22,516	
Shareholders' equity	1,211,018	986,013	1,210,485	864,519	547,634
Book Value Per Common Share Basic	14.56	11.61	14.17	12.08	9.91

As of January 1, 2007, we adopted SFAS No. 157, "Fair Value Measurements" and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (currently FASB Accounting Standards Codification Topics on Fair Value Measurements and Disclosures and on Financial Instruments (see Item 8, Note 1 "Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2009 for additional details regarding the adoption of the FASB Accounting Standards Codification)). As a result, substantially all of our investments are now carried at fair value with changes in fair value being reported as net realized and unrealized gains (losses) in our statement of operations. Prior to the adoption of these Topics, our available for sale investments were carried at fair value with changes in fair value reported as a component of other comprehensive income.

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On January 12, 2007, we began to consolidate the operations of Mont Fort Re Ltd. in accordance with the FASB ASC Topic on Consolidation and on July 1, 2007, we began to consolidate the operations of Island Heritage Holdings Ltd. in accordance with the FASB ASC Topic on Consolidation.

On July 1, 2008, we began to consolidate the operations of Flagstone Reinsurance Africa Limited, on October 1, 2008, we began to consolidate the operations of Flagstone Alliance Insurance & Reinsurance PLC and on November 18, 2008, we began to consolidate the operations of Marlborough Underwriting Agency Limited in accordance with the FASB ASC Topic on Consolidation.

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## **Pro Forma Selected Financial Data**

Pro forma financial statements are not included in this Proxy Statement because no significant pro forma adjustments are required to be made to the historical statement of operations and balance sheet of the Company for the year ended and as of December 31, 2009. Those financial statements are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

## **Market Price Information**

On March 19, 2010, the last trading day before the public announcement of the Redomestication, the closing price of our shares on the NYSE was \$11.15 per share.

## **Quorum**

The presence, in person or by proxy, of two or more of the holders representing in excess of 50% of the total shares outstanding and entitled to vote at the Annual General Meeting constitutes a quorum for the conduct of business.

Abstentions will be counted as present for purposes of determining whether there is a quorum in respect of the proposals. Broker non-votes (i.e., common shares held by brokers which are represented at the Annual General Meeting but with respect to which the broker is not empowered to vote on a particular proposal) will be counted as present for purposes of determining whether there is a quorum in respect of the proposals.

## **Required Vote**

Under our Bye-Laws, the Redomestication requires the approval of a majority of the shares present and voting on the proposals at the Annual General Meeting, whether in person or by proxy.

As of the record date, we believe our directors, executive officers and affiliates as a group held 43.9% of our outstanding common shares. Under our Bye-Laws, some members of this group may have their voting rights reduced, and the group's voting rights could be less than 43.9%. See Security Ownership of Certain Beneficial Owners, Management and Directors .

## **Regulatory Matters**

Prior to the Redomestication, we expect to move the location of certain U.K. subsidiaries within our company structure for which we will seek the approval of the U.K.'s Financial Services Authority ( FSA ) and Lloyd's of London. We are not aware of any other governmental approvals or actions that are required to complete the Redomestication, other than compliance with U.S. federal and state securities laws and Bermuda and Luxembourg corporate law.

## **No Appraisal Rights**

Under Bermuda law, our shareholders do not have any right to an appraisal of the value of their shares or payment for them in connection with the Redomestication. See The Shareholder Meeting Dissenter's Right of Appraisal .





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## **RISK FACTORS**

Before you decide how to vote on the Redomestication, you should consider carefully the following risk factors, in addition to the other information contained in this Proxy Statement and the documents incorporated by reference, including our Annual Report on Form 10-K for the year ended December 31, 2009 and subsequent filings with the SEC.

### **COMPANY RISK FACTORS**

#### **The market for our common shares may differ after the Redomestication.**

We intend to take steps to ensure that, immediately following the Redomestication, our common shares will continue to be listed on the NYSE under the symbol FSR ; however, the market price, trading volume or volatility of our common shares could be different after the Redomestication.

#### **After the Redomestication, there may be less demand for our shares if persons seek to avoid being a 10% U.S. Shareholder.**

After the Redomestication, the voting power of any shareholder owning more than 9.9% of the Company's shares will not be reduced to 9.9%, which could result in adverse tax consequences to U.S. holders controlling 10% or more of our shares. See After the Redomestication, U.S. persons holding shares in Flagstone (Luxembourg) with an aggregate voting power of 10% or greater may be subject to current U.S. federal income tax with respect to certain income earned by Flagstone (Luxembourg) and its subsidiaries . As a result, existing U.S. shareholders may sell a certain portion of their shares in the Company, and U.S. persons may, in general, purchase fewer shares in the Company than they might otherwise purchase, in order to avoid controlling 10% or more of our shares. This, in turn, could adversely impact our share price.

#### **Following the Redomestication, we may be removed from certain stock indices and mutual funds, which we expect could have an adverse impact on our share price.**

Stock indices and mutual funds often impose a variety of qualifications for a company's inclusion that could be affected by the Redomestication. If our shares are removed as a component of certain stock indices or no longer meet the qualifications of certain mutual funds, institutional investors that are required to track the performance of such indices or the funds that impose those qualifications may be required to sell their shares, which we anticipate may adversely affect the price of our shares.

#### **Legislative or regulatory action could materially and adversely affect us after the Redomestication or eliminate or reduce some of the anticipated benefits of the Redomestication.**

Our tax position could be adversely impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by the tax authorities in Luxembourg, the United States and other jurisdictions following the Redomestication. Any future amendments to the current income tax treaties between Luxembourg and

other jurisdictions, including the United States, could subject us to increased taxation and potentially significant expense. We cannot assure you that the Redomestication will eliminate the risk that these changes, if made, will apply to us.

As a Luxembourg company following the Redomestication, we will be required to comply with numerous Luxembourg and European Union laws and regulations as from time to time in effect, which may have a material and adverse effect on our financial condition and results of operations.

**The Redomestication will result in additional direct and indirect costs, even if the Redomestication is not completed.**

We will incur additional direct costs as a result of the Redomestication. Following the Redomestication, we will hold certain Board of Directors meetings, management meetings and annual general meetings in Luxembourg. We also expect to increase our presence in Luxembourg and incur costs and expenses, including professional fees, to comply with Luxembourg corporate and tax laws. In addition, we expect to incur attorneys' fees, accountants' fees, filing fees, mailing expenses and financial printing expenses in connection with the Redomestication, even if it is not approved or completed. The Redomestication also may negatively affect us by diverting attention of our management and employees from our operating business and by increasing other administrative costs and expenses.

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As a Luxembourg company we will incur additional accounting and audit costs. We will be required to hire and incur the additional expense of a statutory auditor to audit the Company and its stand alone accounts, separate from the subsidiaries, which accounts will be prepared in accordance with Luxembourg Generally Accepted Accounting Principles ( Lux GAAP ) on an annual basis. The requirement to appoint the statutory auditor is in addition to the requirement of the Company to prepare consolidated financial statements under U.S. GAAP for SEC purposes. Should the Company, in the future, meet certain thresholds under Luxembourg law on a stand alone basis, it may be required to appoint an independent auditor to audit its stand alone accounts. If the Company is required to appoint such an independent auditor, it is released from its obligations to have a statutory auditor for its stand alone accounts.

In addition, the Company is required by Luxembourg law to prepare consolidated accounts under Lux GAAP (or IFRS). The consolidated accounts will be required to be audited by an independent auditor. The preparation of these consolidated accounts is in addition to the requirement of the Company to prepare consolidated financial statements under U.S. GAAP for SEC purposes. The Company will apply to the appropriate government authorities in Luxembourg for an exemption from the requirement to prepare consolidated accounts under Lux GAAP (or IFRS). Even if the exemption is granted, Luxembourg may require us to prepare a reconciliation of our shareholders equity and annual results between U.S. GAAP and Lux GAAP (or IFRS). Should the application for exemption not be successful, the preparation of consolidated accounts under U.S. GAAP will not release the Company from its legal obligation under Luxembourg Law to prepare consolidated accounts under Lux GAAP (or IFRS).

The Company may potentially therefore be required to prepare three sets of accounts and to have these three sets of accounts audited.

### **We may choose to abandon or delay the Redomestication.**

We may abandon or delay the Redomestication at any time prior to it becoming effective by action of our Board of Directors, even after the Annual General Meeting. While we currently expect the Redomestication to take place as soon as practicable after obtaining shareholder approval of the Redomestication at the Annual General Meeting, our Board of Directors may delay the Redomestication for a significant time or may abandon the Redomestication after the Annual General Meeting because, among other reasons, of an increase in our estimated cost of the Redomestication or a determination by the Board of Directors that the Redomestication is no longer in the best interests of our shareholders or may not result in the benefits we expect.

## **TAX RISK FACTORS**

### **After the Redomestication, U.S. persons holding shares in Flagstone (Luxembourg) with an aggregate voting power of 10% or greater may be subject to current U.S. federal income tax with respect to certain income earned by Flagstone (Luxembourg) and its subsidiaries.**

If the Company or any of its subsidiaries is characterized as a controlled foreign corporation ( CFC ) for an uninterrupted period of 30 days or more during a taxable year, then any 10% U.S. Shareholder that owns, directly or indirectly through non-U.S. entities, shares of the Company or any of its non-U.S. subsidiaries (based on voting power) on the last day of the taxable year on which the Company or any of its non-U.S. subsidiaries (as the case may be) is a CFC, would be required to include in such 10% U.S. Shareholder s U.S. federal gross income for the taxable year, as income subject to taxation at ordinary income tax rates, such 10% U.S. Shareholder s pro rata share of the relevant company s undistributed earnings and profits characterized as subpart F income . A 10% U.S. Shareholder is a

The Redomestication will result in additional direct and indirect costs, even if the Redomestication is not completed.

United States person (as defined in Section 957(c) of the Internal Revenue Code of 1986, as amended (the Code )) ( U.S. Person ) that owns (directly or indirectly through non-U.S. entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the Company or any of its non-U.S. subsidiaries (as the case may be). Subpart F income includes passive investment income (such as interest, dividends and certain rent or royalties) and subpart F insurance income, which includes certain insurance underwriting income and related investment income. Additionally, a United States person (as defined in Section 7701(a)(30) of the Code) that sells or exchanges our common shares (including by way of repurchase or liquidation) and that was a 10% U.S. Shareholder at any time during the five-year period ending on the date of such disposition

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while the Company was characterized as a CFC may be taxable at dividend rates on any gain realized on the disposition to the extent of our current and accumulated earnings and profits attributable to such common shares.

Unlike the Bye-Laws of Flagstone (Bermuda), the Articles will not contain a provision reducing the voting power of any shareholder owning more than 9.9% of the Company's shares to 9.9%. For a more detailed description of the operation of this rule, see The Shareholder Meeting Voting Securities and Record Date Voting Rights . Accordingly, no assurance can be given that Flagstone (Luxembourg) or any of its subsidiaries will not be, or become, a CFC after the Redomestication. Investors should consult their own tax advisors regarding the U.S. tax ramifications of owning shares of Flagstone (Luxembourg), and in particular regarding the manner in which ownership is computed for purposes of applying the CFC rules described above, and the potential U.S. tax ramifications of ownership of shares of Flagstone (Luxembourg) with an aggregate voting power of 10% or greater.

**After the Redomestication, dividends you receive may be subject to Luxembourg dividend withholding tax and Luxembourg income tax.**

Dividend withholding tax (currently at a rate of 15%) may arise in respect of dividends paid on Flagstone (Luxembourg) shares. A Luxembourg withholding tax levied at a rate of 15% is due on dividends and similar non-exempt distributions to Flagstone (Luxembourg)'s holders. Flagstone (Luxembourg) will be required to withhold at such rate from distributions to the shareholder and to pay such withheld amounts to the Luxembourg tax authorities.

Dividends and similar distributions paid to Flagstone (Luxembourg)'s shareholders may be exempt from Luxembourg dividend withholding tax if: (1) the shareholder is a qualifying corporate entity holding a stake of at least 10% of the total issued and outstanding share capital of Flagstone (Luxembourg) or a stake of such share capital with an acquisition price of at least €1.2 million; and (2) has either held this qualifying stake in the capital of Flagstone (Luxembourg) for an uninterrupted period of at least 12 months at the time of the payment of the dividend, or if it undertakes to continue to own such qualifying shareholding until such time as the entity has held the shares for an uninterrupted period of at least 12 months. Examples of qualifying corporate shareholders are taxable Luxembourg companies, certain taxable companies resident in other EU member states, capital companies resident in Switzerland subject to income tax and companies fully subject to a tax corresponding to Luxembourg corporate income tax that are resident in countries that have concluded a treaty for the avoidance of double taxation with Luxembourg. Residents of countries that have concluded a treaty for avoidance of double taxation with Luxembourg might claim application of a dividend withholding tax reduced rate (or exemption) depending on the applicable tax treaty.

Under current Luxembourg tax law, payments to shareholders in relation to a reduction of share capital or share premium are not subject to Luxembourg dividend withholding tax if certain conditions are met, including, for example, the condition that Flagstone (Luxembourg) does not have distributable reserves or profits generated post-Redomestication. If Flagstone (Luxembourg) has, at the time of the payment to shareholders with respect to their shares, distributable reserves or profits generated Post-Redomestication, a distribution of share capital or share premium will be recharacterized for Luxembourg tax purposes as a distribution of such reserves or earnings subject to withholding tax. While it is our intention to make payments to shareholders in a way that no Luxembourg withholding tax is due, we may not be able to do so or our ability to do so could be limited.

Flagstone recommends that each shareholder consult his or her own tax advisor as to the tax consequences of holding shares in and receiving share capital, share premium and dividend payments from Flagstone (Luxembourg).

**The Redomestication may not allow us to maintain a competitive worldwide effective corporate tax rate.**

We believe the Redomestication should permit us to maintain a competitive worldwide effective tax rate. However, we cannot provide any assurance as to what our worldwide effective tax rate will be after the Redomestication because of, among other things, uncertainty regarding the amount of business activities and profits in any particular jurisdiction in the future and the tax laws of such jurisdictions. Our actual worldwide effective tax rate may vary from our expectation and that variation may be material.

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**We will be subject to various Luxembourg taxes as a result of the Redomestication.**

Although we do not expect Luxembourg taxes materially to affect our worldwide effective corporate tax rate, we will be subject to additional corporate taxes in Luxembourg as a result of the Redomestication. Luxembourg imposes corporate income tax plus municipal business tax and surcharges for Luxembourg resident companies at an effective tax rate, currently, of 28.59% (for companies registered in Luxembourg City). However, we should be entitled to a participation relief that in most cases will effectively eliminate any Luxembourg taxation on the dividends paid to us out of profits of our qualifying subsidiaries as well as on capital gains related to the sale of equity interests in our qualifying subsidiaries. We also will be subject to Luxembourg net wealth tax at the rate of 0.5% levied on the net assets of Flagstone (Luxembourg) except for equity interests in our qualifying subsidiaries. The net wealth tax charge can be reduced if a specific reserve is created and maintained for five years. However, the maximum reduction is limited to the corporate income tax due for the same year. In addition, we will be subject to Luxembourg indirect taxes (e.g., VAT). We currently are not subject to income, capital, net wealth or indirect taxes in Bermuda.

**There could be adverse tax consequences if we fail to maintain sufficient presence in Luxembourg.**

If the Company does not maintain sufficient presence in Luxembourg, the Luxembourg tax authorities may not be willing to confirm that the Company is a tax resident of Luxembourg. In such case, the Company may not be entitled to tax treaty benefits. In addition, a foreign jurisdiction may claim the right to tax Flagstone (Luxembourg) as if it were a tax resident of that foreign jurisdiction, and ultimately double taxation may result.

**BERMUDA V. LUXEMBOURG SHAREHOLDER RIGHTS RISK FACTORS**

**Certain of your rights as a shareholder will change as a result of the Redomestication.**

The completion of the Redomestication will change the governing law that applies to our shareholders from Bermuda law to Luxembourg law. There are differences between your rights under Luxembourg law and under Bermuda law, and there are differences between our current Memorandum of Association and Bye-Laws and the Articles that will apply to us after we continue as a Luxembourg company. We discuss these differences under Proposal 4 Approval of the Redomestication Description of Flagstone (Luxembourg) Shares and Proposal 4 Approval of the Redomestication Comparison of Rights of Shareholders. A copy of the English version of the Articles is attached as Annex A to this Proxy Statement.

In addition, to mitigate certain potential adverse U.S. tax consequences to U.S. shareholders, our current Bye-Laws reduce the total voting power of any shareholder who is a U.S. person controlling more than 9.9% of our common shares to 9.9% of the voting power of our common shares. For a more detailed description of the operation of this rule, see The Shareholder Meeting Voting Securities and Record Date Voting Rights. After the Redomestication, each share will be entitled to one vote with no potential reduction in voting power. Thus, as a result of the Redomestication and the corresponding removal of the 9.9% voting limitation from the Company's corporate documents, there may be an increase in the voting rights of certain U.S. shareholders and a dilution of the voting rights of other shareholders. This change will be undertaken for Luxembourg legal reasons and could create adverse

tax consequences to certain U.S. shareholders. See Risk Factors Tax Risk Factors After the Redomestication, U.S. persons holding shares in Flagstone (Luxembourg) with an aggregate voting power of 10% or greater may be subject to current U.S. federal income tax with respect to certain income earned by Flagstone (Luxembourg) and its subsidiaries.

These differences could cause our shares to be less attractive to you and other shareholders and could adversely impact the share price.

**As a result of increased shareholder approval requirements, we may have less flexibility as a Luxembourg company than as a Bermuda company with respect to certain aspects of capital management.**

Under Bermuda law, our directors may issue, without further shareholder approval, any shares authorized in our Memorandum of Association that are not already issued or reserved. Bermuda law also provides substantial flexibility in establishing the terms of preferred shares. In addition, our Board of Directors currently has the right, subject to statutory limitations, to declare and pay dividends on our shares without a



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shareholder vote. Luxembourg law will allow our shareholders to authorize share capital that can be issued by the Board of Directors without further shareholder approval, but this authorization will be limited to the amount fixed in the Articles, and the authorization given to the Board of Directors must be renewed by the shareholders every five years. The renewal requires a general meeting of shareholders deliberating in accordance with the requirements for amendments to the Articles. The increase of capital must be recorded in a notarial instrument, prepared at the request of the Board of Directors, within one month from the end of the subscription period or within three months from the day on which that period commenced. Luxembourg law grants pre-emptive rights to existing shareholders to subscribe for new issuances of shares where such shares are issued for cash. Shareholders will be asked to waive their pre-emption rights in relation to shares to be issued for cash. In addition, after the Redomestication, we will not be able to issue different classes of shares (including preferred shares) unless the shareholders approve them. If shareholders do not approve further extensions of the Board's ability to issue shares without prior shareholder approval and free from shareholder pre-emption rights, or approve the issuance of different classes of shares, the Company's capital flexibility could be adversely impacted.

Luxembourg law also reserves for approval by shareholders many corporate actions over which our Board of Directors currently has authority under Bermuda law. We cannot assure you that situations will not arise where such flexibility would have provided substantial benefits to our shareholders.

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## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Proxy Statement, including the documents we incorporate by reference, contains, and the Company may from time to time make, written or oral forward-looking statements within the meaning of the U.S. federal securities laws, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and other factors, many of which are outside the Company's control that could cause actual results to differ materially from such statements. In particular, statements using words such as may, should, estimate, expect, anticipate, intend, believe, predict, potential, or words of similar import generally involve forward-looking statements.

Important events and uncertainties that could cause the actual results to differ include, but are not necessarily limited to: market conditions affecting the Company's common share price; the impact of volatility in the financial markets, including the duration of the economic crisis and the effectiveness of governmental solutions; the weakening economy, including the impact on our consumers' businesses; fluctuations in interest rates; the effects of corporate bankruptcies on capital markets; the possibility of severe or unanticipated losses from natural or man-made catastrophes; the effectiveness of our loss limitation methods; our dependence on principal employees; the cyclical nature of the insurance and reinsurance business; the levels of new and renewal business achieved; opportunities to increase writings in our core property and specialty reinsurance and insurance lines of business and in specific areas of the casualty reinsurance market; the sensitivity of our business to financial strength ratings established by independent rating agencies; the estimates reported by cedents and brokers on pro-rata contracts and certain excess of loss contracts where the deposit premium is not specified in the contract; the inherent uncertainties of establishing reserves for loss and loss adjustment expenses; our reliance on industry loss estimates and those generated by modeling techniques; unanticipated adjustments to premium estimates; changes in the availability, cost or quality of reinsurance or retrocessional coverage; changes in general economic conditions; changes in governmental regulation or tax laws in the jurisdictions where we conduct business; the amount and timing of reinsurance recoverables and reimbursements we actually receive from our reinsurers; the overall level of competition, and the related demand and supply dynamics in our markets relating to growing capital levels in the insurance and reinsurance industries; declining demand due to increased retentions by cedents and other factors; the impact of terrorist activities on the economy; and rating agency policies and practices. In addition, the Company's forward-looking statements about the Redomestication and its anticipated effects, operations, stock trading matters, and tax and financial matters could be affected by risks including that the Redomestication may not close, shareholders or regulators may not provide required approvals, the Company may encounter difficulties moving jurisdictions, tax and financial expectations might not materialize or might change, and Luxembourg corporate governance and regulatory schemes could prove different or more challenging than currently expected.

These and other events that could cause actual results to differ are discussed in more detail from time to time in our filings with the SEC. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by U.S. federal securities laws. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made.

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# THE SHAREHOLDER MEETING

## Date, Time and Place

The Annual General Meeting of Shareholders will be held on May 14, 2010 at 8:30 a.m. local time at The Mid Ocean Club, Tucker s Town, St. George s, Bermuda.

We are first mailing this Proxy Statement and accompanying form of proxy to shareholders beginning on or about April 16, 2010.

## Company s Mailing Address

Flagstone Reinsurance Holdings Limited  
Crawford House  
Church Street  
Hamilton HM 11  
Bermuda  
(441) 278-4300

## Purpose of the Meeting

At the meeting, the Board of Directors will ask our shareholders to vote:

Proposal 1: To elect four (4) Class C directors (David Brown, Stephen Coley, Dr. Anthony Knap, Ph.D and Peter F. Watson) to hold office until the 2013 Annual General Meeting of Shareholders or until their respective successors have been duly elected or appointed.

Proposal 2: To approve the appointment of Deloitte & Touche to serve as the Company s independent auditor for fiscal year 2010 and until our 2011 Annual General Meeting of Shareholders and to refer the determination of the auditor s remuneration to the Board of Directors.

Proposal 3: To approve amendments to the Performance Share Unit Plan.

Proposal 4: To consider and approve the Redomestication from Bermuda to Luxembourg, the authorizing of the Board of Directors to abandon or delay the Redomestication for any reason at any time prior to it becoming effective notwithstanding the approval of the Shareholders, and the granting of a power of attorney to each member of the Board of Directors (or such persons appointed attorney in Luxembourg) to appear before a Luxembourg public notary and to take all necessary steps and to sign all necessary documents to effect the Redomestication.

Proposal 5: If the Redomestication is approved, to approve the change of the Company s corporate name to Flagstone Reinsurance Holdings, S.A.

Proposal 6: If the Redomestication is approved, to change the Company s corporate purpose.

Proposal 7: If the Redomestication is approved, to fix the Company s registered office in Luxembourg.

Proposal 8: If the Redomestication is approved, to approve the Company s Luxembourg articles of incorporation.

Proposal 9: If the Redomestication is approved, to approve the Company s issued share capital.

Proposal 10: If the Redomestication is approved, to approve the Company s authorized share capital.

Proposal 11: If the Redomestication is approved, to waive any shareholder preferential or pre-emptive subscription rights under Luxembourg law.

Proposal 12: If the Redomestication is approved, to allow the Company and its subsidiaries to acquire and own shares of the Company.

Proposal 13: If the Redomestication is approved, to approve the fiscal year of the Company.

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Proposal 14: If the Redomestication is approved, to approve the date and time for future Annual General Meetings of Shareholders.

Proposal 15: If the Redomestication is approved, to confirm the appointment of the Company's directors.

Proposal 16: If the Redomestication is approved, to confirm the Company's independent auditor.

Proposal 17: If the Redomestication is approved, to elect the Company's statutory auditor.

Proposal 18: If the Redomestication is approved, to acknowledge an independent auditor's report for the Company.

Proposal 19: If there are insufficient votes at the time of the meeting to approve the Redomestication, to approve the motion to adjourn the meeting to a later date to solicit additional proxies.

The matters described in this Proxy Statement are the only matters that we know will be voted on at the Annual General Meeting. If other matters are properly presented at the Annual General Meeting, the proxy holders will vote your shares as they see fit.

Our Board of Directors has approved the proposals and recommends that you vote **FOR** all of the proposals.

## **Revocability of Proxy**

You may change your vote in one of three ways at any time before it is exercised:

notify our Secretary in writing before the Annual General Meeting that you are revoking your proxy; submit another proxy card (or voting instruction card if you hold your shares in street name) with a later date; or if you are a holder of record, or a beneficial holder with a proxy from the holder of record, vote in person at the Annual General Meeting.

Your presence without voting at the meeting will not automatically revoke your proxy, and any revocation during the meeting will not affect votes previously taken. If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee in revoking your previously granted proxy.

## **Dissenter's Right of Appraisal**

The Board of Directors has not proposed for consideration at the Annual General Meeting any transaction for which the laws of Bermuda entitle shareholders to appraisal rights.

## **Persons Making the Solicitation**

Proxies in the form enclosed are being solicited by the Board of Directors. The persons named in the accompanying proxy card have been designated as proxies by the Board. Such persons designated as proxies serve as officers of the Company.

We will pay the cost of solicitation of proxies. We have engaged Okapi Partners and BNY Mellon Shareowner Services as the proxy solicitors for the Annual General Meeting for an aggregate fee of approximately \$42,500. In addition to the use of the mails, certain of our directors, officers or employees may solicit proxies by telephone or personal contact. Upon request, we will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of shares.

## **Interest of Certain Persons in Matters to be Acted Upon**

Other than for any interest arising from the ownership of our common shares or any nominee's election to office, the Company is not aware of any substantial interest of any director, executive officer, nominee for election as a director or associate of any of the foregoing in any matter to be acted upon at the Annual General Meeting.

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## **Voting Securities and Record Date**

### **Record Date**

Our Board of Directors has fixed the close of business on March 23, 2010 as the record date for the Annual General Meeting. Only holders of record of our shares on the record date are entitled to notice of and to vote at the meeting or any adjournment or postponement of the meeting. You will not be the holder of record of shares that you hold in street name. Instead, the depository (for example, Cede & Co.) or other nominee will be the holder of record of such shares.

### **Number of Shares Outstanding**

On the record date of the Annual General Meeting, 80,001,073 shares were issued and entitled to be voted at the meeting.

### **Voting Rights**

In general, and except as provided below, shareholders have one vote for each common share held by them. However, if the common shares of a shareholder are treated as controlled shares (generally, common shares held directly, indirectly through non-U.S. entities or constructively through certain relationships) of any U.S. Person (as defined in Section 957(c) of the Code) and such controlled shares constitute more than 9.9% of the votes conferred by the Company's issued shares, the voting rights with respect to the controlled shares of that U.S. Person (a 9.9% U.S. Shareholder) shall be limited to a voting power of 9.9% under a formula specified in the Bye-Laws. The reduction in votes is generally to be applied proportionately among all the controlled shares of the 9.9% U.S. Shareholder; provided, however, that the reduction shall first be effected by reducing the votes conferred on the common shares held directly by such 9.9% U.S. Shareholder. The reduction in the votes of the common shares held by a 9.9% U.S. Shareholder effected by the foregoing shall be allocated proportionately among the common shares held by the other shareholders so long as the allocation does not cause any U.S. Person to become a 9.9% U.S. Shareholder. The formula is applied repeatedly until the voting power of all 9.9% U.S. Shareholders has been reduced to 9.9%.

### **Principal Holders of Common Shares**

Our directors and executive officers have indicated that they intend to vote their shares in favor of all of the proposals.

On the record date, we believe our directors, executive officers and affiliates beneficially owned 43.9% of the outstanding common shares. Under our Bye-Laws, some members of this group may have their voting rights reduced and the group's voting rights could be reduced to less than 43.9%. See Security Ownership of Certain Beneficial Owners, Management and Directors .

## **Voting Procedures**

### **Quorum**

The presence, in person or by proxy, of two or more of the holders representing in excess of 50% of the total shares outstanding and entitled to vote at the Annual General Meeting constitutes a quorum for the conduct of business.

Holders of shares are entitled to vote on each matter to be voted upon by the shareholders at the Annual General Meeting in accordance with the voting rights afforded under Bye-Laws 4 and 30 of the Company.

## **Voting in Person or By Proxy**

A proxy card is being sent to each record holder as of the record date. If you properly received a proxy card, you may grant a proxy to vote on the proposals by marking your proxy card appropriately, executing it in the space provided, dating it and returning it to us. We may accept your proxy by any form of communication permitted by Bermuda law and our Bye-Laws. If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee when voting your shares.



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If you have timely mailed a properly executed proxy card and clearly indicated your votes, your shares will be voted as indicated. If you have timely submitted a properly executed proxy card and have not clearly indicated your votes, your shares will be voted **FOR** each of the proposals. If any other matters properly come before the meeting, the persons named in the proxy card will vote the shares represented by all properly executed proxies in accordance with their best judgment, unless authority to do so is withheld in the proxy.

You may abstain on any of the proposals by marking **ABSTAIN** with respect to any proposal.

The matters described in this Proxy Statement are the only matters that we know will be voted on at the Annual General Meeting. If other matters are properly presented at the Annual General Meeting, the proxy holders will vote your shares as they see fit.

If you do not appoint a proxy and you do not vote at the meeting, you will still be bound by the outcome. You therefore are strongly urged to attend and vote at the meeting in person or by proxy.

### **Abstentions and Broker Non-Votes**

Broker non-votes occur when nominees, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial holders at least ten days before the Annual General Meeting.

Pursuant to Bermuda law, (i) common shares which abstain from voting on any matter are not included in the determination of the common shares voting on such matter but are counted for quorum purposes and (ii) common shares which are represented by broker non-votes (i.e., common shares held by brokers which are represented at the Annual General Meeting but with respect to which the broker is not empowered to vote on a particular proposal) are not included in the determination of the common shares voting on such matter but are counted for quorum purposes.

Member brokerage firms of the NYSE that hold shares in street name for beneficial owners may, to the extent that such beneficial owners do not furnish voting instructions with respect to any or all proposals submitted for shareholder action, vote in their discretion upon certain proposals.

### **Vote Required for Approval**

In accordance with our Bye-Laws, under Proposal 1, the nominees for election as directors at the Annual General Meeting who receive the highest number of **FOR** votes will be elected as directors. This is called plurality voting. All other proposals require the affirmative **FOR** vote of a majority of those shares present at the meeting and entitled to vote on the proposal. A hand vote will be taken unless a poll is requested pursuant to the Bye-Laws.

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## **PROPOSAL 1 ELECTION OF CLASS C DIRECTORS**

Our Bye-Laws provide for a classified Board of Directors of no fewer than ten (10) and no more than twelve (12) directors, divided into three (3) classes of as nearly equal size as possible. The Board of Directors currently consists of twelve (12) directors pursuant to a resolution of the Board of Directors. Each director will serve a three-year term. At the Annual General Meeting, our shareholders will elect the Class C directors, who will serve until the 2013 Annual General Meeting of Shareholders. Our incumbent Class A and Class B directors will serve until the 2012 and 2011 Annual General Meetings of Shareholders, respectively.

At its meeting on February 26, 2010, the Board of Directors nominated Messrs. Brown, Coley, Knap and Watson for re-election as Class C directors at the Annual General Meeting. Each of these directors has indicated that he will offer himself for re-election to the Board of Directors.

If any nominee shall prior to the Annual General Meeting become unavailable for election as a director, the persons named in the accompanying proxy card will vote for such other nominee, if any, in their discretion as may be recommended to or by the Board of Directors.

### NOMINEES

David Brown  
Stephen Coley  
Dr. Anthony Knap, Ph.D.  
Peter F. Watson

The respective ages, business experience, directorships and committee memberships for the nominees are set out in Our Directors . All of the nominees currently serve as directors of Flagstone (Bermuda).

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOUR CLASS C DIRECTORS NAMED ABOVE**

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## **PROPOSAL 2 AUDITOR S PROPOSAL**

Upon the recommendation of the Audit Committee, the Board of Directors proposes that the shareholders approve the appointment of Deloitte & Touche to serve as our independent auditor for the 2010 fiscal year until the 2011 Annual General Meeting of Shareholders. Deloitte & Touche has served as our independent auditor since October 2005. A representative from Deloitte & Touche will attend the Annual General Meeting and will be available to respond to any questions and make a statement if he or she so desires. Shareholders at the Annual General Meeting will also be asked to vote to refer the determination of the auditor's remuneration to the Board of Directors.

The following sets forth the fees billed to us by Deloitte & Touche during the 2009 fiscal year:

### **Audit Fees**

Aggregate audit fees billed to us by Deloitte & Touche for the fiscal years ended December 31, 2009 and 2008 were \$3,057,559 and \$3,612,671, respectively. Audit fees were for (a) the audit of our annual financial statements, (b) review of our quarterly financial statements, (c) statutory audits and (d) assistance with and review of documents filed with the SEC (including comfort letters and consents).

### **Audit-Related Fees**

Audit-related fees billed to us by Deloitte & Touche for the fiscal years ended December 31, 2009 and 2008 were \$123,718 and \$98,640, respectively, for assurance and related services that are related to the audit and review of the financial statements (including technical consultations and services provided in relation to securities offerings) which are not reported as audit fees above.

### **Tax Fees**

Fees billed to us by Deloitte & Touche for all tax-related services for the fiscal years ended December 31, 2009 and 2008 were \$nil and \$18,890, respectively. These fees were for professional services rendered for tax compliance.

### **All Other Fees**

The aggregate fees billed by Deloitte & Touche for products and services rendered to the Company, other than the services described above under **Audit Fees**, **Audit-Related Fees** and **Tax Fees**, for the fiscal years ended December 31, 2009 and 2008 were \$106,772 and \$157,927, respectively, which relate to other consents primarily for due diligence services. The Audit Committee has considered whether any information technology and non-audit consulting services provided by Deloitte & Touche could impair the independence of Deloitte & Touche. No such services were provided by Deloitte & Touche during 2009 or 2008 and thus the Audit Committee concluded that such services did not impair the auditor's independence.

### **Pre-Approval Policies**

The Audit Committee must pre-approve all audit services and permitted non-audit services performed for the Company by our auditor, subject to the de minimis exceptions for non-audit services described in Section

10A(i)(1)(B) of the Exchange Act which are approved by the Audit Committee prior to the completion of the audit. All engagements of Deloitte & Touche to provide audit, audit-related and tax services to the Company during 2009 and 2008 were pre-approved by the Audit Committee.

The Audit Committee is responsible for managing our relationship with our independent auditor. The Audit Committee has the sole authority to hire and employ our auditor. The Audit Committee regularly reviews the auditor's work plan, bills and work product. Accordingly, it is our policy that all proposed engagements by our current audit firm must be approved in advance by the Audit Committee.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE REAPPOINTMENT OF DELOITTE & TOUCHE AS OUR INDEPENDENT AUDITOR FOR THE 2010 FISCAL YEAR UNTIL THE 2011 ANNUAL GENERAL MEETING OF SHAREHOLDERS AND THE REFERRAL OF THE DETERMINATION OF THE AUDITOR'S REMUNERATION TO THE BOARD OF DIRECTORS. PROXIES WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY OTHERWISE IN THEIR PROXIES.**

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## **PROPOSAL 3 PERFORMANCE SHARE UNIT PLAN AMENDMENTS**

It is proposed, subject to shareholder approval, that the Company's Performance Share Unit Plan (the "PSU Plan") be amended to, among other things, (i) modify the treatment of Performance Share Units ("PSUs") upon the retirement of an employee, (ii) permit Mark Byrne, Chairman of the Company, to receive PSUs and (iii) cancel PSUs if the Company is required to make a financial restatement due to a material misstatement and those PSUs were granted based upon the erroneous financial information.

### **Retirement Amendments**

Currently, if an employee is 65 or older at the age of retirement, the employee's PSUs are cancelled. However, at the end of the first performance period after the retirement, the retiree is paid in cash what they would have received had they been employed until the end of that performance period. For an employee that retires at 65 or over, the Board proposes to amend the PSU Plan so that PSUs are not cancelled and continue to vest as if the retiree were still employed.

Currently, an employee who retires before 65 but whose age plus years of service exceeds 60 keeps their PSUs but the reward factor used to determine the number of PSUs becomes fixed as of the most recent quarter prior to the retirement. The Board proposes to increase the age plus service requirement from 60 to 65. For such retirees, the Board also proposes that the retiree keeps their PSUs, and the PSUs vest as if the retiree were still employed.

### **Eligible Employee Amendment**

The Board proposes to amend the PSU Plan to make Mark Byrne, Chairman of the Company, eligible to receive PSUs.

### **Clawback Amendment**

The Board proposes to add a provision that would cancel PSUs if the Company is required to make a financial restatement due to a material misstatement and those PSUs were granted based upon the erroneous financial information.

### **Other Amendment**

In addition, the Board proposes to make other changes that are reflected in the PSU Plan below.

### **Board Recommendation; Required Approval**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 3.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

## Text of Amended PSU Plan

The text of the PSU Plan as proposed to be amended appears below.

Flagstone Reinsurance Holdings Limited  
Performance Share Unit Plan

1. PURPOSE

The purpose of this Plan is to advance the interests of the Company and its shareholders by providing PSUs as incentive compensation to certain key Employees of the Company and its subsidiaries, as well as, at the discretion of the Compensation Committee, employees of companies that provide operational support or other services to the Company.

2. DEFINITIONS

2.1. Adverse Change in the Plan is defined in paragraph 12.

2.2. Affiliates includes any company affiliated 50% or more owned, directly with West End Capital Management (Bermuda) Limited or Flagstone Reinsurance Holdings Limited or indirectly, by the Company.

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- 2.3. Board means the Board of Directors of the Company.
- 2.4. Change in Control is defined in paragraph 9.
- 2.5. Common Shares shall mean common shares of the Company.
- 2.6. Company means Flagstone Reinsurance Holdings Limited.
- 2.7. Compensation Committee means the Compensation Committee of the Board.
- 2.8. Constructive Termination is defined in paragraph 11.
- Employee means any person, including officers, employed by the Company or any Subsidiary of the Company. Such term shall also include directors of the Company or any Subsidiary of the Company. Such term shall also include, at the discretion of the Compensation Committee, employees of companies that provide operational support or other services to the Company. A person shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, any Subsidiary or any successor. Notwithstanding anything else contained herein, Mark Byrne shall not be considered an Employee for purposes of the Plan.
- 2.9.
- 2.10. Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.
- 2.11. Hostile Takeover Termination is defined in paragraph 13.
- Inter Vivos Designee means any person or body of persons corporate or unincorporate, association, trust, partnership or similar entity or arrangement designated by an Employee to hold such PSUs granted to the Employee under the Plan and receive payments under the Plan during the life of the Employee.
- 2.12.
- Maximum Award shall mean the maximum number of Common Shares that an Employee would be entitled to receive if all of the performance goals set forth in a particular PSU were satisfied over the Performance Period(s) set forth in such PSU.
- 2.13.
- 2.14. Performance Period(s) means the period(s) during which an employee must perform pursuant to the grant of a PSU; provided, however, that any such period must end on December 31 of the relevant fiscal year.
- 2.15. Plan means this Flagstone Reinsurance Holdings Limited Performance Share Unit Plan.
- 2.16. PSU means a Performance Share Unit.
- 2.17. Retire means to resign from the Company to be Retired.
- Retired means not acting as an Employee, Officer, Director, or consultant to any insurance or reinsurance firm. The Committee may waive this provision at its sole discretion with respect to Clause 6.3.2, if it determines in its sole discretion that the Employee is not competing in any way with the Company or Affiliates.
- 2.18.
- 2.19. Subsidiary, as used herein, has the meaning assigned to the term subsidiary company in the Companies Act, 1981 of Bermuda.
- 2.20. Termination Without Cause is defined in paragraph 10.
- 2.21. Term of Service means the time between the date the Employee's continuous employment with the Company or one or more Affiliates commenced, with the term of service of each employee of an Affiliate deemed to commence at the latest of December 20, 2005, or the date of acquisition of 50% or more by the Company of the ownership interest, or the date of the Employee's actual commencement of service and

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2.21.2. any date of separation from service, including for resignation, termination for Cause or not for Cause, or retirement.

3. ADMINISTRATION OF THE PLAN

Administration. The Plan shall be administered by the Compensation Committee. No member of the Compensation Committee shall be an Employee of the Company eligible to receive PSUs under the Plan or shall

3.1. have been eligible within one year prior to his appointment to receive PSUs under the Plan or to receive awards under any other plan of the Company or any of its subsidiaries under which participants are entitled to acquire shares, share options or share appreciation rights of the Company or any of its subsidiaries.

Powers of the Administrator. The Compensation Committee shall have exclusive authority to select the Employees to be granted PSUs, to determine the number of PSUs to be granted and the terms (including the performance goals and Performance Period(s)) of such PSUs and to prescribe the form of the instruments embodying such PSUs. The Compensation Committee shall be authorized to interpret the Plan and the PSUs granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make any other determinations which it believes necessary or advisable for the administration of the Plan. The Compensation Committee may correct any defect or supply any omission or reconcile any inconsistency in the

3.2. Plan or in any PSU grant instrument in the manner and to the extent the Compensation Committee deems desirable to carry it into effect. Any decision of the Compensation Committee in the administration of the Plan, as described herein, shall be final and conclusive. The Compensation Committee may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Compensation Committee. No member of the Company shall be liable for anything done, or for any failure to act, by him or by any other member of the Compensation Committee in connection with the Plan, except for his own willful misconduct or as expressly provided by statute.

3.3 Eligibility. PSUs may be granted only to Employees, excluding Employees whose employment contracts specify that they are not entitled to receive PSUs.

4. AWARDS

4.1. Type of Awards Under the Plan. Awards under the Plan shall be limited to PSUs.

Maximum Number of PSUs and Maximum Number of Common Shares that may be Issued Pursuant to PSUs Under the Plan. The maximum number of PSUs that may be granted under the Plan shall not exceed 5,600,000 PSUs. The maximum number of PSUs that may be granted under the Plan to any one Employee shall be half the maximum number of PSUs that may be granted under the Plan to all Employees. The aggregate Maximum

4.2. Awards that shall be issuable under the Plan shall not exceed 11,200,000 Common Shares. If a PSU is forfeited or otherwise cancelled, or if an Employee does not achieve the Maximum Award pursuant to a PSU, the Common Shares underlying such PSU shall become available for future grant under PSUs pursuant the Plan (unless the Plan has terminated).

5. RIGHTS WITH RESPECT TO PSUs

An Employee to whom PSUs are granted (and any person succeeding to such employee's rights pursuant to the Plan) shall have no rights as a shareholder with respect to any Common Shares issuable pursuant thereto until such

5.1. Employee's name is entered into the Register of Members of the Company and until the date of the issuance of a share certificate (whether or not delivered) therefore therefor. Except as provided in paragraph 14, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities or other property) the record date for which is prior to the date such share certificate is issued.

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6. PSUs

The grant of PSUs to an Employee will entitle him to receive, without payment to the Company, all or a portion of the Maximum Award, as determined by the Compensation Committee, if the terms and conditions specified herein and in the PSU are satisfied. Payment in respect of a PSU shall be made as provided in subparagraph 6.6. Each grant of PSUs shall be subject to the following terms and conditions:

6.1. The Compensation Committee shall determine the number of PSUs to be granted to each Employee. PSUs may be issued in different classes or series having different terms and conditions.

Subject to subparagraph 6.6, at the end of the Performance Period(s) specified in the grant of a PSU, an Employee shall be entitled to receive the Maximum Award if the performance objectives set forth in the grant of such PSU

6.2. are attained in full. If the performance objectives specified in the grant are attained in part but not in full, the Compensation Committee, in its sole discretion, shall determine the percentage of the Maximum Award, if any, to which the Employee is entitled under the PSU.

PSUs shall be cancelled if the Employee's continuous employment with the Company or any of its subsidiaries or with any company that provides operational support or other services to the Company shall terminate for any

6.3. reason prior to the end of the Performance Period(s), unless such termination results in Related Employment (as defined in paragraph 8), and except as otherwise specified in this subparagraph 6.3 or in subparagraphs 6.4 or 6.5.

Notwithstanding the foregoing and without regard to subparagraph 6.2:

if an Employee shall, while employed by the Company or any of its subsidiaries or by any company that provides operational support or other services to the Company or while engaged in Related Employment, die or become disabled (within the meaning of paragraph 7) prior to the end of the Performance Period(s), the PSUs

6.3.1. granted to such Employee shall be cancelled at the end of the next ending Performance Period and he, or his legal representative, as the case may be, shall become entitled to receive a cash payment (determined in accordance with subparagraph 6.6) in respect of the Common Shares he would have received had he been in continuous employment with the Company through the end of such Performance Period and had the performance objectives, if any, that were imposed been achieved; or

6.3.2. if an Employee shall retire under an approved retirement program of the Company or a Subsidiary (or such other plan as may be approved by the Compensation Committee, in its sole discretion, for this purpose) prior to the end of the Vesting Period(s), then:

if If at the time of his their retirement the Employee is 65 years old or older, the PSUs shall not be cancelled at the end of the next ending Performance Period, and he shall become entitled to receive a cash payment (determined in accordance with subparagraph 6.6) in respect of the Common Shares he would have received

6.3.2.1. had he been in continuous employment with the Company through the end of the Performance Period and had the performance objectives, if any, that were imposed been achieved, on the Employee's official retirement date, but they shall continue to vest and the Employee shall receive payments in cash or stock at the discretion of the Compensation Committee on schedule as described in subparagraph 6.6 or

if If at the time of his their early retirement, the sum of the Employee's age plus years of service for the Company or any of its affiliates is greater than or equal to 60 65 (sixty -five), the multiplier for the unvested PSUs shall be fixed as of the most recent quarter close, and the PSUs will vest as scheduled on the grant

6.3.2.2. certificate. This early retirement provision is at the sole judgment of the Compensation Committee and will not apply in circumstances where Employees are working for a competitor in any capacity at any point between their retirement from the Company and the PSU vesting date, or PSUs shall not be cancelled on the Employee's official retirement date, but shall continue to vest and the Employee shall receive payments in cash or stock at the discretion of the Compensation Committee on schedule as described in subparagraph

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6.4, as they would have received had they been in continuous employment with the Company on that date, provided only that the Employee remains Retired on each vesting date. This early retirement provision will not apply where any conflicting provisions exist in an individual's employment contract exist, unless otherwise approved by the Compensation Committee; or;

6.3.2.3. if at the time of his their retirement the Employee does not meet the criteria under section 6.3.2.2 and is less than 65 years old and his their retirement occurs before 24 months have elapsed since the grant of the PSUs, the PSUs shall be cancelled and the Employee shall become entitled to receive a cash payment (determined in accordance with subparagraph 6.6) in respect of one-ninth of the Common Shares he they would have received had he they been in continuous employment with the Company through the end of the next ending Performance Period and had the performance objectives, if any, that were imposed been achieved, or

6.3.2.4. if at the time of his their retirement the Employee does not meet the criteria under section 6.3.2.2 and is less than 65 years old and his their retirement occurs after 24 months or more have elapsed since the grant of the PSUs, the PSUs shall be cancelled and the Employee shall become entitled to receive a cash payment (determined in accordance with subparagraph 6.6) in respect of two-ninths of the Common Shares he they would have received had he they been in continuous employment with the Company through the end of the next ending Performance Period and had the performance objectives, if any, that were imposed been achieved.

6.4. If within 24 months after a Change in Control of the Company as defined in paragraph 9 and prior to the end of a Performance Period:

6.4.1. there is a Termination Without Cause, as defined in paragraph 10, of the employment of an Employee;

6.4.2. there is a Constructive Termination, as defined in paragraph 11, of the employment of an Employee; or

6.4.3. there occurs an Adverse Change in the Plan, as defined in paragraph 12, in respect of an Employee, then:

6.4.3.1. the Employee shall become entitled to receive:

6.4.3.1.1. The Maximum Award multiplied by a fraction the numerator of which is the number of full months which have elapsed since the date of the PSU grant to the end of the first month in which occurs one of the events described in clauses 6.4.1, 6.4.2 or 6.4.3 and the denominator of which is the total number of months in the Performance Period(s), plus

6.4.3.1.2. If the number of Common Shares determined pursuant to subclause (1) above is less than the Maximum Award (such difference being referred to herein as the Deficiency ), the Employee shall receive Common Shares equal to all or a portion of such Deficiency as follows:

6.4.3.1.2.1. if the Compensation Committee shall have determined, prior to the Change in Control and based on the most recent performance status reports, that the performance objectives for the particular grant were being met at the date of the determination, the Employee shall receive Common Shares equal to the full Deficiency, and

6.4.3.1.2.2. if the determination of the Compensation Committee was that the performance objectives for the particular grant were not being met at the date of such determination, the Compensation Committee shall at the time of such determination have also made a determination as to the

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percentage of the Deficiency as to which the Employee is entitled to receive Common Shares, but in no event shall such percentage be less than fifty percent (50%).

6.4.3.2. Payment of any amount in respect of PSUs as described above in this subparagraph 6.4 shall be made as promptly as possible after the occurrence of one of the events described in clauses 6.4.1 through 6.4.3.

Notwithstanding any other provision in the Plan, in the event of a Hostile Takeover Termination, the Employee shall immediately become entitled to the Maximum Award with respect to all PSUs granted to such Employee.

6.5. Such Maximum Award shall be payable, in the sole discretion of the Compensation Committee, either by issuance of Common Shares or in cash based on the market price per Common Share as of the close of trading on the date of a Hostile Takeover Termination.

Payment of any amount due to an Employee in respect of the PSUs shall be made by the Company as promptly as practicable or shall be deferred to such other time or times as the Compensation Committee shall determine, and may be made in cash, by issuance of Common Shares, or partly in cash and partly by issuance of Common Shares as determined by the Compensation Committee. The amount of cash, if any, to be paid in lieu of issuance of Common Shares shall be determined based on the market price per Common Share as of the close of trading on

6.6. the date on which an Employee becomes entitled to payment, whether or not such payment is deferred. Such deferred payments may be made by undertaking to pay cash in the future, together with such additional amounts as may accrue thereon until the date or dates of payment, as determined by the Compensation Committee in its sole discretion. In the case of issuance of Common Shares to an Employee, such Employee's services rendered to the Company shall be deemed to constitute full payment to the Company of the par value of such Common Shares.

7. DISABILITY

For the purposes of this Plan, an Employee shall be deemed to be disabled if the Compensation Committee shall determine that the physical or mental condition of the Employee is such as would entitle him to payment of monthly disability benefits under any disability plan of the Company or a Subsidiary in which he is a participant.

8. RELATED EMPLOYMENT

For the purposes of this Plan, Related Employment shall mean the employment of an Employee by an employer which is neither the Company nor a Subsidiary provided: (i) such employment is undertaken by the individual and continued at the request of the Company or a Subsidiary; (ii) immediately prior to undertaking such employment, the individual was an officer or employee of the Company or a Subsidiary, or was engaged in Related Employment as herein defined; and (iii) such employment is recognized by the Compensation Committee, in its sole discretion, as Related Employment for the purposes of this paragraph 8. The death or disability of an individual during a period of Related Employment as herein defined shall be treated, for purposes of this Plan, as if the death or onset of disability had occurred while the individual was an officer or employee of the Company.

9. CHANGE IN CONTROL

For purposes of this Plan, a Change in Control of the Company shall occur if:

Any person or group (within the meaning of Section 13(d) and 14(d)(2) of the Exchange Act), excluding the initial subscribers to the Company, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of fifty percent (50%) or more of the Company's then outstanding shares; or

9.2. the business of the Company for which the participant's services are principally performed is disposed of by the Company pursuant to a sale or other disposition of all or substantially all of the business or business related assets of the Company (including shares of a Subsidiary of the Company).

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10. TERMINATION WITHOUT CAUSE

For purposes of this Plan, Termination Without Cause shall mean a termination of the Employee's employment with the Company or a Subsidiary by the Company or the Subsidiary other than for (i) disability as described in paragraph 7 or (ii) Cause. Cause shall mean (a) a material breach by the Employee of any contract between the Employee and the Company or a Subsidiary; (b) the willful and continued failure or refusal by the Employee to perform any duties reasonably required by the Company or a Subsidiary, after notification by the Company or the Subsidiary of such failure or refusal, and failing to correct such behaviour within 20 days of such notification; (c) commission by the Employee of a criminal offence or other offence of moral turpitude; (d) perpetration by the Employee of a dishonest act or common law fraud against the Company or a Subsidiary or a client of either; or (e) the Employee willfully engaging in misconduct which is materially injurious to the Company or a Subsidiary, including without limitation, the disclosure of any trade secrets, financial models, or computer software to persons outside the Company or a Subsidiary without the consent of the Company or a Subsidiary. Notwithstanding anything herein to the contrary, if the Employee's employment with the Company or a Subsidiary shall terminate due to a Change in Control of the Company as described in paragraph 9, where the purchaser, as described in such paragraph, formally assumes the Company's obligations under this Plan or places the Employee in a similar or like plan with no diminution of the value of the grants, such termination shall not be deemed to be a Termination Without Cause.

11. CONSTRUCTIVE TERMINATION

For purposes of this plan, a Constructive Termination shall mean a termination of employment with the Company or a Subsidiary at the initiative of the Employee that the Employee declares by prior written notice delivered to the Secretary of the Company to be a Constructive Termination by the Company or a Subsidiary and which follows (a) a material decrease in his salary or (b) a material diminution in the authority, duties or responsibilities of his position with the result that the Employee makes a determination in good faith that he cannot continue to carry out his job in substantially the same manner as it was intended to be carried out immediately before such diminution. Notwithstanding anything herein to the contrary, Constructive Termination shall not occur within the meaning of this paragraph 11 until and unless 30 days have elapsed from the date the Company receives such written notice without the Company curing or causing to be cured the circumstance or circumstances described in this paragraph 11 on the basis of which the declaration of Constructive Termination is given.

12. ADVERSE CHANGE IN THE PLAN

For purposes of this plan, an Adverse Change in the Plan shall mean:

- 12.1. termination of the Plan pursuant to subparagraph 18(a);
- 12.2. amendment of the Plan pursuant to paragraph 17 that materially diminishes the value of PSU grants, either to individual Employees or in the aggregate, unless there is substituted concurrently authority to grant PSUs of comparable value to individual Employees in the Plan or in the aggregate, as the case may be; or,
- 12.3. in respect of any holder of a PSU a material diminution in his rights held under such PSU (except as may occur under the terms of the PSU as originally granted) unless there is substituted concurrently a PSU grant with a value at least comparable to the loss in value attributable to such diminution in rights.

13. HOSTILE TAKEOVER TERMINATION

For purposes of this plan, a Hostile Takeover Termination shall mean an Adverse Change in the Plan as described in paragraph 12 or any termination (including, but not limited to, a Termination Without Cause as described in paragraph 10 or a Constructive Termination as described in paragraph 11) of an Employee's employment with the Company or a Subsidiary of the Company at any time following a Change in Control of the Company, as described in paragraph 9, that was opposed by the two Board members nominated by Haverford (Bermuda) Ltd.



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14. DILUTION AND OTHER ADJUSTMENTS

In the event of any change in the issued and outstanding Common Shares of the Company by reason of any share split, share dividend, recapitalization, merger, consolidation, reorganization, amalgamation, combination or exchange of Common Shares or other similar event, and if the Compensation Committee shall determine, in its

14.1. sole discretion, that such change equitably requires an adjustment in the number or kind of Common Shares that may be issued pursuant to PSUs under the Plan pursuant to paragraph 6 or in any measure of performance, then such adjustment shall be made by the Compensation Committee and shall be conclusive and binding for all purposes of the Plan.

14.2. Upon the declaration by the Board of Directors of the Company of a dividend in specie or in kind in favor of the holders of Common Shares in the Company, the Compensation Committee shall determine, in its sole discretion, if such dividend equitably requires an adjustment in the number or kind of PSUs that may be issued to an Employee under the Plan in lieu of a dividend payment.

15. DESIGNATION OF BENEFICIARY/INTER VIVOS DESIGNEE BY EMPLOYEE

15.1. An Employee may name in writing to the Compensation Committee, or such other person as the Compensation Committee may designate from time to time to receive such instructions, a beneficiary to receive any payment to which he may be entitled in respect of PSUs under the Plan in the event of his death. An Employee may change his beneficiary from time to time in the same manner. If no designated beneficiary is living on the date on which any amount becomes payable to an Employee's executors or administrators, the term beneficiary as used in the Plan shall include such person or persons.

15.2. An Employee may name in writing to the Compensation Committee, or such other person as the Compensation Committee may designate from time to time such instructions, one or more Inter Vivos Designees and successor Inter Vivos Designees who shall be given the rights to all past, present and future grants or series of PSUs or to one or more specific grants or series of PSUs. An Employee may change the designation of any Inter Vivos Designee in the same manner and such designation shall revoke and supersede all earlier designations. In the event an Employee does not notify the Compensation Committee designating one or more Inter Vivos Designees, or no Inter Vivos Designee survives the Employee, the PSUs and any payment of shares in place of cash shall be given to the Employee.

16. MISCELLANEOUS PROVISIONS

16.1. No employee or other person shall have any claim or right to receive a grant of PSUs under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving an employee any right to be retained in the employ of the Company or any Subsidiary.

16.2. An Employee's rights and interest under the Plan may not be assigned or transferred in whole or in part either directly or by operation of law or otherwise (except in the event of an Employee's death), including but not limited to, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner and no such right or interest of any Employee in the Plan shall be subject to any obligation or liability or such Employee.

16.3. No Common Shares shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable laws and Bermuda law.

16.4. In the event the Company is required to make a financial restatement due to a material misstatement, any grant based upon the erroneous financial statement shall be void.

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- 16.4 The Company and its subsidiaries shall have the right to deduct from any payment made under the Plan any taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the
- 16.5. Company to issue Common Shares upon payment of a PSU that the Employee pay to the Company, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold taxes. If the amount requested is not paid, the Company may refuse to issue Common Shares.
- 16.6. 16.5 The Company reserves the right to withhold shares or deduct from the Employee payroll any taxes or social benefit costs to the Employee or the Company associated with the vesting or fulfillment of the PSUs.
- 16.7. 16.6 The expenses of the Plan shall be borne by the Company. However, if a grant of PSUs is made to an employee of a Subsidiary:
- 16.7.1. 16.6.1 if such grant results in payment of cash to the Employee, such Subsidiary shall pay to the Company an amount equal to such cash payment; and
- 16.7.2. 16.6.2 if the grant results in the issuance to the Employee of Common Shares, such Subsidiary shall pay to the Company an amount equal to fair market value thereof, as determined by the Compensation Committee, on the date such Common Shares are issued.
- 16.8. 16.7 The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure any payment under the Plan.
- 16.9. 16.8 By accepting any grant or other benefit under the Plan, each Employee and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Compensation Committee.

17.

AMENDMENT

The Plan may be amended at any time and from time to time by the Board in accordance with the bye-laws of the Company, but no amendment which increases the aggregate number of Common Shares which may be issued pursuant to the Plan or the class of employees eligible to participate shall be effective unless and until the same is approved by the shareholders of the Company. For the avoidance of doubt, any action taken by the Compensation Committee pursuant to paragraph 14 does not require shareholder approval. No amendment of the Plan shall adversely affect any right of any Employee with respect to any previous grant without such Employee's written consent.

18.

TERMINATION

This Plan shall terminate upon the earlier of the following dates or events to occur:

- 18.1. the adoption of a resolution of the Board terminating the Plan; or
- 18.2. ten years from the date the Plan is initially or subsequently approved and adopted by the shareholders of the Company in accordance with paragraph 18 hereof.
- No termination of the Plan shall alter or impair any of the rights or obligations of any person, without his consent, under any previous grant under the Plan.

19.

SHAREHOLDER ADOPTION

The Plan shall be submitted to the shareholders of the Company for their approval or adoption. The Plan shall not be effective and no grant shall be made hereunder unless and until the Plan has been so approved and adopted by the shareholders in the manner required by the laws of Bermuda.

20.

GOVERNING LAW

The Plan shall be governed by and construed and interpreted in accordance with the laws of Bermuda.

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## **PROPOSAL 4 APPROVAL OF THE REDOMESTICATION**

### **General**

On February 26, 2010, our Board of Directors adopted resolutions declaring it advisable to take steps to obtain shareholder approval to effect the Redomestication by way of continuance as a body corporate under the laws of Luxembourg and discontinuance in Bermuda. Our Board of Directors directed that approval of the Redomestication be submitted for consideration by our shareholders at the Annual General Meeting and recommended that shareholders approve the following proposals. Under Bermuda law and our Bye-Laws, the approval of a majority of the shares present and voting at the meeting, whether in person or by proxy, is required for the approval of the resolutions approving the Redomestication.

### **Text of the Shareholder Resolution**

The Shareholder Resolution approving the Redomestication is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon the recommendation of the Board, the Company discontinue as an exempted company in Bermuda and continue as a société anonyme under the laws of Luxembourg, as of the date (the Effective Date ) determined by the Board or its duly authorized delegates, by transferring its registered and principal office and central administration to Luxembourg and changing its nationality to Luxembourg;

RESOLVED THAT, the Board may abandon or delay the discontinuance of the Company for any reason at any time prior to the Effective Date, notwithstanding the approval of the Shareholders; and further

RESOLVED THAT, each member of the Board of Directors (or such persons appointed attorney in Luxembourg) be hereby granted a power of attorney to appear before a Luxembourg public notary and to take all necessary steps and to sign all necessary documents to effect the Redomestication .

### **Principal Reasons for the Redomestication**

After careful consideration, we believe that the Redomestication is in the best interests of Flagstone and our shareholders. This determination was based in part on our belief that the Redomestication will:

increase our strategic and capital flexibility;  
build upon our existing European presence and pose few risks to our operating model or our long-term strategy; and  
help reduce reputational, political, regulatory and financial risks to the Company.

#### **Strategic and Capital Flexibility**

As a Luxembourg company, we expect to benefit from Luxembourg's network of excellent relations and agreements with major developed and developing countries around the world. Despite our significant European presence, we believe we are primarily viewed as a Bermuda company and that the Redomestication will help us settle our identity as a European company. We believe the enhanced ability to market ourselves as a European company will be beneficial by, among other things, providing us better access to capital in the European market. For example, it may



make a listing of our common shares on a European stock exchange more attractive.

### **Building on Existing European Presence and Few Risks to Our Operating Model and Long-Term Strategy**

The Redomestication builds on our existing European presence. Our principal operating companies are in Europe, including our principal operating company in Switzerland, and our investment management operations are already in Luxembourg. Given the presence of our investment management operations, we will benefit from our familiarity with the regulatory and legal environment and the ability to use our existing Luxembourg office as our new corporate holding company office.

In addition, the Redomestication is not expected to materially impact our operations or our financial results. Our reinsurance and insurance operations worldwide will continue to operate without material changes. Our principal operating company will remain in Switzerland, and we will retain substantial and important underwriting capital in our Bermuda branch as well as some executive offices in Bermuda.

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### **Reduces Reputation, Political, Regulatory and Financial Risks**

By locating our holding company near our principal operating companies, we believe we will settle our identity as a European company. We believe the Redomestication decreases our exposure to political, regulatory and financial risks and will reinforce our reputation, which is important to our continuing business. Luxembourg itself is a leading financial center with political, economic and regulatory stability and a sophisticated financial and regulatory environment. In addition, Luxembourg benefits from being a member of the European Union and OECD. We believe this stability will increase our ability to focus on operating the business and minimize time spent responding to actual and potential political or regulatory changes.

In addition, the Redomestication will allow us to benefit from the extensive network of commercial and tax treaties that Luxembourg is party to, significantly with the United States and certain members of the European Union. We expect these treaties will provide greater predictability with respect to the tax environment in which our business operates.

### **Amendment or Termination**

The Redomestication may be amended, modified or supplemented at any time before or after its adoption by our shareholders. Our Board of Directors may terminate the Redomestication and abandon or delay the Redomestication at any time prior to its effectiveness without obtaining the approval of our shareholders. After adoption, however, no amendment, modification or supplement may be made or effected that requires further approval by our shareholders without obtaining that approval.

### **Conditions to Consummation of the Redomestication**

The Redomestication will not be completed unless the following conditions are satisfied or, if allowed by law, waived:

- the Redomestication is approved by the requisite vote of our shareholders;
- we are not subject to any governmental decree, order or injunction that prohibits the consummation of the Redomestication;
- the required notarial deed effecting the Redomestication is validly executed before a Luxembourg public notary at a notarial meeting to be held in Luxembourg;
- in accordance with Section 132G of The Companies Act 1981 of Bermuda, the following occurs: each of the directors of the Company swears a statutory declaration confirming the matters set out therein, each director and the Company sign an irrevocable deed poll as to service of process, the Company advertises its intention to discontinue in an appointed newspaper at least 14 days before the effective date of the Redomestication and a notice of discontinuance is filed with the Bermuda Registrar of Companies;
- our Luxembourg common shares are authorized for listing on the NYSE, subject to official notice of issuance;
- we receive an opinion from Baker & McKenzie LLP, in form and substance reasonably satisfactory to us, confirming the matters discussed under **Material Tax Considerations U.S. Federal Income Tax Considerations** ;
- we receive an opinion from Appleby, in form and substance reasonably satisfactory to us, confirming that the Annual General Meeting was validly constituted, that all quorum requirements for the Annual General Meeting were fulfilled and that all resolutions passed at the Annual General Meeting were validly and correctly passed in accordance with the requirements of Bermuda law and the Bye-Laws of the Company;
- we receive an opinion from Appleby, in form and substance reasonably satisfactory to us, confirming the matters discussed under **Material Tax Considerations Bermuda Tax Considerations** ;

we receive an opinion from Tax S. Arts S.à.r.l, in form and substance reasonably satisfactory to us, confirming the matters discussed under Material Tax Considerations Luxembourg Tax Considerations ; and

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we obtain all consents, rulings and approvals that are necessary, desirable or appropriate in connection with the Redomestication including approvals from the FSA and Lloyd's for the movement of certain U.K. subsidiaries within our corporate structure.

In addition, the Redomestication may be abandoned or delayed for any reason by our Board of Directors at any time prior to the Effective Time, even though the Redomestication may have been approved by our shareholders and all conditions to the Redomestication may have been satisfied.

## **Applicable Law**

As of the effective date of the Redomestication, our legal jurisdiction of incorporation will be Luxembourg and the continuing corporation will no longer be subject to the provisions of Bermuda law. All matters of corporate law will be determined under Luxembourg law. We will continue to be subject to the reporting requirements of the Exchange Act. In addition, we will continue to be subject to the rules and regulations of the New York Stock Exchange.

## **Assets, Liabilities, Obligations, Etc.**

Under Luxembourg law, as of the effective date of the Redomestication, all of our assets, property, rights, liabilities and obligations immediately prior to the Redomestication will continue to be our assets, property, rights, liabilities and obligations. Bermuda law will cease to apply to us upon our filing of the appropriate documents with the Bermuda Registrar of Companies and the execution of the notarial deed before the public notary in Luxembourg. If approved, we expect to complete the Redomestication soon after the Annual General Meeting.

## **Capital Stock**

Once the Redomestication is completed, holders of our common shares will, in principle, continue to own one share for each share held before the Redomestication. The existing certificates representing the Company's common shares will not be cancelled. Shortly after the effectiveness of the Redomestication, we will provide information on how to exchange your existing certificates for new certificates. Beneficial holders of shares held in street name will not be required to take any action.

## **Voting**

To mitigate potential U.S. tax consequences, our current Bye-Laws reduce the total voting power of any shareholder who is a U.S. person controlling more than 9.9% of our common shares to 9.9% of the voting power of our common shares. After the Redomestication, each share will be entitled to one vote with no potential reduction in voting power.

For a more detailed description of the operation of this rule and potential U.S. tax implications resulting from its removal, see The Shareholder Meeting Voting Securities and Record Date Voting Rights and Risk Factors Tax Risk Factors After the Redomestication, U.S. persons holding shares in Flagstone (Luxembourg) with an aggregate voting power of 10% or greater may be subject to current U.S. federal income tax with respect to certain income earned by Flagstone (Luxembourg) and its subsidiaries .

## **Dividends**

We paid four quarterly cash dividends in 2009 and four in 2008, at the rate of \$0.04 per common share. Future declaration and payment of cash distributions, whether in the form of capital repayments, dividends or otherwise,

following the completion of the Redomestication will depend upon circumstances prevailing at the time, but we anticipate that we will continue to pay to the holders an amount that is consistent with our recent practice. For a description of restrictions on dividends and capital returns imposed by Luxembourg law, see [Material Tax Consequences Relating to the Redomestication](#) [Luxembourg Tax Considerations](#) [Post-Redomestication Consequences to Flagstone \(Luxembourg\) Shareholders](#) .

We expect that, post-Redomestication, payments to the holders will be done, mainly, through repayment of capital and share premium of Flagstone (Luxembourg) as well as of the pre-Redomestication retained earnings. Share premium can be repaid upon a decision by the Board of Directors or by a decision at a general meeting of the shareholders. Reduction of share capital must be approved by a shareholders meeting.

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Assuming that post-Redomestication no newly generated distributable retained earnings or profits are recorded in the non-consolidated accounts (i.e., statutory accounts established under Lux GAAP) of Flagstone (Luxembourg), repayments of capital and share premium by the Company should not be subject to Luxembourg dividend withholding tax.

## **Business and Operations**

The Redomestication, if approved, will effect a change in the legal jurisdiction of incorporation of Flagstone (Bermuda) as of the effective date thereof, but our business and operations will remain the same. We expect to retain our employees and office space in Bermuda. We expect our new Luxembourg offices will have staffing appropriate to a Luxembourg-based holding company and to strategic oversight of the Company. After the Redomestication, the Board of Directors expects to hold most of its in-person meetings in Luxembourg.

## **Management**

When the Redomestication is completed, executive officers and directors of Flagstone (Bermuda) immediately prior to the completion of the Redomestication will be executive officers and directors of Flagstone (Luxembourg). Our directors will continue as directors during their respective assigned terms.

## **Accounting Treatment of the Redomestication**

We will continue to report our financial results in U.S. dollars using U.S. GAAP.

The assets and liabilities of Flagstone (Luxembourg), the continuing entity, will be reflected at their historical value to Flagstone (Bermuda) in the Company's consolidated financial statements. In addition, the Redomestication will not impact the Company's capitalization.

## **Effective Time**

If the Redomestication is approved by the requisite shareholder vote, we anticipate that the Redomestication will become effective promptly following such approval, with the exact date and time being determined by our Board of Directors. Subject to filing the relevant documents with the Bermuda Registrar of Companies, the Redomestication will become effective upon the execution of the required notarial deed at the meeting to be held before the public notary in Luxembourg. If approved, we expect to complete the Redomestication soon after the Annual General Meeting.

In the event the conditions to the Redomestication are not satisfied, the Redomestication may be abandoned or delayed, even after approval by our shareholders. In addition, the Redomestication may be abandoned or delayed for any reason by our Board of Directors at any time prior to the Effective Time, even though the Redomestication might have been approved by our shareholders and all conditions to the Redomestication might have been satisfied.

## **Board Recommendation; Required Vote**

**OUR BOARD OF DIRECTORS HAS APPROVED THE REDOMESTICATION AND HAS RECOMMENDED THAT SHAREHOLDERS VOTE FOR APPROVAL OF ALL THE PROPOSALS**

**RELATED TO THE REDOMESTICATION.**

Under our Bye-Laws, the Redomestication requires the approval of a majority of the shares present and voting on the proposal at the Annual General Meeting, whether in person or by proxy. The adjournment proposal requires the approval of holders of the same majority.

## **Regulatory Matters**

Prior to the Redomestication, we expect to move the location of certain U.K. subsidiaries within our company structure for which we will seek the approval of the FSA and Lloyd's of London. We are not aware of any other governmental approvals or actions that are required to complete the Redomestication, other than compliance with U.S. federal and state securities laws and Bermuda and Luxembourg corporate law.

## **No Appraisal Rights**

Under Bermuda law, our shareholders do not have any right to an appraisal of the value of their shares or payment for them in connection with the Redomestication.

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## **Share Compensation Plans**

If the Redomestication is completed, we will continue our long-term incentive plan and other employee benefit plans and arrangements, and those plans and arrangements will be amended, if necessary, to reflect the Redomestication. Shareholder approval of the Redomestication also will constitute shareholder approval of these amendments.

## **Stock Exchange Listing**

Our shares are listed on the NYSE. We will submit an application so that, immediately following the Redomestication, our shares will continue to be listed on the NYSE under the symbol FSR, the same symbol under which our shares currently are listed. Our shares are also currently listed on the Bermuda Stock Exchange, and we expect that they will continue to be listed on the Bermuda Stock Exchange after the Redomestication.

## **Effect on Shares**

If you hold shares in certificated form, you do not need to take any action as a result of the Redomestication. Your certificated shares will still be valid and continue to represent your interest in the Company.

If you hold your shares through a broker, dealer, commercial bank, trust company or similar institution, you should not need to take any action as a result of the Redomestication. Since the Redomestication will not impact the number of shares you own, we expect that account statements from your institution will look largely the same after the Redomestication.

If you hold direct registration shares, after the Redomestication the Company will be required to issue you certificated shares.

## **Federal Securities Law Consequences; Resale Restrictions**

Our common shares after the Redomestication will be freely transferable, except for restrictions applicable to certain affiliates of the Company under the Securities Act, as follows:

Persons who were not affiliates of the Company at the time of the effectiveness of the Redomestication and that have not been affiliated within 90 days prior to such time will be permitted to sell any common shares pursuant to Rule 144.

Persons who were affiliates of the Company at the time of the effectiveness of the Redomestication or were affiliates within 90 days prior to such time will be permitted to resell any common shares in the manner permitted by Rule 144. Persons whose common shares are subject to transfer restrictions under the Securities Act will continue to be subject to the same restrictions after the Redomestication.

In computing the holding period of the common shares for the purpose of Rule 144(d), such persons will be permitted to tack the holding period of their common shares held prior to the Effective Time to the period beginning at the Effective Time.

Persons who may be deemed to be affiliates of the Company for these purposes generally include individuals or entities that control, are controlled by, or are under common control with, the Company, and would generally not include shareholders who are not executive officers, directors or significant shareholders of the Company.



The Company will file certain post-effective amendments to existing effective registration statements of the Company concurrently with the completion of the Redomestication.

Upon consummation of the Redomestication, the common shares of the Company will be deemed to be registered under Section 12(b) of the Exchange Act, by virtue of Rule 12g-3 under the Exchange Act, without the filing of any Exchange Act registration statement.

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## Interests of Certain Persons in the Redomestication

No person who has been a director or executive officer of the Company at any time since the beginning of the last fiscal year, or any associate of any such person, has any substantial interest in the Redomestication, except for any interest arising from his or her ownership of securities of the Company. No such person is receiving any extra or special benefit not shared on a pro rata basis by all other holders of shares of the Company.

## Material Tax Considerations Relating to the Redomestication

This section contains a general discussion of certain material tax consequences of: (1) the Redomestication; (2) post-Redomestication ownership and disposition of Flagstone (Luxembourg) shares; and (3) post-Redomestication operations of Flagstone.

The discussion under the caption **U.S. Federal Income Tax Considerations** addresses (1) the material U.S. federal income tax consequences to the Company, U.S. holders (as defined below) and non-U.S. holders (as defined below) of the Redomestication, (2) the material U.S. federal income tax consequences to U.S. holders and non-U.S. holders of owning and disposing of Flagstone (Luxembourg) shares received in the Redomestication and (3) other U.S. federal income tax consequences to the Company of post-Redomestication operations.

The discussion under the caption **Luxembourg Tax Considerations** addresses certain material Luxembourg tax consequences to: (1) shareholders resulting from the Redomestication and from owning and disposing of the Flagstone (Luxembourg) shares; and (2) the Company resulting from the Redomestication and from subsequent operations.

The discussion under the caption **Bermuda Tax Considerations** addresses the Bermuda income tax consequences of the Redomestication.

The below discussion is not a substitute for an individual analysis of the tax consequences of the Redomestication, post-Redomestication ownership and disposition of Flagstone (Luxembourg) shares or post-Redomestication operations of Flagstone. **You should consult your own tax advisors regarding the particular U.S. (federal, state and local), Luxembourg, Bermuda and other non-U.S. tax consequences of these matters in light of your particular situation.**

## U.S. Federal Income Tax Considerations

Subject to the limitations and qualifications described herein, the following discussion constitutes the opinion of Baker & McKenzie LLP as to (1) the material U.S. federal income tax consequences to the Company, U.S. holders and non-U.S. holders of the Redomestication, (2) the material U.S. federal income tax consequences to U.S. holders and non-U.S. holders of owning and disposing of Flagstone (Luxembourg) shares received in the Redomestication and (3) other U.S. federal income tax consequences to the Company of post-Redomestication operations. This discussion generally does not address any aspects of U.S. taxation other than U.S. federal income taxation, is not a complete analysis or listing of all potential tax consequences of the Redomestication or of holding and disposing of Flagstone (Luxembourg) shares, and does not address all tax considerations that may be relevant to Flagstone Reinsurance shareholders. In particular, the below discussion addresses tax consequences to holders who hold their Flagstone (Bermuda) shares, and who will hold their Flagstone (Luxembourg) shares solely as capital assets, which generally means as property held for investment. The below discussion does not address any tax consequences to Flagstone (Bermuda) or Flagstone (Luxembourg) shareholders, as applicable, who, for U.S. federal tax purposes, are subject to

special rules, such as:

banks, financial institutions or insurance companies;  
tax-exempt entities;  
persons who hold shares as part of a straddle, hedge, integrated transaction or conversion transaction;  
persons who have been, but are no longer, citizens or residents of the United States;  
persons holding shares through a partnership or other fiscally transparent person;

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dealers or traders in securities, commodities or currencies;  
grantor trusts;  
persons subject to the alternative minimum tax;  
U.S. persons whose functional currency is not the U.S. dollar;  
regulated investment companies and real estate investment trusts;  
persons who received the Flagstone Reinsurance shares through exercise of employee share options or otherwise as compensation or through a tax qualified retirement plan;  
persons who, at any time within the five-year period ending on the date of the Redomestication, have owned (directly, indirectly or through attribution) 10% or more of the total combined voting power of all classes of shares of Flagstone (Bermuda) entitled to vote; or  
persons who, immediately after the Redomestication, will own (directly, indirectly or through attribution) 10% or more of the total combined voting power of all classes of shares of Flagstone (Luxembourg) entitled to vote.

This discussion is based on the Code, the Treasury regulations promulgated thereunder, which we refer to as the Treasury Regulations, judicial and administrative interpretations thereof and the Convention Between the Government of the Grand Duchy of Luxembourg and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the Luxembourg-U.S. Tax Treaty), in each case as in effect and available on the date of this Proxy Statement. All of the foregoing are subject to change, which change could apply with retroactive effect and could affect the tax consequences described in this Proxy Statement. The Company will not request a ruling from the United States Internal Revenue Service, which we refer to as the IRS, as to the U.S. federal tax consequences of the Redomestication, post-Redomestication ownership and disposition of Flagstone (Luxembourg) shares or any other matter. There can be no assurance that the IRS will not challenge any of the U.S. federal tax consequences described below.

For purposes of this discussion, a U.S. holder is a beneficial owner of Flagstone (Bermuda) shares or, after the completion of the Redomestication, Flagstone (Luxembourg) shares, that for U.S. federal income tax purposes is:

an individual citizen or resident alien of the United States;  
a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or  
a trust, if such trust validly has elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a U.S. court can exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of the trust.

A non-U.S. holder is a beneficial owner of Flagstone (Bermuda) shares or, after the completion of the Redomestication, Flagstone (Luxembourg) shares, other than a U.S. holder or an entity or arrangement treated as a partnership for U.S. federal income tax purposes, which we refer to as a Partnership. If a Partnership is a beneficial owner of Flagstone (Bermuda) shares or Flagstone (Luxembourg) shares, the tax treatment of a partner in that Partnership will generally depend on the status of the partner and the activities of the Partnership. Holders of Flagstone (Bermuda) shares or Flagstone (Luxembourg) shares that are Partnerships and partners in such Partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them of the Redomestication and the ownership and disposition of Flagstone (Luxembourg) shares. For purposes of this tax discussion, holder or shareholder means either a U.S. holder or a non-U.S. holder or both, as the context may require.

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**Material U.S. Tax Consequences of the Redomestication**

The Redomestication will qualify as a Code Section 368(a)(1)(F) reorganization and/or result in an exchange of shares under Code Section 1036. The below discussion describes the consequences of the Redomestication's qualification as a Code Section 368(a)(1)(F) reorganization and/or resulting in an exchange of shares under Code Section 1036.

**The Company**

The Company will not be subject to U.S. federal income tax as a result of the Redomestication. Moreover, the Company will continue to be treated as a foreign person for U.S. federal income tax purposes immediately after the Redomestication.

**U.S. Holders**

If the Redomestication is consummated, a U.S. holder who holds Flagstone (Bermuda) shares at the Effective Time will not recognize any gain or loss solely as a result of the Redomestication. The tax basis of the Flagstone (Luxembourg) shares held after the Redomestication will be equal to the basis of the Flagstone (Bermuda) shares held before the Redomestication. The holding period for U.S. holders with respect to their Flagstone (Luxembourg) shares held after the Redomestication will include the holding period for the corresponding Flagstone (Bermuda) shares held before the Redomestication. U.S. holders who hold their Flagstone (Bermuda) shares with differing tax bases or holding periods are urged to consult their tax advisors with regard to identifying the tax bases and holding periods of the particular Flagstone (Luxembourg) shares held after the Redomestication.

**Non-U.S. Holders**

A non-U.S. holder will not be subject to U.S. federal income or withholding tax on gain realized, if any, with respect to such non-U.S. holder's Flagstone (Bermuda) shares as a result of the Redomestication.

**U.S. Tax Considerations Post-Redomestication to the Company**

*U.S. Income and Branch Profits Tax.* A foreign corporation deemed to be engaged in the conduct of a trade or business in the U.S. will be subject to U.S. federal income tax, as well as a branch profits tax in certain circumstances, on its income which is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under an applicable income tax treaty, as discussed below. Such tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation may be entitled to deductions and credits only if it timely files a U.S. federal income tax return. Whether a trade or business is being conducted in the United States is an inherently factual determination. Because the Code, Treasury Regulations and court decisions do not identify definitively activities that constitute being engaged in a trade or business in the United States, we cannot assure you that the IRS will not contend successfully that Flagstone Reinsurance and/or certain of its non-U.S. subsidiaries are or will be engaged in a trade or business in the United States. Flagstone Reinsurance believes it and its non-U.S. subsidiaries have operated, and intends for Flagstone (Luxembourg) and its non-U.S. subsidiaries to continue to operate, in such a manner that they will not be considered to be conducting a trade or business within the United States for purposes of U.S. federal income taxation, except with regard to the Company's business conducted through Lloyd's of London (the Lloyd's Business), which is governed by a negotiated closing agreement between the IRS and Lloyd's of London, pursuant to which certain of Flagstone's income related to the Lloyd's Business is subject to U.S. tax. Flagstone (Bermuda) and certain of its non-U.S. subsidiaries have filed, and Flagstone Reinsurance intends for Flagstone

(Luxembourg) and certain of its non-U.S. subsidiaries to file, protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax.

A corporation resident in Luxembourg will be entitled, under the Luxembourg-U.S. Tax Treaty, to the benefits of such treaty if the corporation: (1) is a resident of Luxembourg as defined under the Residence article of the Luxembourg-U.S. Tax Treaty, (2) qualifies as a qualified resident under the Limitation on Benefits article of the Luxembourg-U.S. Tax Treaty and (3) satisfies any other requirements in the Luxembourg-U.S. Tax Treaty applicable to a specific treaty benefit being claimed. The Company expects that it will satisfy the factual criteria necessary to meet these requirements and therefore be entitled to the benefits

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of the Luxembourg-U.S. Tax Treaty. Assuming Flagstone (Luxembourg) is entitled to benefits under the Luxembourg-U.S. Tax Treaty, it will not be subject to U.S. federal income tax on any business income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States, and then only on income attributable to that permanent establishment. Whether business is being conducted in the United States through a permanent establishment is an inherently factual determination. Flagstone Reinsurance intends to continue to conduct its activities so as not to have a permanent establishment in the United States, although we cannot assure you that it will achieve this result. Some of Flagstone (Luxembourg) s non-U.S. subsidiaries may also be entitled to the benefits of a tax treaty between the United States and the country where those subsidiaries are resident. In those cases, the non-U.S. subsidiaries may have analogous protections against U.S. taxation.

Foreign corporations also are subject to U.S. withholding tax at a rate of 30% of the gross amount of certain fixed or determinable annual or periodical gains, profits and income (such as dividends and certain interest on investments) derived from sources within the United States, to the extent such amounts are not effectively connected with the foreign corporation s conduct of a trade or business in the United States. The tax rate is subject to reduction by applicable treaties.

U.S. subsidiaries of Flagstone Reinsurance are and will continue to be subject to taxation in the United States on their worldwide income at regular corporate rates.

Sections 482 and 845 of the Code give the IRS broad authority to reallocate income, deductions and credits from certain transactions (in the case of Section 845 of the Code, reinsurance transactions). Flagstone Reinsurance believes that all agreements it or its subsidiaries have entered into, and that all agreements Flagstone (Luxembourg) or its subsidiaries intend to enter into, whether with related or unrelated parties, have and will continue to have arm s-length terms. Nevertheless, no assurance can be given that the Internal Revenue Service will not assert its authority under Sections 482 or 845 of the Code in a manner that would increase the tax liability of Flagstone (Luxembourg) s U.S. subsidiaries.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rate of tax applicable to premiums paid to Flagstone (Luxembourg) s Bermuda subsidiaries is 4% for direct, non-life insurance premiums and 1% for reinsurance and direct, life insurance premiums. The excise tax is waived, pursuant to the Convention Between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation with Respect to Taxes on Income, with Protocol and Memorandum of Understanding, signed October 2, 1996, as amended by Diplomatic Notes signed April 8, 1997 (the Switzerland-U.S. Tax Treaty ), with respect to U.S. premiums paid to insurers and reinsurers that are resident in Switzerland to the extent those risks are not reinsured with a non-U.S. reinsurer which is not entitled to the benefits of a U.S. treaty that waives the excise tax. Flagstone (Luxembourg) s primary Swiss subsidiary will be exempt from the excise tax per its closing agreement with the IRS, to the extent the risks are not reinsured with a company which does not have an exemption.

## **Post-Redomestication Consequences to U.S. Holders**

*Receiving Distributions on Flagstone (Luxembourg) Shares.* Subject to the discussion below under Special Rules Controlled Foreign Corporations , Special Rules Related Person Insurance Income , and Special Rules Foreign Investment Company Provisions , U.S. holders will be required to include in gross income the gross amount of any distribution received on the Flagstone (Luxembourg) shares to the extent that the distribution is paid out of Flagstone (Luxembourg) s current or accumulated earnings and profits as determined for U.S. federal income tax

purposes, to which we refer as a dividend. With respect to non-corporate U.S. holders, certain dividends received in taxable years beginning before January 1, 2011 from a qualified foreign corporation will be subject to U.S. federal income tax at a maximum rate of 15%. As long as the Flagstone (Luxembourg) shares are regularly tradable on the

NYSE (or certain other stock exchanges) and/or Flagstone (Luxembourg) qualifies for benefits under the Luxembourg-U.S. Tax Treaty, and Flagstone (Luxembourg) is not a passive foreign investment company, it will be treated as a qualified foreign corporation for this purpose. This reduced rate will not be available in all situations, and U.S. holders should consult their own tax advisors regarding the application of the relevant rules to their particular circumstances.



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Dividends from Flagstone (Luxembourg) will not be eligible for the dividends-received deduction under the Code, which is generally allowed to U.S. corporate shareholders on dividends received from certain domestic and foreign corporations.

Distributions in excess of the current and accumulated earnings and profits of Flagstone (Luxembourg) will be applied first to reduce the U.S. holder's tax basis in its Flagstone (Luxembourg) shares, and thereafter will constitute gain from the sale or exchange of such shares. In the case of a non-corporate U.S. holder, the maximum U.S. federal income tax rate applicable to such gain is 15% under current law if the holder's holding period for such Flagstone (Luxembourg) shares exceeds twelve months. This reduced rate is scheduled to expire effective for taxable years beginning after December 31, 2010. Special rules not here described may apply to U.S. holders who do not have a uniform tax basis and holding period in all of their Flagstone (Luxembourg) shares, and any such U.S. holders are urged to consult their own tax advisors with regard to such rules.

Subject to complex limitations, Luxembourg withholding tax, if any, on dividends paid will be treated for U.S. federal tax purposes as a foreign tax creditable against the U.S. federal income tax liability of a U.S. holder. The rules relating to the determination of the foreign tax credit are complex, and you should consult your own tax advisor to determine whether and to what extent a credit would be available. In lieu of claiming a foreign tax credit, U.S. holders may claim a deduction of foreign taxes paid in the taxable year.

*Dispositions of Flagstone (Luxembourg) Shares.* Subject to the discussion below under Special Rules Related Person Insurance Income and Special Rules Passive Foreign Investment Company Provisions, U.S. holders of Flagstone (Luxembourg) shares will recognize capital gain or loss for U.S. federal income tax purposes on the taxable disposition of Flagstone (Luxembourg) shares in an amount equal to the difference between the amount realized from such sale, exchange or other taxable disposition and the U.S. holder's tax basis in such shares. In the case of a non-corporate U.S. holder, the maximum U.S. federal income tax rate applicable to such gain is 15% under current law if the holder's holding period for such Flagstone (Luxembourg) shares exceeds twelve months. This reduced rate is scheduled to expire effective for taxable years beginning after December 31, 2010. The deductibility of capital losses is subject to limitations.

## **Post-Redomestication Consequences to Non-U.S. Holders**

*Consequences of Owning Flagstone (Luxembourg) Shares.* A non-U.S. holder will not be subject to U.S. federal income or withholding tax on dividends from Flagstone (Luxembourg) unless: (1) the dividends are effectively connected with the holder's conduct of a trade or business in the United States (or, if a tax treaty applies, the dividends are attributable to a permanent establishment or fixed place of business maintained by the non-U.S. holder in the United States); or (2) such non-U.S. holder is subject to backup withholding.

*Consequences of Disposing of Flagstone (Luxembourg) Shares.* A non-U.S. holder will not be subject to U.S. federal income or withholding tax on any gain recognized on the sale, exchange or other disposition of Flagstone (Luxembourg) shares unless: (1) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States (or, if a tax treaty applies, is attributable to a permanent establishment or fixed place of business maintained by the non-U.S. holder in the United States); (2) in the case of certain capital gains recognized by a non-U.S. holder that is an individual, such individual is present in the United States for 183 days or more during the taxable year in which the capital gain is recognized and certain other conditions are met; or (3) the non-U.S. holder is subject to backup withholding.

## Post-Redomestication Special Rules

*Classification of Flagstone (Luxembourg) or its Non-U.S. Subsidiaries as Controlled Foreign Corporations.* A foreign corporation is considered a controlled foreign corporation, or CFC, if 10% U.S. Shareholders own (directly, indirectly through non-U.S. entities or by application of the constructive ownership rules of Section 958(b) of the Code (i.e., constructively)) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or more than 50% of the total value of all stock of such corporation. A 10% U.S. Shareholder is a United States person (as defined in Section 957(c) of the Code) ( U.S. Person ) that owns (directly or indirectly through non-U.S. entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the

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foreign corporation. Each 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year and owns shares in that CFC directly or indirectly through foreign entities on the last day of the foreign corporation's taxable year in which it is a CFC must include in its gross income for U.S. federal income tax purposes its pro rata share (based on its actual direct and indirect, through foreign entities, ownership) of the CFC's subpart F income, even if the subpart F income is not distributed. Subpart F income generally includes, among other things, investment income such as dividends, interest and capital gains, and income from insuring certain risks. For purposes of taking into account insurance income, a CFC also includes a foreign corporation in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders on any day during the taxable year of such corporation, if certain premium tests are met. A portion of the income of Flagstone (Luxembourg)'s non-U.S. insurance and reinsurance subsidiaries would be considered subpart F income if such subsidiaries were CFCs. In addition, a non-U.S. insurance subsidiary of Flagstone (Luxembourg) may be considered a CFC under the RPII rules discussed below. For purposes of taking into account insurance income, the Subpart F inclusion would be limited to the current-year earnings and profits of that non-U.S. subsidiary reduced by the shareholder's pro rata share, if any, of certain prior-year deficits in earnings and profits related to activities generating insurance income or foreign personal holding company income as defined in Sections 953(a) and 954(c) of the Code (including most types of investment income).

Unlike the Bye-Laws of Flagstone (Bermuda), the Articles will not contain a provision reducing the voting power of any shareholder holding more than 9.9% of Flagstone (Luxembourg) shares to 9.9%. Accordingly, no assurance can be given that Flagstone (Luxembourg) or any of its subsidiaries will not be, or become, a CFC after the Redomestication. Investors should consult their own tax advisors regarding the U.S. tax ramifications of owning shares of Flagstone (Luxembourg), and in particular regarding the manner in which ownership is computed for purposes of applying the CFC rules, and the potential U.S. tax ramifications of ownership of shares of Flagstone (Luxembourg) with an aggregate voting power of 10% or greater.

## **Related Person Insurance Income**

*Generally.* The CFC rules described above also apply (with certain modifications) to certain insurance companies that earn related person insurance income, to which we refer as RPII. For purposes of applying the CFC rules to foreign corporations that earn RPII, a foreign corporation will be treated as a CFC if RPII Shareholders collectively own (directly, indirectly through foreign entities or by application of the constructive ownership rules) 25% or more of the stock of the corporation by vote or value. The term RPII Shareholder means any U.S. Person that owns, directly or indirectly through foreign entities, any amount (rather than stock possessing 10% or more of the total combined voting power) of the foreign corporation's stock. The term RPII CFC means any CFC that earns RPII.

RPII is defined as any insurance income attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is an RPII Shareholder of the foreign corporation or a related person with respect to such RPII Shareholder. Subject to certain limitations, insurance income is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract which would be taxed under the provisions of the Code relating to insurance companies if the income were the income of a domestic insurance company.

For purposes of the RPII rules, related person means a person that controls or is controlled by the RPII Shareholder or that is controlled by the same person or persons that control the RPII Shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock, applying constructive ownership principles. A corporation's pension plan is ordinarily not a related person with respect to the corporation unless the pension plan

owns, directly or indirectly through the application of constructive ownership rules, more than 50%, measured by vote or value, of the stock of the corporation. In the case of a partnership, trust or estate, control means the ownership, directly or indirectly, of more than 50% (by value) of the beneficial interests in such partnership, estate or trust.

If none of the exceptions described below applies, each U.S. Person that owns shares in Flagstone (Luxembourg) (and therefore, indirectly in its non-U.S. insurance subsidiaries) on the last day of the tax year in which a non-U.S. subsidiary is an RPII CFC would be required to include in such U.S. Person's gross

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income for U.S. federal income tax purposes such U.S. Person's share of RPII of that non-U.S. subsidiary for the U.S. Person's taxable year that includes the end of that non-U.S. subsidiary's taxable year. This inclusion generally would be determined as if such RPII were distributed proportionately only to such U.S. Persons holding shares on that date. The inclusion would be limited to the current-year earnings and profits of that non-U.S. subsidiary reduced by the shareholder's pro rata share, if any, of certain prior-year deficits in earnings and profits. Even if one or more of the exceptions to the RPII rules applies, the general CFC rules described earlier may still apply to require 10% U.S. Shareholders to include in income their pro rata share of RPII, among other things.

*RPII Exceptions.* The special RPII rules described above will not apply to a non-U.S. subsidiary of Flagstone (Luxembourg) if: (1) direct or indirect insureds and persons related to such insureds, whether or not U.S. Persons, own, at all times during that non-U.S. subsidiary's taxable year directly or indirectly, less than 20% of the voting power and less than 20% of the value of the stock of that non-U.S. subsidiary (the 20% Ownership Exception); (2) RPII, determined on a gross basis, is less than 20% of that non-U.S. subsidiary's gross insurance income for the taxable year (the 20% Gross Income Exception); (3) that non-U.S. subsidiary elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a U.S. trade or business and to waive all treaty benefits with respect to RPII and meets certain other requirements; or (4) that non-U.S. subsidiary elects to be treated as a U.S. corporation for U.S. tax purposes. Flagstone Reinsurance has not made and does not intend to make either of the elections in (3) and (4). However, Flagstone Reinsurance expects Flagstone (Luxembourg) and its non-U.S. subsidiaries to qualify for the 20% Gross Income Exception and for the 20% Ownership Exception. Flagstone (Luxembourg) will not always be able to determine the identities of all of its shareholders or direct or indirect insureds. Accordingly, it is possible that the IRS will assert that 20% or more of the vote or value of the shares of a non-U.S. insurance subsidiary of Flagstone (Luxembourg) are owned by insureds of that non-U.S. subsidiary of Flagstone (Luxembourg) or their related persons or that RPII constitutes 20% or more of the gross insurance income of that insurance subsidiary for the taxable year, and that Flagstone (Luxembourg) may be unable to prove otherwise.

*Computation of RPII.* In order to determine how much RPII each of its non-U.S. insurance subsidiaries has earned in each taxable year, Flagstone (Luxembourg) may obtain and rely upon information from its insureds and reinsureds to determine whether any of the insureds or reinsureds is an RPII Shareholder or is related to an RPII Shareholder. Flagstone (Luxembourg) may not be able to determine whether any of the underlying insureds of the insurance companies to which its non-U.S. subsidiaries provides insurance or reinsurance are RPII Shareholders or related persons with respect to such shareholders. Consequently, Flagstone (Luxembourg) may not be able to determine accurately the gross amount of RPII earned by its non-U.S. subsidiaries in a given taxable year. Flagstone (Luxembourg) may also seek information from its shareholders to determine whether direct or indirect owners of Flagstone (Luxembourg)'s shares at the end of the year are U.S. Persons so that the RPII may be determined and apportioned among such persons. To the extent Flagstone (Luxembourg) is unable to determine whether a direct or indirect owner of shares is a U.S. Person, Flagstone (Luxembourg) may assume that such owner is not a U.S. Person, thereby increasing the per share RPII amount for all shareholders identified as U.S. Persons.

*Uncertainty as to Application of RPII.* Treasury Regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these Treasury Regulations will be adopted in their proposed form or what changes might ultimately be made or whether any such changes, as well as any interpretation or application of the RPII rules by the IRS, the courts or otherwise, might have retroactive effect. Accordingly, the meaning of the RPII provisions and their application to Flagstone (Luxembourg) is uncertain. These provisions include the grant of authority to the U.S. Treasury to prescribe such regulations as may be necessary to carry out the purposes of this subsection, including . . . regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise . . . In addition, we cannot assure you that the IRS will not challenge any determinations by Flagstone (Luxembourg) as to the amount, if any, of RPII that should be includible in income or that the amounts of the RPII inclusions will not be subject to adjustment based upon subsequent IRS examination. U.S. holders should

consult their tax advisors as to the effects of these uncertainties.

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**Other Rules Applicable to CFCs, including RPII CFCs**

*Basis Adjustments for CFC Rules, including RPII.* A U.S. shareholder's tax basis in its Flagstone (Luxembourg) shares will be increased by the amount of any subpart F income that the shareholder includes in income, including any RPII included in income by an RPII Shareholder. Any distributions made by Flagstone (Luxembourg) out of previously taxed subpart F income, including RPII income, will be exempt from further U.S. income tax in the hands of the U.S. shareholder. The U.S. shareholder's tax basis in its Flagstone (Luxembourg) shares will be reduced by the amount of any distributions that are excluded from income under this rule.

*Information Reporting.* Under certain circumstances, U.S. Persons owning stock in a foreign corporation are required to file IRS Form 5471 with their U.S. federal income tax returns. Generally, information reporting on IRS Form 5471 is required with respect to (1) a person who is treated as an RPII Shareholder, and (2) certain 10% U.S. Shareholders.

*Dispositions of Shares and Code Section 1248.* Section 1248 of the Code provides that if a United States person (as defined in Section 7701(a)(30) of the Code) sells or exchanges stock in a foreign corporation and such person was a 10% U.S. Shareholder at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the disposition will be treated as a dividend to the extent of the CFC's earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs.

Section 1248 of the Code also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a CFC for RPII purposes and would be taxed as an insurance company if it were a domestic corporation, regardless of whether the shareholder was a 10% U.S. Shareholder during the five-year period ending on the date of the disposition or whether the 20% Gross Income Exception or the 20% Ownership Exception applies. Existing Treasury Regulations do not address whether section 1248 of the Code would apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is an RPII CFC. U.S. holders should consult their tax advisors regarding the effects of these rules on a disposition of shares.

**Passive Foreign Investment Company Provisions**

The treatment of U.S. holders of Flagstone (Luxembourg) shares in some cases could be materially different from that described above if, at any relevant time, Flagstone (Bermuda) or Flagstone (Luxembourg) were a passive foreign investment company, which we refer to as a PFIC.

For U.S. tax purposes and subject to exceptions as specified in the Code and Treasury Regulations for certain corporations, a foreign corporation will be classified as a PFIC for any taxable year if either: (1) 75% or more of its gross income is passive income (as defined for U.S. federal income tax purposes); or (2) the average percentage of assets held by such corporation which produce passive income or which are held for the production of passive income is at least 50%. For purposes of applying the tests in the preceding sentence, a look-through rule applies and the foreign corporation is deemed to own its proportionate share of the assets, and to receive directly the proportionate share of the income, of any other corporation of which the foreign corporation owns, directly or indirectly, at least 25% by value of the stock. In addition, the PFIC statutory provisions also contain an express exception for income derived in the active conduct of an insurance business by a corporation that is predominantly engaged in an insurance business. This exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs

of the insurance business.

Flagstone Reinsurance believes that it is not a PFIC, and has not been a PFIC in any prior taxable year. Flagstone Reinsurance further believes that Flagstone (Luxembourg) will not be a PFIC following the Redomestication. The tests for determining PFIC status are applied annually, and it is difficult to predict accurately future income and assets relevant to this determination. In addition, there are currently no Treasury Regulations regarding the application of the PFIC provisions to an insurance company and Treasury

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Regulations or pronouncements interpreting or clarifying these rules may be forthcoming. Accordingly, no assurance can be given that the IRS would not challenge this position or that a court would not sustain such challenge.

If Flagstone (Luxembourg) should determine in the future that it is a PFIC, it will endeavor to so notify U.S. holders of Flagstone (Luxembourg) shares, although there can be no assurance that it will be able to do so in a timely and complete manner.

U.S. holders of Flagstone (Luxembourg) shares should consult their own tax advisors about the PFIC rules, including the availability of certain elections.

## **Information Reporting and Backup Withholding**

If the Redomestication is consummated, U.S. holders that own at least five percent (of total voting power or total value) of Flagstone (Bermuda) immediately before the Redomestication will be required to file a Section 368(a) statement. Other information reporting could also apply to the Redomestication. Shareholders of Flagstone (Bermuda) should consult their own tax advisor about the information reporting requirements that could be applicable as a result of the Redomestication.

Dividends on Flagstone (Luxembourg) shares paid within the United States or through certain U.S.-related intermediaries are subject to information reporting unless the holder is a corporation, other exempt recipient or non-U.S. holder who establishes foreign status. Dividends subject to information reporting are subject to backup withholding (currently at a rate of 28%) unless the payee furnishes the payor with a taxpayer identification number and satisfies certain certification requirements. Information reporting requirements and backup withholding may also apply to the payment of proceeds from a sale of Flagstone (Luxembourg) shares within the United States or through certain U.S.-related intermediaries. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's U.S. federal income tax liability, provided that the holder furnishes certain required information to the IRS.

If a U.S. holder of Flagstone (Luxembourg) shares does not provide us (or our paying agent) with the holder's correct taxpayer identification number or other required information, the holder may be subject to penalties imposed by the IRS.

In order for a non-U.S. holder to not be subject to backup withholding tax on a subsequent disposition of Flagstone (Luxembourg) shares, or dividends paid on those shares, a non-U.S. holder may be required to provide a taxpayer identification number, certify the holder's foreign status or otherwise establish an exemption.

Holders should consult their tax advisors regarding the application of information reporting and backup withholding to their particular situations.

**THE U.S. FEDERAL INCOME TAX CONSIDERATIONS SUMMARIZED ABOVE ARE FOR GENERAL INFORMATION ONLY. EACH FLAGSTONE REINSURANCE SHAREHOLDER SHOULD CONSULT HIS OR HER TAX ADVISOR AS TO THE PARTICULAR CONSEQUENCES THAT MAY APPLY TO SUCH SHAREHOLDER.**

## **Luxembourg Tax Considerations**

### **Scope of Discussion**

This summary is based on the laws of the Grand-Duchy of Luxembourg, including the Income Tax Act of December 4, 1967, as amended, the Municipal Business Tax Act of December 1, 1936, as amended and the Net Wealth Tax Act of October 16, 1934, as amended, to which we jointly refer as the Luxembourg tax law, existing and proposed regulations promulgated thereunder, and published judicial decisions and administrative pronouncements, each as in effect on the date of this Proxy Statement or with a known future effective date. This discussion does not generally address any aspects of Luxembourg taxation other than income tax, corporate income tax, municipal business tax, withholding tax and net wealth tax. This discussion is not a complete analysis or listing of all of the possible tax consequences of the Redomestication or of holding and disposing of shares and does not address all tax considerations that may be relevant to you. Special rules that are not discussed in the general descriptions below may also apply to you. The Luxembourg

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corporate income tax and dividend withholding tax consequences in relation to the Redomestication and post-Redomestication ownership and disposition of Flagstone (Luxembourg) shares and certain other matters have been confirmed with the Luxembourg Direct Tax authorities. However, there can be no assurance that the Luxembourg tax authorities will not challenge any of the Luxembourg tax consequences described below; in particular, changes in law and/or administrative practice, as well as changes in relevant facts and circumstances, may alter the tax considerations described below.

For purposes of this discussion, a Luxembourg holder is any beneficial owner of shares that for Luxembourg income tax purposes is:

an individual resident of Luxembourg under article 2 of the Luxembourg Income Tax Act, as amended; or a corporation or other entity taxable as a corporation that is organized under the laws of Luxembourg under article 159 of the Income Tax Act, as amended.

A non-Luxembourg holder of shares is a holder that is not a Luxembourg holder. For purposes of this summary, holder or shareholder means either a Luxembourg holder or a non-Luxembourg holder or both, as the context may require.

This discussion does not constitute tax advice and is intended only as a general guide. The summary is not exhaustive and shareholders should consult their own tax advisors as to the Luxembourg tax consequences of the Redomestication and the ownership and disposition of Flagstone (Luxembourg) shares. The summary applies only to shareholders who will own Flagstone (Luxembourg) shares as capital assets and does not apply to other categories of shareholders, such as dealers in securities, trustees, insurance companies, collective investment schemes and shareholders who have, or who are deemed to have, acquired their shares in the capital of Flagstone (Luxembourg) by virtue of an office or employment.

## **Material Luxembourg Tax Consequences of the Redomestication**

### **The Company**

Although the Company will become subject to Luxembourg tax as a result of the transactions constituting the Redomestication, the Redomestication transaction itself will not trigger any Luxembourg corporate income taxes on the Company, except that the transfer of the statutory seat of the Company to Luxembourg should be subject to a flat registration duty of €75.

### **Shareholders**

No Luxembourg tax should become due for holders as a result of the Redomestication.

## **Material Luxembourg Tax Considerations Post-Redomestication to Flagstone**

The Company will become a Luxembourg tax resident entity upon the Redomestication, and it will therefore be subject to Luxembourg corporate income tax, municipal business tax, withholding tax, and net wealth tax. We intend, however, to take actions to prevent the Company from being required to pay a substantial amount of any of the aforementioned taxes.

### **Corporate Income Tax / Municipal Business Tax**

A Luxembourg resident company is subject to corporate income tax and municipal business tax on its worldwide income. Qualifying dividend income and net capital gains on the sale of qualifying investments in subsidiaries generally are exempt from corporate income tax and municipal business tax under Luxembourg's participation exemption. Consequently, qualifying dividends received by Flagstone (Luxembourg) from its subsidiaries and capital gains from sales by Flagstone (Luxembourg) of investments in its subsidiaries should be exempt from corporate income tax and municipal business tax.

### **Net Wealth Tax**

A Luxembourg resident company is subject to net wealth tax on its worldwide wealth. Qualifying investments in subsidiaries generally are exempt from net wealth tax. Consequently, the fair market value of qualifying investments held by Flagstone (Luxembourg) should be exempt from net wealth tax.

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### **Capital Contribution Tax / Registration duties**

The issuance of shares and increases in the capital of Luxembourg corporations is subject to a Luxembourg flat registration duty of €75. Registration duties may be levied on the registration of certain debt instruments in Luxembourg at a rate equal to 0.24% of the nominal value of the debt. Flagstone (Luxembourg), however, has no obligation to register such debt instruments and does not intend to do so. Thus, only the flat registration duty should be imposed.

### **Post-Redomestication Consequences to Flagstone (Luxembourg) Shareholders**

The tax consequences discussed below are not a complete analysis or listing of all the possible tax consequences that may be relevant to you. You should consult your own tax advisor in respect of the tax consequences related to ownership, sale or other disposition of shares in Flagstone (Luxembourg).

#### **Luxembourg Income Tax on Dividends and Similar Distributions**

A non-Luxembourg holder will not be subject to Luxembourg income taxes on dividend income and similar distributions in respect of shares in Flagstone (Luxembourg) unless the shares are attributable to a permanent establishment or a fixed place of business maintained in Luxembourg by such non-Luxembourg holder. However, dividends and similar distributions are generally subject to Luxembourg withholding tax. See [Luxembourg Withholding Tax Distributions to Shareholders](#) .

A Luxembourg resident individual holder will be subject to Luxembourg income taxes on dividend income and similar distributions in respect of shares in Flagstone (Luxembourg). Luxembourg income tax will be levied on 50% of the gross amount of the dividends, under certain conditions, at progressive rates. Taxable dividends are also subject to dependence insurance contribution levied at a rate of 1.4%. A Luxembourg resident corporation may benefit from the Luxembourg participation exemption with respect to dividends received if certain conditions are met. If the conditions with respect to the Luxembourg participation exemption are not met, the aforementioned 50% exemption may also apply to dividends received by a Luxembourg resident corporation.

#### **Luxembourg Wealth Tax**

A non-Luxembourg holder will not be subject to Luxembourg wealth taxes unless the holder's shares are attributable to a permanent establishment or a fixed place of business maintained in Luxembourg by such non-Luxembourg holder.

Luxembourg resident individual holders are not subject to Luxembourg wealth tax.

A Luxembourg corporate entity holder will be subject to Luxembourg net wealth tax in respect of the shares held in the capital of Flagstone (Luxembourg) unless such shares form a stake of at least 10% of the total issued share capital of Flagstone (Luxembourg) or have a cost price of at least €1,200,000.

#### **Luxembourg Capital Gains Tax upon Disposal of Shares**

A non-Luxembourg holder will be subject to Luxembourg income taxes for capital gains in the following cases (among others):

The holder's shares are attributable to a permanent establishment or a fixed place of business maintained in Luxembourg by such non-Luxembourg holder. In such case, the non-Luxembourg holder is required to recognize capital gains or losses on the sale of such shares, which will be subject to Corporate Income Tax and Municipal Business Tax; or

At any time within a five-year period prior to the disposal of shares in the Company, the holder's shares and those held by close relatives belong to a substantial shareholding of more than 10% of the total issued share capital of Flagstone (Luxembourg) and the shares sold have been disposed of within a period of six months following their acquisition, provided no provisions of a treaty for the avoidance of double taxation can be invoked to override this domestic law result.

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A Luxembourg resident individual holder will be subject to Luxembourg income taxes for capital gains in the following cases:

If the shares (1) represent the assets of a business or (2) were acquired for speculative purposes (i.e., disposed of within six months after acquisition), then any capital gain will be taxed at ordinary income tax rates and subject to dependence insurance contribution levied at a rate of 1.4%; and

Provided that the shares do not represent the assets of a business, and the Luxembourg resident individual has disposed of them more than six months after their acquisition, then the capital gains are taxable at half the overall tax rate if the shares belong to a substantial participation (i.e., shareholding representing more than 10% of the share capital, owned by the Luxembourg resident individual or together with his spouse/partner and dependent children, directly or indirectly at any time during the five years preceding the disposal). In this case, the capital gains would also be subject to dependence insurance contribution levied at a rate of 1.4%.

A Luxembourg corporate entity holder will be subject to Luxembourg corporate income taxes for capital gains unless (a) the holder's shares form a stake of at least 10% of the total issued share capital in Flagstone (Luxembourg) or have a cost price of at least €6,000,000 and (b) such qualifying shareholding has been held for an uninterrupted period of at least 12 months or the Luxembourg corporate entity holder undertakes to continue to own such qualifying shareholding until such time as the entity has held the shares for an uninterrupted period of at least 12 months.

### **Luxembourg Withholding Tax Distributions to Shareholders**

A Luxembourg withholding tax of 15% is due on dividends and similar distributions to Flagstone (Luxembourg)'s holders (subject to the exceptions discussed under Exemption from Luxembourg Withholding Tax Distributions to Shareholders). Absent an exception, Flagstone (Luxembourg) will be required to withhold at such rate from distributions to the shareholder and pay such withheld amounts to the Luxembourg tax authorities.

### **Exemption from Luxembourg Withholding Tax Distributions to Shareholders**

Dividends and similar distributions paid to Flagstone (Luxembourg)'s Luxembourg and non-Luxembourg holders may be exempt from Luxembourg dividend withholding tax if: (1) the shareholder is a qualifying corporate entity holding a stake of at least 10% of the total issued and outstanding share capital of Flagstone (Luxembourg) or acquired the holder's shares for at least €1,200,000; and (2) the shareholder has either held this qualifying stake in the capital of Flagstone (Luxembourg) for an uninterrupted period of at least 12 months at the time of the payment of the dividend or if such shareholder undertakes to continue to own such qualifying shareholding until such time as the entity has held the shares for an uninterrupted period of at least 12 months. Examples of qualifying corporate shareholders are taxable Luxembourg companies, certain taxable companies resident in other EU member states, capital companies resident in Switzerland subject to income tax and companies fully subject to a tax corresponding to Luxembourg corporate income tax that are resident in countries that have concluded a treaty for the avoidance of double taxation with Luxembourg. Residents of countries that have concluded a treaty for avoidance of double taxation with Luxembourg might claim application of a reduced rate on or exemption from dividend withholding tax, depending on the terms of the relevant tax treaty.

Under current Luxembourg tax law, payments to shareholders in relation to a reduction of share capital or share premium are not subject to Luxembourg dividend withholding tax if certain conditions are met, including, for example, the condition that Flagstone (Luxembourg) does not have distributable reserves or profits generated post-Redomestication. If Flagstone (Luxembourg) has, at the time of the payment to shareholders with respect to their shares, distributable reserves or profits generated post-Redomestication, a distribution of share capital or share premium will be recharacterized for Luxembourg tax purposes as a distribution of such reserves or earnings subject to withholding tax. We expect that a substantial amount of any potential future payments to be made by Flagstone

(Luxembourg) may be exempt from Luxembourg withholding tax.



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**Reduction of Luxembourg Withholding Tax Distributions to Shareholders**

Pursuant to the provisions of the EU Parent Subsidiary Directive, the aforementioned Luxembourg dividend withholding tax may be eliminated under certain circumstances. In addition, pursuant to the provisions of certain bilateral treaties for the avoidance of double taxation concluded between Luxembourg and other countries, and under certain circumstances, the aforementioned Luxembourg dividend withholding tax may be reduced, but only with respect to corporate direct investment dividends. Luxembourg has entered into bilateral treaties for the avoidance of double taxation with:

Austria;

Azerbaijan;

Belgium;

Brazil;

Bulgaria;

Canada;

China;

Czech Republic;

Denmark;

Estonia;

Finland;

France;

Georgia;

Germany;

Greece;

Hong Kong;

Hungary;

Iceland;

India;

Indonesia;

Ireland;

Israel;

Italy;

Japan;

Latvia;

Lithuania;

Malta;

Malaysia;

Mauritius;

Mexico;

Moldavia;

Mongolia;

Morocco;

The Netherlands;

Norway;

Poland;

Portugal;

Romania;

Russia;

San Marino;

Singapore;

Slovak Republic

Slovenia;

South Africa;

South Korea;

Spain;

Sweden;

Switzerland;

Thailand;

Trinidad and Tobago;

Tunisia;

Turkey;

United Arab Emirates;

United Kingdom;

United States of America;

Uzbekistan;

Vietnam.

*U.S. Holders.* The Luxembourg-U.S. Tax Treaty provides that U.S. residents eligible for benefits under the treaty can seek a refund of the Luxembourg withholding tax on dividends for the portion exceeding 15% in respect of portfolio dividends, i.e. dividends distributed on shareholdings of less than 10% of the total issued share capital of the dividend paying entity. Given that the domestic Luxembourg withholding tax rate is 15%, no further reductions can be obtained in respect of these portfolio dividends received by a U.S. holder.

### **Credit of Luxembourg Withholding Tax on Dividends and Other Distributions**

*Luxembourg Holders.* Subject to the satisfaction of certain conditions and assuming, in the case of corporate holders, that the participation exemption does not apply, only half of the gross amount of a dividend distributed to a Luxembourg corporate or individual holder will be subject to Luxembourg corporate income tax or Luxembourg income tax. All or part of the withholding tax levied can in principle be credited against the applicable tax.

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**THE LUXEMBOURG TAX CONSIDERATIONS SUMMARIZED ABOVE ARE FOR GENERAL INFORMATION ONLY. EACH FLAGSTONE REINSURANCE SHAREHOLDER SHOULD CONSULT HIS OR HER TAX ADVISOR AS TO THE PARTICULAR CONSEQUENCES THAT MAY APPLY TO SUCH SHAREHOLDER.**

### **Bermuda Tax Considerations**

The Redomestication will not result in any income tax consequences under Bermuda law to Flagstone (Bermuda), Flagstone (Luxembourg) or their shareholders.

### **Description of Flagstone (Luxembourg) Shares**

#### **Introduction**

The following is a summary of the rights of holders of shares in Flagstone (Luxembourg) after the Redomestication. These rights will be set out in the Articles or are provided by applicable Luxembourg law. These rights may differ from those shareholders' rights typically provided for in Bermuda or any of the States in the United States.

This summary is not exhaustive and does not contain all information that may be important to you. For complete information, you should read the Articles, which are attached to this Proxy Statement as Annex A. Pursuant to Luxembourg Law, the Company is required to also prepare its Articles in one of the official languages of Luxembourg. The Company will therefore have an English version of its Articles and a French version of its Articles, which together shall constitute the Articles of the Company. In the event of any discrepancies between the English version and the French version of the Articles, the Articles will provide that the English version will prevail. By approving the English version of the Articles, shareholders will be deemed to have approved the appropriate French translation.

#### **General**

Flagstone (Luxembourg) will be a joint stock corporation (société anonyme) organized pursuant to the laws of Luxembourg. Flagstone (Luxembourg) will be registered in Luxembourg under an allocated registration number in the Registre du Commerce et des Sociétés (the Luxembourg registrar of Companies).

#### **Share Capital and Shares**

Flagstone (Luxembourg) will have an authorized share capital of US\$3,000,000 divided into 300,000,000 shares with a par value of US\$0.01 each.

The issued share capital of Flagstone Reinsurance as at March 19, 2010, is US\$849,852.19 divided into 84,985,219 shares with a par value of US\$0.01 each (the Shares) of which 4,984,146 shares are held as treasury shares. All Shares currently in issue are fully paid up.

The authorized share capital will be fixed by the Articles. Any amendments to the articles of incorporation of a Luxembourg company must be performed (except where authority is otherwise given to the board of directors of the company in the articles) at an extraordinary general meeting of the shareholders of the company held in the presence of a Luxembourg notary. See General Meetings and Voting of Shareholders.

Shares are issued in registered form only. Flagstone (Luxembourg) will be entitled to treat the registered holder of any Share as the absolute owner thereof and will not be bound to recognize any equitable claim or other claim or interest in such Share on the part of any other person.

In the event that Shares are recorded in the Register on behalf of one or more persons in the name of a securities settlement system or the operator of such system, or in the name of a professional depository of securities, or any other depository (such systems, professionals or other depositories, being referred to hereinafter as Depositories ) or of a sub-depository designated by one or more Depositories, the Company (subject to it having received from the Depository with whom those Shares are kept in account a certificate in proper form) will permit those persons to exercise the rights attaching to those Shares, including admission to and voting at general meetings, and will consider those persons to be the shareholders.

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The Board of Directors is generally and unconditionally authorized for a period of five years from the date of the Redomestication to issue shares up to a maximum of the authorized but unissued share capital of Flagstone (Luxembourg). Such issue may include an issue of shares pursuant to the PSU Plan or the RSU Plan, which are the Company's current share incentive plans, or as a consequence of the obligations of Flagstone (Luxembourg) pursuant to the Warrant described under Proposal 4 Approval of the Redomestication Description of Flagstone (Luxembourg) Shares Warrant. Shares may be issued for cash, as compensation, for contribution in kind, upon conversion of shareholders' claims, or by incorporation of profits or distributable reserves, including the incorporation of share premium into capital. Pursuant to the Articles, the shareholders of Flagstone (Luxembourg) have waived their statutory pre-emptive rights to the issue of new Shares for cash by the Board of Directors.

Shares in Flagstone (Luxembourg) may be issued either at par, or at a premium and with such rights and restrictions (whether in regard to dividend, voting, return of capital, or otherwise) as Flagstone (Luxembourg) may direct by special resolution passed at an extraordinary general meeting held in the presence of a Luxembourg notary, or as may be determined by the Board of Directors pursuant to the five year authority to issue authorized Shares.

## **Share Certificates**

Shares will be issued in certificated form.

In the case where shares are held through a Depository, such as a securities settlement system, a certificate will be issued to the Depository whose name appears in the share register.

## **Repurchase of Shares and Article 49-2 of the Luxembourg Company Law**

Flagstone (Luxembourg) is generally authorized by shareholders for a period of five years, pursuant to a resolution passed at the annual general meeting of shareholders, to (i) make open market purchases, or (ii) make offers for repurchase. Flagstone (Luxembourg) is further authorized to repurchase Shares, and force shareholders to sell, in circumstances where the acquisition of the Company's own Shares is necessary to prevent imminent harm to the Company.

Repurchased Shares may be cancelled or held as treasury shares.

The Company may generally only repurchase Shares on the open market or by offer for repurchase, provided that:

The maximum price which may be paid for each Share shall not exceed the fair market value (as defined below);

The maximum number of Shares to be repurchased does not exceed the number of Shares available for repurchase as set out in the authorizing shareholders resolution;

The minimum price which may be paid for each Share shall not be less than the par value of each Share, being US\$0.01;

The acquisitions, including the Shares previously acquired by the Company and held by it may not have the effect of reducing the net assets of the Company below the limits set forth in Luxembourg Company Law; and

The authority granted by the shareholders to the Company to repurchase its Shares, unless revoked, varied or renewed, shall not exceed five years.

The Company may only exercise the option to repurchase Shares, and force a shareholder to sell, if it reasonably determines in good faith, based on the opinion of counsel, that Share ownership, directly, indirectly, or constructively, by any holder is likely to result in imminent harm to the Company. Imminent harm is described in the Articles as adverse tax consequences or materially adverse legal or regulatory treatment to Flagstone (Luxembourg) or any of its

subsidiaries. Time periods are provided for in the Articles for a shareholder whose Shares may be so repurchased by the Company to remedy such matter prior to the enforcement of the option by Flagstone (Luxembourg). Upon any such repurchase, the shareholder must receive at least the fair market value for each Share so repurchased.

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The fair market value of a Share is defined in the Articles as:

(a) if such shares are listed on a securities exchange (or quoted in a securities quotation system), the average closing sale price of such Shares on such exchange (or in such quotation system), or, if such Shares are listed on (or quoted in) more than one exchange (or quotation system) the average closing sale price of the Shares on the principal securities exchange (or quotation system) on which such Shares are traded, or, if such Shares are not then listed on a securities exchange (or quotation system) but are traded in the over-the-counter market, the average of the latest bid and asked quotation for such Shares in such market, in each case for the last five trading days immediately preceding the day on which notice of the repurchase of such Shares is sent or (b) if no such closing sales or prices are available because such Shares are not publicly traded, the value per Share as determined by an independent valuation and approved by the Board.

## **Transfer and Transmission of Shares**

Other than with respect to the procedures for the transfer of fungible shares in the event that such shares are held by a Depository, a shareholder may transfer all or any part of his Shares by written instrument of transfer.

Any restrictions on transfer set out in the Articles will not be imposed in any circumstances that would interfere with the settlement of trades or transactions entered into through the facilities of a stock exchange or automatic quotation system on which the Shares are listed or traded, provided that the Company may decline to register transfers in accordance with the Articles and resolutions of the Board, after a settlement has taken place.

Any person becoming entitled to a Share as a result of the death or bankruptcy of any Holder will execute an instrument of transfer in writing in the form acceptable to Flagstone (Luxembourg) (along with any other evidence as may be required by the Board) after which the applicable transferee will be registered as the new holder of the Shares in the register kept by Flagstone (Luxembourg).

## **Alteration of Share Capital**

Flagstone (Luxembourg) may by Special Resolution:

increase the number of authorized shares; and  
consolidate its shares into a fewer number of outstanding shares; and  
subdivide its shares into a larger number of outstanding shares.

Any alteration to the share capital of the Company will require an appropriate amendment to the Articles.

## **Dividends**

Subject to the Luxembourg Company Law, interim dividends may be declared by the Board of Directors of the Company. The declaration of interim dividends is subject to the approval of shareholders at the next general meeting of shareholders. Where the payments made on account of interim dividends exceed the amount of dividends subsequently approved by the shareholders at the general meeting, they shall, to the extent of the overpayment, be deemed to have been paid on account of the next dividend.

The shareholders may declare dividends at a general meeting of shareholders, but the dividend may not exceed the amount recommended by the Board of Directors. Dividends may only be declared from the distributable reserves available to the Company.



Share premium will be available for repayment to the shareholders of Flagstone (Luxembourg) in the discretion of the Board of Directors.

Dividends may be paid in (1) cash, in the form of a check, or by warrant or (2) wholly or partly in kind, by the distribution of assets (in particular, paid up shares, debentures or debenture stock) to shareholders.

No dividend or other moneys payable in respect of a Share will bear interest against Flagstone (Luxembourg) unless otherwise provided by the rights attached to the Share.

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Regular dividends are, in principle, subject to a Luxembourg withholding tax of 15%. Any repurchase of shares or repayment of capital or share premium is, under certain circumstances, also subject to 15% Luxembourg withholding tax, for example, to the extent the Company has distributable reserves or profits generated post-Redomestication. If Flagstone (Luxembourg) were to make any such taxable payment, it would, in principle, be required to withhold at the 15% rate and remit the withheld amounts to the Luxembourg tax authorities. See Risk Factors After the Redomestication, dividends you receive may be subject to Luxembourg dividend withholding tax and Luxembourg income tax and Material Tax Consequences Relating to the Redomestication Luxembourg Tax Considerations Post-Redomestication Consequences to Flagstone (Luxembourg) Shareholders .

The Luxembourg-U.S. Tax Treaty provides that U.S. residents eligible for benefits under the treaty can seek a refund of the Luxembourg withholding tax on dividends for the portion exceeding 15% in respect of portfolio dividends, i.e. dividends distributed on shareholdings of less than 10% of the total issued share capital of the dividend paying entity. Given that the domestic Luxembourg withholding tax rate is 15%, no further reductions can be obtained in respect of these portfolio dividends received by a U.S. holder. See Material Tax Considerations Relating to the Redomestication Luxembourg Tax Considerations Material Luxembourg Tax Considerations Post-Redomestication to Flagstone Post-Redomestication Consequences to Flagstone (Luxembourg) Shareholders Reduction of Luxembourg Withholding Tax Distributions to Shareholders .

However, it is our intention to make payments to shareholders in the form of share capital reductions and share premium reductions in such a way that no Luxembourg withholding tax is due. As such, we expect that a substantial amount of any potential future payments to be made by Flagstone (Luxembourg) may be exempt from Luxembourg withholding tax. Flagstone recommends that each shareholder consult his or her own tax advisor as to the tax consequences of holding shares in and receiving share capital, share premium and dividend payments from Flagstone (Luxembourg). See Risk Factors After the Redomestication, dividends you receive may be subject to Luxembourg dividend withholding tax and Luxembourg income tax .

## **General Meetings and Voting of Shareholders**

Votes of shareholders may be given at general meetings of Flagstone (Luxembourg), either personally or by proxy. Subject to the rights and restrictions for the time being attached to any Shares by the Articles or any applicable law, every shareholder present, whether in person or by proxy, will have one vote for each Share carrying voting rights, of which the shareholder is the registered holder.

The annual general meeting of Flagstone (Luxembourg) will be held on the second Thursday of the month of May at 2:00 p.m. (CET). If this is not a business day, then such meeting will be held on the next business day. Notice of such annual general meeting will be given to shareholders at least 10 clear days prior to the meeting being held. For at least fifteen days prior to the annual general meeting, each shareholder may obtain a copy of the financial statements for the preceding financial year at the office of Flagstone (Luxembourg) and inspect all documents required by Luxembourg Company Law to be made available for inspection.

In addition to the annual general meeting, Flagstone (Luxembourg) may also call for ordinary general meetings and extraordinary general meetings. Ordinary and extraordinary general meetings must be called on at least 10 days notice. An extraordinary general meeting is required for any meeting to amend the Articles (or other item specified in the Articles requiring a Special Resolution or super majority vote). At an extraordinary general meeting, a quorum requires at least two shareholders and shareholders together holding more than one half of the issued Shares of Flagstone (Luxembourg). An extraordinary general meeting held for the purposes of amending the Articles must be held in the presence of a Luxembourg notary. Any Special Resolution to be passed at an extraordinary general

meeting will be validly passed by a majority of two-thirds of the Shares present or represented at the meeting. Any resolution requiring a super majority resolution will be passed by the applicable super majority vote at an extraordinary general meeting as specified in the Articles. At ordinary general meetings, quorum requires two persons being entitled to vote, and a resolution may be passed by a simple majority of shares present or represented at such meeting.

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### **Distributions on Dissolution of Flagstone (Luxembourg)**

Any voluntary dissolution of Flagstone (Luxembourg) will take place in accordance with the provisions of Luxembourg law. Flagstone (Luxembourg) may only be placed into voluntary dissolution if shareholders vote in favor of such dissolution by means of a Special Resolution passed at an extraordinary general meeting of shareholders. In the event of a dissolution of Flagstone (Luxembourg), the dissolution will be carried out by one or more liquidators appointed by the general meeting of shareholders, which will determine their powers and remuneration within the Luxembourg Company Law.

If upon dissolution the assets available for distribution among the shareholders are insufficient to repay the whole of the paid up or credited as paid up share capital, the assets will be distributed so that, as nearly as possible, the losses will be borne by the shareholders in proportion to the capital paid up or credited as paid up at the commencement of the dissolution on the Shares held by them respectively.

If in a dissolution the assets available for distribution among the shareholders are more than sufficient to repay the whole of the share capital paid up or credited as paid up at the commencement of the dissolution, the excess will be distributed among the shareholders in proportion to the capital at the commencement of the dissolution paid up or credited as paid up on the Shares held by them respectively.

After the payment of all debts and any charges against Flagstone (Luxembourg) and of the liquidation expenses, the net liquidation proceeds will be distributed to the shareholders to achieve on an aggregate basis the same economic result as the distribution rules set for dividend distributions.

If Flagstone (Luxembourg) is dissolved, the liquidators, with the sanction of a Special Resolution, may divide among the shareholders in specie or kind the whole or any part of the assets of Flagstone (Luxembourg) (whether they will consist of property of the same kind or not) and, for such purpose, may value any assets and determine how the division will be carried out as between the shareholders. The liquidators may vest the whole or any part of such assets in trusts for the benefit of the shareholders as the liquidator determines, but so that no shareholder will be compelled to accept any assets upon which there is a liability.

### **Classification of the Board of Directors**

The Board of Directors will consist at all times of no less than 10 and no more than 12 directors, divided into 3 classes as nearly equal as possible in size, each of whom will hold office for a term determined by the shareholders, (such term not to exceed six years) or, in the absence of such determination, for a three-year term. Directors may be re-elected at the end of any such term.

### **Shareholders Agreement**

Flagstone (Bermuda) and certain shareholders who acquired our Shares prior to the date of our initial public offering (the Existing Shareholders ) are parties to the Shareholders Agreement. The Shareholders Agreement permits persons who hold at least five million of our Shares to request registration for a public offering of Shares. We have agreed to use our best efforts to cause the prompt registration of such Shares but may postpone the filing of a registration statement in connection with such public offering for up to three months from the date of the request if we determine in good faith that the registration would reasonably be expected to have an adverse effect on any proposal or plan by us or any of our subsidiaries to engage in any acquisition of assets (other than in the ordinary course of business) or any stock purchase, amalgamation, merger, consolidation, tender offer, reorganization, or similar transaction or if an

underwritten public offering is contemplated in which the Shares proposed to be registered would be included. If the number of Shares to be sold in the requested offering is limited by the managing underwriter, then the number of Shares requested to be registered will be allocated, pro rata, among the requesting shareholders. The Existing Shareholders are currently entitled to request up to three demand registrations.

Additionally, the Shareholders Agreement provides that, if at any time we propose to register any of our Shares under the Securities Act, we will offer the Existing Shareholders the opportunity, subject to certain conditions, to include their Shares in such registration statement. We are generally required to pay all expenses associated with any demand or piggyback registrations.

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### **Warrant**

The Company has granted to Haverford (Bermuda) Ltd. ( Haverford ) a Warrant to purchase Shares. The Warrant is exercisable during the month of December 2013. The Warrant entitles the holder to purchase 8,585,747 Shares, at an exercise price of \$14.80 per share (subject to adjustment for share splits, dividends declared and similar events).

Haverford may transfer the Warrant only to certain of its affiliates.

### **Restrictions on Transfer of Shares or Warrants**

The FSA regulates the acquisition of control of any U.K. person, such as Marlborough, authorized under the Financial Services and Markets Act 2000 ( FSMA ). Similarly, Lloyd s approval is required prior to acquiring control of a Lloyd s managing agent. Any company or individual that (together with its or his/her associates) directly or indirectly acquires 10% or more of the shares of a U.K. authorized insurance company or its parent company, or is entitled to exercise or control the exercise of 10% or more of the voting power in such authorized insurance company or its parent company, would be considered to have acquired control for the purposes of FSMA, as would a person who had significant influence over the management of such authorized insurance company or its parent company by virtue of the person s shareholding or voting power in either. A purchaser of 10% or more of Flagstone (Luxembourg) s Shares would therefore be considered to have acquired control of Marlborough. Under FSMA, any person proposing to acquire control over a U.K. authorized insurance company must notify the FSA of that person s intention to do so and obtain the FSA s prior approval. The FSA would then have three months to consider that person s application to acquire control . In considering whether to approve such application, the FSA must be satisfied both that the acquirer is a fit and proper person to have such control and that the interests of consumers would not be threatened by such acquisition of control . Failure to make the relevant prior application would constitute a criminal offense, whereas a failure to obtain Lloyd s approval could result in Lloyd s taking action against the relevant managing agent.

Lloyd s also regulates the acquisition of control over Lloyd s corporate members, such as Flagstone Corporate Name Limited. The test for acquisition of control is the same as that described above in relation to FSMA. Accordingly, any person who proposed to acquire 10% or more of the ordinary shares in Flagstone Corporate Name Limited or a parent company, including Flagstone (Luxembourg), would have to obtain the prior approval of Lloyd s.

The restrictions on transfer described above may have the effect of delaying, deferring or preventing a change in control of the Company.

### **Transfer Agent and Registrar**

The transfer agent and registrar for the Shares is BNY Mellon Shareowner Services, whose principal executive office is located at 1 Wall Street, New York, NY 10004.

### **Listing**

Flagstone (Bermuda) s Shares are currently listed on the NYSE under the symbol FSR and Flagstone (Luxembourg) s Shares will continue to be listed on the NYSE after the Redomestication under the same symbol. The Shares are also currently listed on the Bermuda Stock Exchange, and we expect that they will continue to be listed on the Bermuda Stock Exchange after the Redomestication. Other than for our Shares, there is no market for any other shares we may offer.

**SHAREHOLDERS ARE ADVISED TO REVIEW THE ARTICLES OF FLAGSTONE (LUXEMBOURG) (ATTACHED TO THIS PROXY STATEMENT AS ANNEX A TO SUPPLEMENT THE SUMMARIZED INFORMATION PROVIDED IN THIS PROXY STATEMENT.**

**SHAREHOLDERS ARE ALSO REFERRED TO THE SECTION IN THIS PROXY STATEMENT ENTITLED COMPARISON OF RIGHTS OF SHAREHOLDERS FOR FURTHER INFORMATION.**

### **Comparison of Rights of Shareholders**

Your current rights as a shareholder are governed by Bermuda law, our Memorandum of Association and our Bye-Laws. After the Redomestication, your rights will be governed by Luxembourg law and our Articles.

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Many of the principal features of our Bermuda shares and Luxembourg shares will be similar. There are differences, however, between your rights under the civil law system of Luxembourg and your rights under the corporate statutory and common law of Bermuda, which is modeled on certain provisions of the corporate statutory law of England and Wales and in respect of which the common law of England and Wales is highly persuasive authority as to questions of Bermuda law. In addition, there are differences between our current Bermuda Memorandum of Association and Bye-Laws and the Articles. The following discussion is a summary of the material changes in your rights that will result from the Redomestication.

This summary is not complete and does not cover all of the differences between Luxembourg law and Bermuda law affecting companies and their shareholders or all the differences between our Bermuda Memorandum of Association and Bye-Laws and the Articles. This summary contains a list of the material differences but is not meant to be relied upon as an exhaustive list or a detailed description of the provisions described. The Articles are attached to this Proxy Statement as Annex A. For information as to how you can obtain our Bermuda Memorandum of Association and Bye-Laws, see Incorporation of Certain Information by Reference .

	Flagstone (Bermuda)	Flagstone (Luxembourg)
Authorized and Issued Shares	Authorized share capital: US\$3,000,000, divided into 300,000,000 shares with a par value of US\$0.01 each. Issued share capital: 84,985,219. Outstanding share capital: 80,001,073.	Authorized share capital: US\$3,000,000, divided into 300,000,000 shares with a par value of US\$0.01 each. Issued share capital: 84,985,219. Outstanding share capital: 80,001,073.
Voting	One vote per share, except our Bye-Laws reduce the total voting power of any U.S. person controlling more than 9.9% of our common shares to 9.9% of the voting power of our common shares.	One vote per share.
Preferred Shares	The Board of Directors can issue preferred shares on such terms and conditions as it may determine and having such voting rights, dividend rates, return of capital, conversion rights or other provisions as may be fixed by the Board of Directors without any further shareholder approval.	The issuance of any preferred shares requires an amendment to the Articles. See Amendments to the Bye-Laws and Articles of Association .



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<p>Variation of Rights</p>	<p>Flagstone (Bermuda)                  If, at any time, the share capital of Flagstone (Bermuda) is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not Flagstone (Bermuda) is being wound-up, be varied with (i) the consent in writing of the holders of three-fourths of the issued shares of that class or (ii) with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of shares of the class. At this latter meeting, the necessary quorum will be two persons at least holding or representing by proxy one-third of the issued shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights will not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue for further shares ranking <i>pari passu</i> therewith.</p>	<p>Flagstone (Luxembourg)                  Except as set out below, provisions regarding Variation of Rights under the Articles are similar to corresponding provisions under Flagstone (Bermuda) s Memorandum of Association and Bye-Laws.                  Where the share capital of Flagstone (Luxembourg) is divided into different classes of shares, any variation of the rights attached to any class of shares must be made by means of a super majority vote of 75% passed at a meeting of the shareholders of the affected class. Should the change to the rights of the shares of that class require an amendment to the Articles of Flagstone (Luxembourg), then a Special Resolution passed at an extraordinary general meeting of all of the shareholders must be obtained for such amendment. See Amendment to the Articles .</p>
<p>Pre-emptive Rights and Advance Subscription Rights</p>	<p>None.</p>	<p>The Articles authorize the Board of Directors to issue shares up to the authorized share capital of Flagstone (Luxembourg) for a period of five years and shareholders waive their statutory pre-emption rights during this period. Thereafter shares issued for cash will be offered on a pre-emptive basis to shareholders in proportion to the capital represented by their shares unless the shareholders once again waive their pre-emption rights for another period up to a maximum of five years.</p>

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	<p>Flagstone (Bermuda)</p>	<p>Flagstone (Luxembourg)</p> <p>If Flagstone (Luxembourg) loses three-fourths of its corporate capital, it must be dissolved if such dissolution is approved by 25% of the votes cast at a general meeting of shareholders convened for that purpose. Shareholders holding together 20% of the issued capital are entitled, while a shareholders meeting is in session, to require a postponement of that meeting for up to 4 weeks. Any such postponement will annul any decision taken at the meeting.</p> <p>In addition to the auditors already appointed for Flagstone (Luxembourg) (see Auditors ), the commercial court in Luxembourg, in exceptional circumstances and upon application of shareholders holding together 20% of the issued capital of Flagstone (Luxembourg), may appoint one or more auditors to audit the accounts of the company.</p> <p>Shareholders, holding together at least 10% of the issued share capital, are entitled to require the Board of Directors to convene a meeting of shareholders with the agenda indicated by them. Such meeting must be held within one month of the said request. In addition, shareholders holding together at least 10% of the issued share capital are entitled to require the Board of Directors to add further items on the agenda of a meeting of shareholders.</p> <p>Flagstone (Luxembourg) is required to allocate a sum of at least five percent (5%) of its annual net profits to a legal reserve, until such time as the legal reserve amounts to ten percent (10%) of the nominal value of its issued share capital.</p> <p>If and to the extent that this legal reserve falls below the ten percent (10%) amount, the company will again allocate a sum of at least five percent (5%) of its annual net profits to restore the legal reserve to the minimum amount.</p>
<p>Minority Rights</p>	<p>Not applicable.</p>	
<p>Legal Reserve</p>	<p>Not applicable.</p>	



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<p>Dividends and Other Distributions</p>	<p>Flagstone (Bermuda)</p> <p>The Board may, subject to the Bye-Laws and the Companies Act 1981 of Bermuda, declare a dividend to be paid to the members, in proportion to the number of shares held by them, and such dividend may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets.</p> <p>The Board may fix any date as the record date for determining the members entitled to receive any dividend.</p> <p>Flagstone (Bermuda) may pay dividends in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.</p> <p>The Board may declare and make such other distributions (in cash or in specie) to the members as may be lawfully made out of the assets of Flagstone (Bermuda).</p>	<p>Flagstone (Luxembourg)</p> <p>Shareholders of Flagstone (Luxembourg) may by resolution declare dividends in accordance with the respective rights of shareholders in proportion to the number of shares held by them. Dividends may not exceed the amount recommended by the Board.</p> <p>Any share premium created upon the issuance of shares will be available for repayment to the shareholders pursuant to the discretion of the Board.</p> <p>A meeting of shareholders declaring a dividend may direct, with the recommendation of the Board, that the dividend be paid entirely or in part by the distribution of assets (including paid up shares, debentures or debenture stock of any other company).</p> <p>The Company may make such other distributions (in cash or in specie) to the shareholders as may be lawfully made out of the assets of Flagstone (Luxembourg).</p> <p>The Board may declare and pay interim dividends upon fulfillment of the requirements set forth in the Law. Such dividends may be declared and paid in relation to any class of shares or in relation to all classes (if the company creates other classes of shares), provided that the shares of any particular class must rank equally for dividends. Where the payments made on account of interim dividends exceed the amount of the dividend subsequently approved by the shareholders at the general meeting, they shall, to the extent of the overpayment, be deemed to have been paid on account of the next dividend.</p>
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Repurchase of Shares	<p>Flagstone (Bermuda)                  Flagstone (Bermuda) may purchase its own shares for cancellation or to hold as treasury shares.                  If Flagstone (Bermuda) reasonably determines in good faith that share ownership, directly, indirectly or constructively is likely to result in adverse tax consequences or materially adverse legal or regulatory treatment to Flagstone (Bermuda), it has the option to purchase the minimum number of shares which is necessary to avoid or cure such adverse consequences or treatment.</p>	<p>Flagstone (Luxembourg)                  Flagstone (Luxembourg) is authorized by the shareholders to purchase its own shares for cancellation or to hold as treasury shares for a period of five years, where such shares are repurchased (i) in open market purchases, or (ii) by offer to shareholders. Flagstone (Luxembourg) is further authorized to repurchase its own shares in circumstances where the acquisition of the Company's own shares is necessary to prevent imminent harm (as such term is defined in the Articles) to the Company.</p>
Quorum and Voting Rights	<p>At any general meeting of members, two or more persons present in person and representing in person or by proxy in excess of 50% of the total issued voting shares in Flagstone (Bermuda) throughout the meeting will form a quorum for the transaction of business. Generally, members resolutions may be passed by a simple majority. Directors are elected by a plurality vote.</p>	<p>Except as provided for in relation to an adjourned meeting, two persons entitled to vote upon the business to be transacted at a general meeting of shareholders, each being: (i) a shareholder; (ii) a proxy for a shareholder; or (iii) a duly authorized representative of a corporate shareholder, constitutes a quorum for such general meeting.                  Where any Special Resolution is to be passed at an extraordinary general meeting of shareholders for an amendment to the Articles (or other item specified in the Articles requiring a super majority vote), the quorum requires in addition to the requirements set out above, the presence, in person or by proxy, of shareholders holding at least one half of the issued share capital. If the appropriate quorum is not present, the meeting shall be dissolved. A second meeting may be convened at which one shareholder present in person or by proxy shall be a quorum.                  Any Ordinary Resolution, including the election of directors, at an ordinary general meeting will be passed by a vote in favor by a simple majority of the shares present or represented at the meeting.                  Any Special Resolution at an extraordinary general meeting will be passed by a majority of two-thirds of the shares present or represented at the extraordinary general</p>

meeting.

Any item requiring a super majority vote will be passed by the appropriate percentage as required by the super majority vote.

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Shareholders Written Resolutions	<p>Flagstone (Bermuda)</p> <p>A written resolution signed by all of the members at the date of the resolution who would be entitled to attend a meeting and vote on such resolution is as valid as if it had been passed at a meeting of shareholders called for the purposes of passing such a resolution (except for resolutions passed to remove an auditor or director from office before the expiration of his term of office).</p>	<p>Flagstone (Luxembourg)</p> <p>Not permitted.</p>
Supermajority Voting	<p>The variation of any rights that may be attached to a class of shares requires the consent in writing of the holders of not less than 75% of the issued shares of that class or a resolution passed at a general meeting of the holders of shares of that class by a simple majority of the votes cast at which meeting quorum requires at least two persons holding or represented by proxy at least one-third of the issued shares of the class.</p> <p>Flagstone (Bermuda) may merge with another entity with the approval of 75% of votes cast at a meeting of members at which a quorum is present.</p>	<p>The unanimous consent of the shareholders is required in an extraordinary general meeting to approve the following matters:</p> <p>the change of the domicile of Flagstone (Luxembourg), as effected through a continuation of its corporate seat and effective place of management; and</p> <p>any increase in the shareholders commitments.</p> <p>The affirmative vote of at least two-thirds of the votes cast is required in an extraordinary general meeting to approve the following matters:</p> <p>the increase or the reduction of Flagstone (Luxembourg) s share capital;</p> <p>any matter requiring the passing of a Special Resolution; and</p> <p>any other amendment to the Articles. See Amendment to Articles .</p> <p>The affirmative vote of at least 75% of the votes cast is required in an extraordinary general meeting to approve the following matters:</p>

a variation of rights of any class of shares,  
in which case a vote of 75% of the vote  
present or represented of that class of  
shares is required;

the sale, lease or exchange of a substantial  
part of the Company's assets;

a merger, de-merger or amalgamation; and



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Flagstone  
(Bermuda)

Flagstone  
(Luxembourg)

Election of  
Directors

Directors are elected at the annual general meeting of the members or at any special general meeting of the members called for that purpose.

Only persons for whom a written notice of nomination signed by members holding in the aggregate not less than fifteen percent (15%) of the issued and outstanding paid up share capital eligible to vote at the meeting at that time has been delivered to the registered office of Flagstone (Bermuda) for the attention of the Secretary not later than five days after notice or public disclosure of the date of such meeting is given or made available to members are eligible for appointment or election as a Director at any meeting. Directors are elected by plurality voting which means that the persons who have been nominated for election as Directors who receive the highest number of For votes cast out of all of the nominated persons will be elected as directors of the Company.

The office of director is vacated if the director:

an amendment, variation, or deletion of a clause in the Articles of the Company, but only where such amendment, variation or deletion relates to a clause dealing with a matter requiring a super majority resolution.

Directors are elected at a general meeting. The Board may elect to nominate directors for election by shareholders, by placing the names for nomination on the agenda of the meeting.

Should shareholders wish to nominate any person for election as a director, shareholders holding at least 10% of the issued and outstanding paid up share capital of the Company who are eligible to vote at the meeting must deliver to the registered office of Flagstone (Luxembourg), not later than five days after notice of, or public disclosure of the meeting, a written notice of nomination nominating such person for election as director at the meeting.

Shareholders holding together at least 10% of the issued share capital of Flagstone (Luxembourg) are entitled to require the Board of Directors to convene a meeting of shareholders with the agenda indicated by them or may add any item to the agenda of a meeting called (see Minority Rights ), which item may include the nomination and election of a director. There is no plurality of voting in Luxembourg. Directors are elected to office if sufficient votes are cast by shareholders in favor of the election of such Director as is required for the passing of the appropriate shareholders resolution, see Election of Directors above.

The office of director is vacated if the director:

is removed from office pursuant to the Bye-Laws or is prohibited from being a director by law;

is prohibited from being a director by law;

is or becomes bankrupt, or makes any arrangement or composition with his creditors generally;

is or becomes bankrupt, or makes an arrangement or composition with his creditors generally;

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	Flagstone (Bermuda)	Flagstone (Luxembourg)
	is or becomes of unsound mind or dies; or	is or becomes of unsound mind or dies; or
	resigns his office by notice in writing.	resigns his office by notice in writing.
	The Board has the power to appoint any person as a director to fill a vacancy on the Board occurring as a result of the death, disability, disqualification or resignation of any director. A director cannot appoint an alternate director, and no director may appoint another director to represent him or vote on his behalf at any meeting of the Board of Directors or at any Committee meeting.	The Board may provisionally appoint a person as a director to fill a vacancy. A director so appointed holds office only until the next annual general meeting unless re-appointed at such annual general meeting. Shareholders holding together at least 10% of the issued share capital can nominate a person to be appointed as a director, by requiring the Company to place the nomination on the agenda of the general meeting and requiring the Company to call a general meeting. At the general meeting, the nominated person can be appointed as a director by Ordinary Resolution at the meeting (see Election of Directors ). The Board will be composed of no fewer than ten (10) directors and no more than a maximum of twelve (12) directors as the Board may from time to time determine, who shall be elected by shareholders except in the case of vacancy.
Board of Directors	The Board consists of no fewer than ten (10) directors and no more than a maximum of twelve (12) directors. Flagstone (Bermuda) currently has 12 directors.	The Board will be composed of no fewer than ten (10) directors and no more than a maximum of twelve (12) directors as the Board may from time to time determine, who shall be elected by shareholders except in the case of vacancy.
Term of Office of Directors	Three-year terms.	Three-year terms.
Quorum for Board and Committee Meetings	Quorum for a meeting of the Board is a majority of the directors then in office, present in person or represented by a duly authorized representative, provided that at least two directors are present in person.	Quorum for a meeting of the Board is a majority of the directors then in office, present in person, or represented by a duly authorized representative provided that at least two directors are present.
Removal of Directors	Members entitled to vote for the election of directors may, at any special general meeting remove any director, but only for cause. If a director is removed from the Board for cause, the members may fill the vacancy at the meeting at which such director is removed.	The shareholders may vote on an Ordinary Resolution at a general meeting to remove any director from office without cause.

Special Shareholder Meetings / Extraordinary General Meeting	The Chairman, any two directors, or the Board of Directors is required to convene a special general meeting whenever in their judgment such a meeting is necessary.	The Board of Directors is required to convene an extraordinary general meeting of shareholders at the request of shareholders holding not less than 10% of registered shares (see <a href="#">Minority Rights</a> ).
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	Flagstone (Bermuda)	Flagstone (Luxembourg)
		Any dissolution of Flagstone (Luxembourg) will be carried out by one or more liquidators appointed at a meeting of shareholders.
Liquidation/ Dissolution	Upon liquidation, members are entitled to receive any assets remaining after the payment of our debts and the expenses of the liquidation, subject to special rights of any other class of shares.	After payment of all debts and any charges against Flagstone (Luxembourg) and the liquidation expenses, the net liquidation proceeds are distributed to the shareholders to achieve on an aggregate basis the same economic result as the distribution rules set for dividend distributions. Distributions in specie are allowed if such distributions are contemplated by the appointed liquidators and within the powers granted to them.
	Amendments to the Memorandum of Association and Bye-Laws require:	Amendments to the Articles require an extraordinary general meeting where at least one half of the issued capital is represented, two shareholders are present and at least two-thirds of the capital present at such meeting votes in favor of the amendments.
Amendments to the Bye-Laws and Memorandum of Association	the approval of the majority of holders present at the general meeting at which two or more persons are present in person or by proxy representing in excess of 50% of the total issued voting shares, and	Where the amendment, deletion or variation of the Articles relates to a clause dealing with a super majority resolution requirement, the amendment, variation or deletion will require that at least 75% of the capital present at such meeting votes in favor of the amendment.
	the prior approval of at least seventy five per cent (75%) of the directors in office.	The approval of the Board of Directors for amendments to the Articles is not necessary.
Transfer Agent and Registrar	BNY Mellon Shareowner Services.	BNY Mellon Shareowner Services.
Listing	New York Stock Exchange / Bermuda Stock Exchange.	New York Stock Exchange / Bermuda Stock Exchange.

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Limitation of Liability and Indemnification	<p>Flagstone (Bermuda)</p> <p>The directors, Secretary and other officers (such term to include any person appointed to any committee by the Board) while acting in relation to any of the affairs of the Company, any subsidiary thereof, and the liquidator or trustees (if any) while acting in relation to any of the affairs of the Company or any subsidiary thereof and every one of them, and their heirs, executors and administrators, are indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, and none of them shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to Flagstone (Bermuda) shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys or belonging to Flagstone (Bermuda) shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty. Each member agrees to waive any claim or right of action such member might have, whether individually or by or in the right of Flagstone (Bermuda), against any director or officer on account of any action taken by such director or officer, or the failure of such director or officer to take any action in the</p>	<p>Flagstone (Luxembourg)</p> <p>Flagstone (Luxembourg) s limitations on liability and indemnification will be substantially the same as Flagstone (Bermuda) s.</p> <p>Flagstone (Luxembourg) may not indemnify a director or officer for criminal liability, gross negligence, willful misconduct, or an intentional breach of his statutory duties.</p> <p>The directors and other officers (such term to include any person appointed to any committee by the Board) while acting in relation to any of the affairs of Flagstone (Luxembourg), any subsidiary thereof, and the liquidator or trustees (if any) while acting in relation to any of the affairs of Flagstone (Luxembourg) or any subsidiary thereof and every one of them, and their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets of Flagstone (Luxembourg) from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, and none of them shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to Flagstone (Luxembourg) shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to Flagstone (Luxembourg) shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, provided that this indemnity shall not extend to any</p>
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performance of his duties with or for Flagstone (Bermuda) or any subsidiary thereof, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such director or officer.

matter in respect of any fraud, dishonesty, gross negligence or willful misconduct. Each member agrees to waive any claim or right of action such member might have,

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Flagstone  
(Bermuda)

Flagstone  
(Luxembourg)  
whether individually or by or in the right of  
the Company, against any director or officer  
on account of any action taken by such  
director or officer, or the failure of such  
director or officer to take any action in the  
performance of his duties with or for  
Flagstone (Luxembourg) or any subsidiary  
thereof, provided that such waiver shall not  
extend to any matter in respect of any fraud  
or dishonesty.

Accounting  
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U.S. dollars and U.S. GAAP.

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## **PROPOSAL 5 CHANGE OF OUR CORPORATE NAME**

### **General**

In connection with the Redomestication, the shareholders must approve the Company's new corporate name. The Articles provide that our new corporate name will be Flagstone Reinsurance Holdings, S.A.

On February 26, 2010, our Board of Directors approved a resolution declaring it advisable that the corporate name be changed to Flagstone Reinsurance Holdings, S.A.

As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

### **Text of the Shareholder Resolution**

The Resolution approving the foregoing, and which contains the proposed new Article 2 to the Articles, is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon recommendation of the Board and immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, the Company's corporate name be changed to Flagstone Reinsurance Holdings, S.A.

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and we will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 5.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# **PROPOSAL 6 APPROVAL OF OUR CORPORATE PURPOSE**

## **General**

In order to effect the Redomestication under Luxembourg law, the shareholders of a Luxembourg corporation are required specifically to approve the purposes for which the corporation has been organized. Our Memorandum of Association currently enumerates various purposes for which we are established. The Articles provide that our main purpose is to act as a holding company that owns participations in and manages our various subsidiary companies as well as other companies. We believe that this change, which is intended to conform our purpose more closely with Luxembourg standard practice, will not limit the activities in which we reasonably would expect to engage.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that the purposes for which we would be continued under Luxembourg law as set forth in the Articles be as set forth below in the form of the proposal. Our Board of Directors directed that approval of our corporate purpose be submitted for consideration by our shareholders at the Annual General Meeting.

As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## **Text of the Shareholder Resolution**

The Resolution approving the foregoing, and which contains the proposed new Article 4 to the Articles, is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon recommendation of the Board and effective immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, the object clause of the Company is to read as follows:

The object of the Company is the holding of participations, in any form whatsoever, in other Luxembourg companies or foreign companies, the acquisition by purchase, subscription, or in any other manner, as well as the transfer by sale, exchange or otherwise of stocks, bonds, debentures, notes and other securities of any kind, and the ownership, administration, development and management of its portfolio. The Company may also hold interests in partnerships.

The Company may borrow in any form and proceed to the issuance of bonds and debentures. In a general fashion it may grant assistance to affiliated companies, take any controlling and supervisory measures and carry out any operation, which it may deem useful in the accomplishment and development of its purposes.

The Company may further carry out any commercial, industrial or financial operations, as well as any transactions on real estate or on movable property.

The Company may give guarantees and other forms of security and pledge, transfer, encumber or otherwise create and grant security over all or some of its assets to guarantee its own obligations or undertakings, or the obligations of any other company or person, where such guarantee is indirectly or directly in the best interests of and for the corporate benefit of the Company.

The Company shall have all such powers and shall be entitled to take all such action and enter into any type of contract or arrangement as are necessary for the accomplishment or development of its objects.

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and we will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 6.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# PROPOSAL 7 LUXEMBOURG REGISTERED OFFICE

## General

Under Luxembourg law, the shareholders of a Luxembourg corporation are required to approve the registered office of Flagstone (Luxembourg).

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that upon consummation of the Redomestication our principal place of business shall be fixed in Luxembourg at 37 Val St André, L-1128, Luxembourg, Grand Duchy of Luxembourg. While we may maintain offices in Bermuda, it is important that formal steps, including this resolution, be taken to confirm that our principal place of business will be in Luxembourg.

Our Board of Directors directed that approval of Luxembourg as our registered office be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## Text of the Shareholder Resolution

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, effective immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, the Company's registered office be fixed in Luxembourg at 37 Val St André, L-1128, Luxembourg, Grand Duchy of Luxembourg;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 7.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# PROPOSAL 8 APPROVAL OF THE ARTICLES OF INCORPORATION

## General

Under Luxembourg law, the shareholders of a Luxembourg corporation are required to approve the form of the corporation's articles of incorporation.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that the Articles in the form of Annex A to this Proxy Statement be approved as our Articles following the Redomestication. Pursuant to Luxembourg Law, the Company is required to also prepare its Articles in an official language of Luxembourg. The Company will therefore have an English version of its Articles and a French version of its Articles, which together shall constitute the Articles of the Company. In the event of any discrepancies between the English version and the French version of the Articles, the Articles will provide that the English version will prevail. By approving the English version of the Articles, shareholders will be deemed to have approved the appropriate French translation. See Proposal 4 Approval of the Redomestication Description of Flagstone (Luxembourg) Shares and Proposal 4 Approval of the Redomestication Comparison of Rights of Shareholders for a summary of the significant differences between our current Memorandum of Association and Bye-Laws and the Luxembourg Articles as well as summary comparison of Bermuda and Luxembourg law.

Our Board of Directors directed that approval of the form of the Articles be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## Text of the Shareholder Resolution

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon recommendation of the Board and immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, the Articles of Incorporation, in the form of the version attached as Annex A to the Proxy Statement and their French translation (collectively, the Articles) be adopted as the Articles of Incorporation of the Company, to the exclusion of and in place of the existing Memorandum of Association and Bye-Laws of the Company;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 8.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.



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# PROPOSAL 9 APPROVAL OF ISSUED SHARE CAPITAL

## General

In order to effect the Redomestication under Luxembourg law, the shareholders of a Luxembourg corporation are required to approve the corporation's issued share capital.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that any issued Flagstone (Bermuda) common shares be included in the issued share capital of Flagstone (Luxembourg).

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## Text of the Shareholder Resolution

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, on the Effective Date, the Company shall have an issued share capital of US\$849,852.19 represented by 84,985,219 fully paid shares each with a nominal value of US\$0.01 and with such rights and obligations as set forth in the Articles;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 9.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# **PROPOSAL 10 APPROVAL OF AUTHORIZED SHARE CAPITAL**

## **General**

In order to effect the Redomestication under Luxembourg law, the shareholders of a Luxembourg corporation are required to approve the corporation's authorized share capital.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that the authorized share capital upon the Redomestication shall remain US\$3,000,000 represented by 300,000,000 shares, each with a nominal value of US\$0.01.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## **Text of the Shareholder Resolution**

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, on the Effective Date the Company shall have an authorised share capital of US\$3,000,000 represented by 300,000,000 shares, each with a nominal value of US\$0.01;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 10.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.



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# **PROPOSAL 11 WAIVER OF PREFERENTIAL OR PRE-EMPTIVE SUBSCRIPTION RIGHTS**

## **General**

In order to include the authority of the Board of Directors to issue new shares as is prescribed in the Articles, under Luxembourg law, the shareholders are required to waive the pre-emptive right to purchase new common shares of the corporation issued for cash and acknowledge and approve the Board report attached as Annex B to the Proxy Statement which identifies certain factors that the Board will consider in setting the issue price for new shares issued for cash.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that shareholders waive any pre-emptive subscription rights that they may be entitled to under Luxembourg law.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## **Text of the Shareholder Resolution**

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon recommendation of the Board and effective immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, any preferential or pre-emptive subscription rights provided for by Luxembourg law, for the issue of shares within the authorised share capital are waived and it is agreed to suppress and waive any preferential pre-emptive subscription rights provided for by Luxembourg law and authorise the Board to proceed to issue shares or any securities or instruments giving rights to shares (by subscription, conversion, exchange or otherwise) within the authorised unissued share capital against contributions in cash, in kind, by way of incorporation of available premium or reserves into shares or otherwise pursuant to the terms and conditions determined by the Board or its delegate(s) while waiving, suppressing or limiting any preferential or pre-emptive subscription rights as provided under Luxembourg law to existing shareholders in the case of issues of shares within the authorised share capital, for a period starting on the Effective Date and ending on the fifth anniversary of the day of publication of the notarial deed recording the Redomestication before a Luxembourg notary in the official gazette of Luxembourg, the Mémorial; and FURTHER RESOLVED in relation thereto, that the report by the Board pursuant to article 32-3 (5) of Luxembourg Company law on the circumstances and proposed issue price of shares against cash without preferential subscription rights as presented to the shareholders be and is hereby acknowledged and approved;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 11.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# **PROPOSAL 12 APPROVAL OF THE ABILITY OF THE COMPANY TO PURCHASE ITS OWN SHARES**

## **General**

Under Article 49-2 of the Luxembourg Law, in order for a corporation or its wholly-owned subsidiaries to be able to acquire or own ordinary shares of the corporation the shareholders must grant the applicable authority to the Company to repurchase such ordinary shares.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that shareholders approve any acquisition or ownership of shares of Flagstone (Luxembourg) by Flagstone (Luxembourg) or any of its wholly-owned subsidiaries.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## **Text of the Shareholder Resolution**

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon recommendation of the Board and effective immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, the Company, be and is hereby generally authorized from time to time to purchase, acquire, receive and/or hold shares in the Company in conformity with the Articles and the Luxembourg Company law and with all other applicable laws and regulations, such authorization commencing on the Effective Date provided that:

The maximum number of shares hereby authorized to be purchased shall not exceed the number of fully paid up issued shares in the Company;

The maximum price which may be paid for each share shall be the Fair Market Value;

The minimum price which may be paid for each share shall be the par value of US\$0.01;

This authority, (unless previously revoked, varied or renewed) shall expire on the fifth anniversary of the date of the meeting held before a Luxembourg notary for the purposes of recording the Redomestication of the Company, except in relation to the purchase of shares the contract for which was conducted before such date and which will or may be executed wholly or partly after such date;

The acquisitions, including the shares previously acquired by the Company and held by it, and shares acquired by a person acting in his own name but on the Company's behalf, may not have the effect of reducing the net assets of the Company below the amount mentioned in Article 72-1 of the Luxembourg Company Law.

This authority relates only to (i) one or more market purchases, (being a purchase of shares by the Company of shares offered for sale by any shareholder on the open market on which the shares are traded), as the Board of Directors shall determine, and (ii) purchases effected in circumstances where an offer on similar terms has been made by the Company to sell up to the same number of shares of each shareholder appearing on the register of shareholders immediately before the offer was made (or as soon as, according to the Directors, may be practicable) other than shareholders who have consented in writing to the offer not being extended to them, and each shareholder concerned has either (a) accepted the offer in writing, (b) declined the offer in writing, or (c) failed to respond to the offer within

the time allowed to do so under the terms of the offer. Pursuant to, and in conformity with Article 49-2(2) of the Law and in conformity with all the applicable laws and regulations, the Board be authorized to repurchase such shares in the Company as the Board of Directors may elect the Company should repurchase, but only in circumstances where the acquisition of the Company's own shares is necessary to prevent imminent harm to the Company as such circumstances are described more fully in the Articles.

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That for Luxembourg Law purposes, the shares bought back in terms of this Resolution be cancelled by the Company or held as treasury shares, and if such shares are cancelled, any one director (or such directors duly elected attorney) be hereby appointed to appear before a public notary in Luxembourg for the purposes of amending the Articles to reflect the changes resulting from any cancellation of any shares bought back in accordance with the terms of this resolution and for the purposes of recording any transactions effected pursuant to this resolution in or several notarial deeds.

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 12.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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## **PROPOSAL 13 APPROVAL OF FISCAL YEAR**

### **General**

Under Luxembourg law, the shareholders must approve Flagstone (Luxembourg) 's fiscal year.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that shareholders approve our fiscal year to run from January 1 to December 31 of each calendar year.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

### **Text of the Shareholder Resolution**

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, for statutory purposes the accounting year of the Company will be from 1<sup>st</sup> January of each year to 31<sup>st</sup> December of the same year;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 13.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# **PROPOSAL 14 APPROVAL OF ANNUAL GENERAL MEETING**

## **General**

Under Luxembourg law, the shareholders of a corporation must approve the date and time of the Company's annual general meeting.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that shareholders approve the annual general meeting date beginning in 2011 to be held on the second Thursday of the month of May at 2:00 p.m. (CET) of each year and if such day is a legal holiday in Luxembourg, on the next following normal business day.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## **Text of the Shareholder Resolution**

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon recommendation of the Board and effective upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date for any annual general meeting for 2011 or thereafter, the annual general meeting of the shareholders of the Company shall be held on the second Thursday of the month of May at 2:00 p.m. (CET) of each year and if such day is a legal holiday in Luxembourg, on the next following normal business day;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 14.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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**PROPOSAL 15 CONFIRMATION OF DIRECTORS**

**General**

In order to effect the Redomestication under Luxembourg law, the shareholders must confirm the appointment of the Company's directors, including the directors elected under Proposal 1. Our Articles will provide for a classified Board of Directors, divided into three (3) classes as nearly equal in size as possible. Each director will serve a three-year term.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that shareholders confirm all the directors serving as directors immediately prior to the Effective Date of the Redomestication as continuing directors of the Company after the Redomestication as members of the same the class as they were previously serving in.

The respective ages, business experience, directorships and committee memberships for the nominees are set out in Our Directors . All of the nominees currently serve as directors.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

**Text of the Shareholder Resolution**

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, upon recommendation of the Board and effective as of the Effective Date, the Board shall be composed of no fewer than ten (10) members or such number in excess thereof up to a maximum of twelve (12) members. The Directors elected to the Board shall be divided into three (3) classes as nearly equal as possible (Class A, Class B and Class C). The initial Class A Directors shall serve for a term expiring at the Annual General Meeting of the Shareholders in 2012; the initial Class B Directors shall serve for a term expiring at the Annual General Meeting of Shareholders to be held in 2011 and the initial Class C Directors shall serve for a term expiring at the Annual General Meeting of Shareholders to be held in 2013. Directors shall be elected or appointed, save for the initial appointments, for a full three-year term, as the case may be, to succeed those whose terms expire at such Annual General Meeting according to the Class of Director. Each Director shall hold office for the term for which he is elected or until his successor is elected or appointed or until his office is otherwise vacated. The following persons (or the applicable successor of any such person in place thereof) be and each of them hereby is appointed as a Director of the Company for a term ending at the time stated above for such Class of Director:

Name	Profession	Professional Address	Date of Birth	Place of Birth	Class A,B,C
Mark J. Byrne	Insurance	Crawford House, 23 Church Street, Hamilton HM 11, Bermuda	November 21, 1961	USA	A
Stewart Gross			August 29, 1959		A



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Investment Asset Management	375 Park Avenue, 11th Floor New York, NY 10152 USA Wyn gates, Penn ymead Drive, East Horsley, Surrey KT24 5AH United Kingdom		New York, NY, USA	
Anthony P. Latham Insurance		April 23, 1950	Dorking, United Kingdom	A

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Name	Profession	Professional Address	Date of Birth	Place of Birth	Class A,B,C
E. Daniel James	Investment Asset Management	399 Park Ave, 15th Floor New York, NY 10022 USA	January 27, 1965	Bronx, NY, USA	A
Gary Black	Insurance	Crawford House, 23 Church Street, Hamilton HM 11, Bermuda	October 5, 1945	Poplar Bluff, MO, USA	B
Thomas Dickson	Investment Advisory	311 California Street, Suite 750 San Francisco, CA 94104 USA	October 22, 1962	New York, NY, USA	B
Jan Spiering	Accounting	The Kitson Group of Companies, The Kitson Building, 5 Reid Street, Hamilton HM11 Bermuda	November 20, 1951	Jakarta, Indonesia	B
Wray T. Thorn	Investment Asset Management	One Bryant Park, 38 <sup>th</sup> Floor New York, NY 10036 USA	June 1, 1971	St. Petersburg, FL, USA	B
David A. Brown	Insurance	Crawford House, 23 Church Street, Hamilton HM 11, Bermuda	October 12, 1957	Warrington, United Kingdom	C
Stephen Coley	Consulting	Crawford House, 23 Church Street, Hamilton HM 11, Bermuda	March 1, 1945	California, USA	C
Dr. Anthony Knap	Ocean Sciences	Bermuda Institute of Ocean Sciences, 17 Biological Station, Ferry Reach, St. George s GE 01 Bermuda	November 7, 1949	Ruislip, United Kingdom	C
Peter F. Watson	Professional Liability Insurance	12 Between the Walls, Pembroke HM 06 Bermuda	September 24, 1942	Montreal, Canada	C

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 15.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# PROPOSAL 16 CONFIRMATION OF INDEPENDENT AUDITOR

In order to effect the Redomestication under Luxembourg law, the shareholders must separately confirm Deloitte & Touche as Flagstone (Luxembourg) s independent auditor of its consolidated accounts after the Redomestication. See Proposal 2 Auditor s Proposal for a discussion of the fees billed to us by Deloitte & Touche during the 2009 fiscal year.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that the shareholders confirm Deloitte & Touche as the independent auditor of Flagstone (Luxembourg) after the Redomestication. The independent auditor will be responsible for auditing the consolidated accounts of the Company.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## Text of the Shareholder Resolution

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, effective immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, the mandate of Deloitte & Touche as the current independent auditors of the Company is terminated and Deloitte & Touche, is appointed as the independent auditor of the Company for the period starting on the date of the recording of the present resolution by notarial deed in Luxembourg and ending at the general meeting of shareholders approving the financial statements of the Company for the year ending 31<sup>st</sup> December 2010;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 16.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# PROPOSAL 17 ELECTION OF STATUTORY AUDITOR

## General

For SEC reporting purposes, we prepare periodic consolidated financial statements for the Company together with its consolidated subsidiaries in U.S. dollars pursuant to U.S. GAAP and have our annual financial statements audited by an independent auditor. After the Redomestication, Luxembourg law will require that we also annually produce financial statements for the Company on a stand-alone basis pursuant to Lux GAAP and have the Company audited by a statutory auditor.

Under Luxembourg law, our shareholders must elect a firm to audit Flagstone (Luxembourg) and its statutory financial statements. In the event the Luxembourg Organizational Proposals are approved and the Redomestication is effective, our Board of Directors has recommended that Deloitte S.A. be elected as Flagstone (Luxembourg) s statutory auditor.

If the Redomestication is approved, the election of Deloitte S.A. as Flagstone (Luxembourg) s statutory auditor for 2010 requires the affirmative vote of a majority of the votes present at the Annual General Meeting. The election of Deloitte S.A. is subject to, and effective only upon, the effectiveness of our discontinuance from Bermuda and continuance to Luxembourg on the Effective Date of the Redomestication.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that the shareholders confirm Deloitte S.A. as the statutory auditor of the Company after the Redomestication.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## Text of the Shareholder Resolution

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, effective immediately upon the Redomestication becoming effective under the laws of Luxembourg on the Effective Date, Deloitte S.A. is appointed as the statutory auditor of the Company for the period starting on the date of the recording of the present resolution by notarial deed in Luxembourg and ending at the general meeting of shareholders approving the statutory financial statements of the Company for the year ending 31<sup>st</sup> December 2010;

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 17.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval

of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.

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# PROPOSAL 18 ACKNOWLEDGEMENT OF AUDITORS REPORT

## General

At the Annual General Meeting we will present for acknowledgement by the shareholders a report (the Luxembourg Auditors Report ) prepared by a reputable public accounting firm. The Luxembourg Auditors Report will reflect the net asset value of the Company on a stand-alone basis shortly before the Redomestication. Because Luxembourg law requires that the Luxembourg Auditors report reflect as nearly as possible the net asset value at the time of Redomestication, the Luxembourg Auditors Report will not be prepared until just shortly before the Annual General Meeting.

On February 26, 2010, our Board of Directors adopted a resolution declaring it advisable that the shareholders acknowledge the Luxembourg Auditors Report to be presented at the Annual General Meeting.

Our Board of Directors directed that this resolution be submitted for consideration by our shareholders at the Annual General Meeting. As required under our Bye-Laws, we are conditioning approval of this proposal on the acknowledgment of a majority of our shares present and voting at the meeting, whether in person or by proxy.

## Text of the Shareholder Resolution

The Resolution approving the foregoing is as follows:

Now, therefore, it is hereby RESOLVED THAT, the Auditors Report, the conclusion of which reads as set forth below, (the blanks to be filled in at the Annual General Meeting) be and is hereby acknowledged:

Based on the verification procedures applied as described above, nothing has come to our attention that causes us to believe that the net asset value of the Company, as calculated on the basis of the pro forma balance sheet, is not at least equal to the total amount of the Shareholders equity of the Company (including the share capital and the accumulated reserves) amounting to USD [ ];

\* \* \*

This Shareholder Resolution will not be presented to the Annual General Meeting if Proposal 4 Approval of the Redomestication is not approved by the requisite vote of our shareholders. If this proposal is not approved by the shareholders, we will not effect the Redomestication and will not proceed with the Luxembourg Organizational Proposals.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF PROPOSAL 18.** Proxies will be so voted unless shareholders specify otherwise in their proxies. As required under our Bye-Laws, the approval of a majority of our shares present and voting at the meeting, whether in person or by proxy, is required for approval of this proposal.





TABLE OF CONTENTS**OUR DIRECTORS**

The table below sets forth the names, ages and positions of the current directors of the Company:

Name	Age	Positions
Mark J. Byrne	48	Chairman of the Board of Directors
David A. Brown	52	Chief Executive Officer, Deputy Chairman and Director
Gary Black	64	Director
Stephen Coley	65	Director
Thomas Dickson	47	Director
Stewart Gross	50	Director
E. Daniel James	45	Director
Anthony P. Latham	59	Director
Dr. Anthony Knap	60	Director
Jan Spiering	58	Director
Wray T. Thorn	38	Director
Peter F. Watson	67	Director

The Board of Directors consists of twelve (12) directors and is divided into three equal classes (A, B and C). At each Annual General Meeting, certain directors shall be elected or appointed for a full three-year term to succeed those whose terms expire at such meeting. Each director shall hold office for the term for which he is elected or until his successor is elected or appointed or until his office is otherwise vacated.

### **Class C Directors with terms expiring at the 2010 Annual General Meeting**

David Brown has served as Chief Executive Officer of Flagstone since October 2005. Mr. Brown is also a director of Island Heritage, an indirect majority-owned subsidiary of the Company and Haverford. From September 2003 until October 2005, Mr. Brown served as the Chief Executive Officer of Haverford and as the Chief Operating Officer of Flagstone Capital Management, a wholly-owned subsidiary of the Company. Mr. Brown joined Centre Solutions (Bermuda) Limited ( Centre Solutions ) in 1993, and was its President and Chief Executive Officer at the time of his retirement in 1998. Prior to joining Centre Solutions, Mr. Brown was a Partner with Ernst & Young in Bermuda. Mr. Brown is the non-executive Chairman of the Bermuda Stock Exchange and a Director and Trustee for the Schroder Family Trusts. Mr. Brown led the team which analyzed, structured and negotiated the acquisition of Merastar Insurance Company in 2004. As Chairman of Merastar, Mr. Brown led the board's oversight of the successful turn-around strategy. At Centre Solutions, Mr. Brown was responsible for the global operations of a group with over \$7 billion in assets and offices in several countries. During his ten years with Ernst & Young, Mr. Brown specialized in insurance and was involved in the liquidation of numerous insurance companies in Bermuda, the U.K. and the U.S. Mr. Brown is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of both the Institute of Chartered Accountants of Bermuda and the Canadian Institute of Chartered Accountants. Mr. Brown's extensive experience, credentials and qualifications in the reinsurance industry, in corporate finance, strategic planning and international operations led the Company to believe that he should be proposed for re-election.

Stephen Coley has been a director since January 2006. Mr. Coley is a Director Emeritus of McKinsey & Company. During his more than 28 years of active client service with McKinsey, Mr. Coley led a wide variety of successful business strategy and organization efforts, principally serving technology and basic industrial clients, and led McKinsey's corporate growth practice. In addition, Mr. Coley served for 10 years on McKinsey's Investment Committee, which oversees employee profit sharing investments and partner alternative investment vehicles, and served as the committee's chairman from 2000 to 2004. Mr. Coley received an M.B.A., with distinction, from Harvard Business School, where he was named a Loeb Fellow in finance. Mr. Coley has a B.S. in electrical engineering from Duke University. Mr. Coley currently serves on the boards of directors of Dycom Industries and Underwriters Laboratories. He also serves on the Duke University Pratt School of Engineering Board of Visitors and as a Board Advisor to Havell Capital

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Management, a money management firm in New York City. Mr. Coley's extensive experience, credentials and qualifications in finance led the Company to believe that he should be proposed for re-election.

Dr. Anthony Knap, Ph.D., has been a director since December 2005. Dr. Knap serves as President, Director and Senior Research Scientist of the Bermuda Institute of Ocean Sciences, which he joined in 1978. In 1994, Dr. Knap founded the Risk Prediction Initiative, a partnership between the science community and the reinsurance industry providing essential information between natural disasters and changing climate. Dr. Knap's principal research interests are climate change, environmental science, atmosphere/ocean interactions, effects of chemicals on the marine environment as well as relationships between ocean health and human health. Dr. Knap holds a number of professorships, and serves on numerous expert panels and committees in his field. Dr. Knap received his Ph.D. in oceanography in 1978 from the University of Southampton, U.K. Mr. Knap's extensive background in environmental science, natural disasters and changing climate, as well as his credentials and qualifications in the reinsurance industry, led the Company to believe that he should be proposed for re-election.

Peter F. Watson was appointed director in September 2007. Mr. Watson was most recently a consultant to Attorney's Liability Assurance Society (Bermuda) Ltd. (ALAS), a mutual insurance company formed in Bermuda to provide professional liability insurance for large U.S. law firms. Mr. Watson served as President and Chief Executive Officer of ALAS from 2002 to December 31, 2007. Prior to joining ALAS in 1998, Mr. Watson's career was with Price Waterhouse, initially in London and Montreal and, since 1975, in Bermuda where he also served as senior partner of the firm. In his later years with Price Waterhouse, Mr. Watson was responsible for managing the worldwide professional indemnity program for the firm. Mr. Watson is a past president and a Fellow of the Institute of Chartered Accountants of Bermuda and a member of the Institute of Chartered Accountants of Ontario and of the Ordre des comptables agréés du Québec. Mr. Watson's extensive experience, credentials and qualifications in accounting and in the insurance industry led the Company to believe that he should be proposed for re-election.

## **Class B Directors with terms expiring at the 2011 Annual General Meeting**

Gary Black has been a director since June 2006. He was Chief Claims Executive and Senior Vice President of OneBeacon Insurance Company, a subsidiary of White Mountains Insurance Group, until his retirement in 2006. Prior to joining OneBeacon in January of 2004, Mr. Black spent 35 years with Fireman's Fund Insurance Companies where he was an Executive Vice President and President of the Claims Division. At Fireman's Fund his responsibilities included claims, corporate administration, general counsel, staff counsel and systems. He received his B.A. degree from Southwest Baptist University and is a Chartered Property Casualty Underwriter. Mr. Black's extensive experience, credentials and qualifications in the insurance industry led the Company to believe that he should serve as a director.

Thomas Dickson has been a director since December 2005. Mr. Dickson is Chief Executive Officer and Founder of Meetinghouse LLC, a private firm that provides investment advisory and management services and advice and support to management for underwriting, ratings, capital management and actuarial functions. Mr. Dickson currently serves as President and Chief Executive Officer of Haverford Investment Management (GP) Limited and Haverford Investment Advisors (Cayman) Limited (HCP), a private equity fund specializing in investments in insurance, reinsurance and specialty finance started in August 2005. Mr. Dickson served as President and Chief Executive Officer of The Centre Group and as its Chief Underwriting Officer. At the time, The Centre Group held assets in excess of \$9 billion and capital in excess of \$1 billion. He joined The Centre Group at the time of its establishment in 1988 and, prior to assuming responsibilities as Chief Underwriting Officer, served in a variety of business production and underwriting capacities in Bermuda and New York. Mr. Dickson holds a bachelor's degree with honors from

Stanford University and a Masters Degree from the Johns Hopkins School of Advanced International Studies. Mr. Dickson's extensive experience, credentials and qualifications in insurance, reinsurance and specialty finance led the Company to believe that he should serve as a director.

Jan Spiering has been a director since December 2005. From February 1979 to June 2002, Mr. Spiering served as a member of Ernst & Young, becoming the Chairman and Managing Partner of Ernst & Young Bermuda. During his tenure at Ernst & Young, Mr. Spiering was a member of the firm's Global Advisory Counsel, founding member of the International Investment Committee, and was Chairman of the firm's

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Offshore Fund's Group. He retired from Ernst & Young in 2002, and currently serves on the board of directors for WP Stewart & Co Ltd. and various private companies. Mr. Spiering is a Fellow of the Institute of Chartered Accountants in England & Wales and the Institute of Chartered Accountants of Bermuda and is a Member of the Canadian Institute of Chartered Accountants. Mr. Spiering's extensive experience, credentials and qualifications in accounting and corporate finance led the Company to believe that he should serve as a director.

Wray T. Thorn has been a director since October 2006. Mr. Thorn is a Senior Managing Director at Marathon Asset Management, LP, a global alternative investment and asset management company, where he has worked since 2005. Mr. Thorn is a senior member of the investment management team responsible for identifying, evaluating, structuring and managing private debt and equity investments for Marathon's family of investment funds. Mr. Thorn has spent the majority of his career identifying, financing and investing in private equity transactions, including management buyout transactions, acquisition and expansion strategies, growth programs, shareholder transitions and financial restructurings. Prior to joining Marathon, Mr. Thorn was a Director with Fox Paine & Company, LLC, and had also been a Principal and founding member of Dubilier & Company, LLC. Mr. Thorn began his career in the financial analyst program at Chemical Bank, where he worked in the acquisition finance group, arranging and structuring senior and subordinated debt financings for the firm's private equity clients. Mr. Thorn is a graduate of Harvard University with an A.B. in Government, cum laude. Mr. Thorn's extensive experience, credentials and qualifications in corporate finance led the Company to believe that he should serve as a director.

## **Class A Directors with terms expiring at the 2012 Annual General Meeting**

Mark J. Byrne has been our Chairman since October 2005. Mr. Byrne also serves as Chairman of Haverford, an affiliate of the Company due to common ownership (see Certain Relationships and Related Transactions), and Chairman of Island Heritage Holdings Ltd. (Island Heritage), an indirect majority-owned subsidiary of the Company. Mr. Byrne founded Flagstone Capital Management (Bermuda) Limited (formerly known as West End Capital Management (Bermuda) Limited and referred to herein as Flagstone Capital Management), a wholly-owned subsidiary of the Company, in 1998. Prior to starting Flagstone Capital Management, Mr. Byrne served as Managing Director at Credit Suisse First Boston, responsible for Global Fixed Income Arbitrage in London and Tokyo. Mr. Byrne also held management positions at PIMCO and Salomon Brothers and has 20 years experience in the fixed income and derivative business. Mr. Byrne has invested at early stages in several insurance companies and has served on the boards of directors of several insurance companies, including three public companies: White Mountains Insurance Group Ltd., Terra Nova Bermuda Holding Ltd. and Markel Corp. He holds a Bachelors degree from Dartmouth College and an M.B.A. from the Tuck School of Business at Dartmouth. Mr. Byrne's extensive experience, credentials and qualifications in the reinsurance industry, in corporate finance, strategic planning and international operations led the Company to believe that he should serve as a director.

Stewart Gross has been a director since January 2006. Mr. Gross is a Managing Director and member of the Investment Committee of Lightyear Capital, a private equity firm investing in companies in the financial services industry. Prior to joining Lightyear in April 2005, Mr. Gross spent 17 years at Warburg Pincus where he was a Managing Director and member of the Executive Management Group. Mr. Gross has been a primary investor in many highly successful companies, including RenaissanceRe Holdings Ltd. Mr. Gross is currently a director of SkillSoft Corporation, BAE Systems and Yodlee (a private company). Mr. Gross received an A.B., magna cum laude, from Harvard College and an M.B.A. from Columbia Business School where he was elected to Beta Gamma Sigma. Mr. Gross's extensive experience, credentials and qualifications in corporate finance and the financial services industry led the Company to believe that he should serve as a director.

E. Daniel James has been a director since December 2005. Mr. James is a founding partner and head of North America of Trilantic Capital Partners. He joined Trilantic Capital Partners in 1995. Prior to joining Trilantic Capital Partners, he was a member of the Lehman Brothers M&A Group, based in London and New York. In 1988, Mr. James joined Lehman Brothers Financial Institutions Group. He is currently a director of Blount International, Inc. and Phoenix Brands LLC. He holds a B.A. in chemistry, with honors, from the College of the Holy Cross. Mr. James extensive experience, credentials and qualifications in the financial services industry led the Company to believe that he should serve as a director.

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Anthony P. Latham has been a director since November 2008. Mr. Latham currently serves as Chairman of the board of directors of Pool Reinsurance Limited, the U.K. government-backed terrorism damage reinsurer. He also serves as the Chairman of the board of directors of Pool Reinsurance (Nuclear) Limited. He is Deputy Chairman of the board of directors of Codan A/S and Codan Forsikring A/S in Denmark where he chairs the audit committee. He is also a Director of Realty Insurance Limited, of Ecclesiastical Insurance Group plc and Ecclesiastical Insurance Office plc as well as a Director of Torus Insurance (U.K.) Limited. Mr. Latham is a former member of the Group Executive of RSA Group plc where he held a variety of senior executive roles over a period of 17 years. RSA Group plc is an international insurance group, listed on the London Stock Exchange. Prior to his employment at RSA Group plc, Mr. Latham worked for an international insurance brokerage firm for 19 years. Mr. Latham's extensive experience, credentials and qualifications in the reinsurance industry led the Company to believe that he should serve as a director.

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TABLE OF CONTENTS**EXECUTIVE OFFICERS**

Name	Age	Positions
Mark J. Byrne <sup>(1)</sup>	48	Chairman of the Board of Directors
David A. Brown <sup>(2)</sup>	52	Chief Executive Officer, Deputy Chairman and Director
Patrick Boisvert	36	Chief Financial Officer
William Fawcett	47	General Counsel
David Flitman	39	Chief Actuary
Venkateswara Rao Mandava	48	Chief Information Officer
Gary Prestia	48	Chief Underwriting Officer North America
Brenton Slade	39	Chief Marketing Officer
Guy Swayne	46	Chief Underwriting Officer International
Frédéric Traimond	41	Chief Operating Officer

(1) See biography of Mr. Byrne under Our Directors .

(2) See biography for Mr. Brown under Our Directors .

Patrick Boisvert was appointed as Chief Financial Officer in November 2008. Prior to his appointment as Chief Financial Officer, Mr. Boisvert had previously served various roles within the Flagstone Group: CFO and Group Finance Director of Flagstone Reassurance Suisse SA, a subsidiary of the Company, since July 2008, and Group Chief Accounting Officer and Treasurer from February 2006 until July 2008. From February 2005 to February 2006, he was CFO of Flagstone Capital Management which was acquired by the Company in March 2006, where he had responsibility for all finance aspects of a hedge fund manager with approximately \$1 billion dollars under management. Prior to joining Flagstone, he was Vice President Fund Administration for BISYS Hedge Fund Services (now part of Citigroup). Mr. Boisvert began his career with Ernst & Young in Montreal, Canada. He holds a Bachelor in Accounting from Université du Québec a Trois-Rivieres, is a member of the C.F.A. Institute and a member of the Canadian Institute of Chartered Accountants.

William Fawcett has served as our General Counsel since June 2008. A US and UK qualified attorney with over twenty years of international experience, Mr. Fawcett is responsible for the oversight and management of legal functions throughout the Flagstone Group. Prior to joining Flagstone, he served as the Chief Legal Officer of AXA's North American P&C operations. He holds a Bachelor of Arts degree from Colgate University and a Juris Doctor from the University of the Pacific, McGeorge School of Law.

David Flitman joined Flagstone as Chief Actuary in early 2006. Mr. Flitman has worked in the reinsurance industry for over 15 years offering a depth of experience in risk management. Prior to joining us he was Chief Actuary and Senior Vice President for ACE Tempest Reinsurance where he managed Actuarial, Claims, Development, and Infrastructure. He began his career in 1993 as an Actuarial Analyst with Insurance Services Office. Moving on to WR Berkley Group where he became Assistant Vice President and Chief Actuary for Berkley Mid-Atlantic Group managing the department responsible for Actuarial, Information Management, and Reporting and Regulatory Filing. Mr. Flitman also worked at XL Reinsurance America as an Assistant Vice President and Senior Pricing Actuary where he priced all lines of Property and Casualty. Mr. Flitman earned his Bachelor's of Science from St. John School of Actuarial Science, Risk Management, and Insurance in New York. He is an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, and a Fellow of the Casualty Actuarial Society.

Venkateswara Rao Mandava joined Flagstone Capital Management in April 2004. He is currently the Group Chief Information Officer and also has a primary responsibility for our India operations. Over the past 25 years, Mr.



Mandava held multi-disciplinary roles between Research, Analytics & Development, Technology Management, Fixed Income Trading and Investment Management at various organizations globally, including Vanderbilt, Credit Suisse, Barclays Capital, E\*Trade, and American Century. Mr. Mandava received a Ph.D. in Computer Science from Vanderbilt University, Nashville, Tennessee.

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Gary Prestia has served as our Chief Underwriting Officer-North America since December 2005. Mr. Prestia has more than 25 years experience in the insurance and reinsurance industry in senior underwriting and executive management positions successfully navigating across the underwriting cycles. From 1998 through 2004, Mr. Prestia served as an executive officer of Converium AG (Converium), becoming President of Converium North America, with responsibility for all legal entities and staff in the U.S. and Canada. As Senior Vice President and Chief Underwriting Officer of Converium, he was responsible for property catastrophe, property non-catastrophe, motor, marine and third-party liability (excluding professional liability and workers compensation). In early 2005, Mr. Prestia joined Alea North America as Chief Executive Officer of the North American Reinsurance Division. Prior to 1998, Mr. Prestia held senior underwriting positions at Transatlantic Re. Mr. Prestia received his CPCU and ARE professional designations from the American Institute for Chartered Property and Casualty Underwriters and Bachelor of Business Administration undergraduate degree and graduate work at St. Johns University School of Risk Management and Insurance in New York.

Brenton Slade is the Chief Marketing Officer of Flagstone, responsible for investor relations, capital market initiatives, and firm marketing. Mr. Slade has been at Flagstone since its founding in 2005 assisting in the formation. Prior to Flagstone, Mr. Slade worked with several members of the Executive Management at West End Capital Management in the role of Director of Business Development, beginning in 2003. Before joining West End Capital, Mr. Slade was a Vice President at Agora Capital (an XL Capital affiliate). Mr. Slade has a degree in Economics and Politics from the University of Western Ontario.

Guy Swayne has served as our Chief Underwriting Officer-International since December 2005. Mr. Swayne has extensive experience in the industry worldwide and brings a depth of expertise in underwriting, business development, and leadership to the Company. Prior to joining the Company, Mr. Swayne was Chief Underwriting Officer International with ACE Tempest Reinsurance Ltd. where he managed the International Catastrophe underwriting unit. Mr. Swayne joined Ace in January 2000 and has held senior positions including Executive Vice President, ACE Financial Solutions International (AFSI) Bermuda where he managed AFSI offices in London, Dublin, and Melbourne. In London he became President of ACE Financial Solutions Europe (AFSE) where he established and developed the European office reporting directly to the President and Chief Executive Officer in Bermuda. Mr. Swayne was instrumental in many key elements associated with a start-up operation, including business plan and budget development, hiring underwriting teams, business production and program completion.

Frédéric Traimond was appointed Group Chief Operating Officer of the Company on November 14, 2008. Prior to his appointment as Group COO, since August 2007, Mr. Traimond had served as COO of Flagstone Reassurance Suisse SA. Mr. Traimond is also a member of the Boards of Directors of various entities within the Flagstone Group. Before joining Flagstone Group, Mr. Traimond worked for 15 years for AXA Group, primarily in Switzerland. His last position was Chief Risk Officer of AXA-Winterthur, where most notably he was responsible for the Economic Capital studies, including Swiss Solvency Test, Asset-Liability Management, reinsurance strategy and reserve review. For the 8 years preceding holding that position, he was the chief management officer for the Non-Life subsidiary of AXA Switzerland. Mr. Traimond is a full member of the IAF (Institut des Actuaire Français) and SAA (Swiss Association of Actuaries).

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## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

We describe below the transactions we entered into with parties that are related to our Company during the year ended December 31, 2009. We believe that each of the transactions described below was on terms no less favorable to us than we could have obtained from unrelated parties.

### **Policies and Procedures for Related Party Transactions**

The Company adopted a written Code of Conduct and Ethics on June 16, 2006 which specifies the Company's policy relating to conflicts of interest. The Code of Conduct and Ethics defines a conflict of interest as any situation in which the private interest of any director, board observer or employee of the Company interferes in any way (or even appears to interfere) with the interests of the Company as a whole. Under the Code of Conduct and Ethics, an individual who becomes aware of a potential conflict of interest must report this conflict to the Chairman of the Audit Committee for consideration by the Audit Committee. The Audit Committee will determine whether a conflict of interest exists on a case-by-case basis and will memorialize its determinations and the reasons behind such determinations. The Audit Committee will ensure that the directors voting on an issue are informed, disinterested and independent with respect to that issue. If the Audit Committee determines that a conflict of interest exists, then the director, board observer or employee shall not participate, directly or indirectly, in the matter or activity that has given rise to such conflict of interest unless expressly approved by the Audit Committee. The Audit Committee Charter requires the Audit Committee to review and discuss with management the reasonableness of the price, terms and conditions for all related party transactions. The transaction described below has been reviewed by Audit Committee in accordance with this mandate.

On March 6, 2009, the Company entered into a Share Purchase Agreement with the Company's Chairman Mark Byrne to acquire 100% of the issued and outstanding common voting shares of IAL 7X Leasing Limited ( IAL 7X ) for a cash purchase price of \$10,000. IAL 7X owned, as its principal asset, a delivery slot for a Dassault Falcon 7X aircraft ( 7X Purchase Agreement ). Mr. Byrne and the Company agreed that upon delivery of the aircraft, the Company would either sell the aircraft or retain it as determined by the Board of Directors according to the Company's needs at that time. The parties further agreed that any gain on disposition or delivery would be split 85% to Mr. Byrne and 15% to the Company, and any loss would be borne 100% by Mr. Byrne. On July 29, 2009, the Company elected to sell the aircraft back to Dassault Falcon Jet Corp by terminating the 7X Purchase Agreement. In accordance with the agreement between Mr. Byrne and the Company, the Company paid Mr. Byrne \$0.3 million, representing 85% of the gain on disposition of \$0.35 million.

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# COMPENSATION DISCUSSION AND ANALYSIS

## Overview

The named executive officers, Messrs. Brown, Boisvert, Flitman, Prestia and Swayne, are compensated according to the terms of their employment contracts, which are described below. The Compensation Committee of the Board of Directors has determined that these five officers are the Named Executive Officers .

Our executive compensation programs are designed to encourage our executive officers to think and act like, and over time to themselves become, shareholders of the Company. We want our executive officers to take appropriate risks with our capital in order to generate returns for our shareholders but at the same time to share the downside risk if those risks cause poor performance or even loss. Through our performance management and rewards processes and programs, we endeavor to create an environment that fosters and rewards:

- finding and assuming attractively priced risk;
- managing our overall risk exposure to mitigate loss;
- ensuring we have optimal capital to run our business;
- working hard and cooperating with colleagues; and
- providing excellent service to clients and colleagues.

We foster an attitude of shared risk-taking between our executive officers and our shareholders by providing a significant portion of our executive officers' incentive compensation through equity-based awards. We emphasize at risk pay tied to performance as the majority of total compensation potential. We evaluate and reward our executive officers based on dynamic factors such as whether they are willing and able to challenge existing processes, adapt to sudden or frequent changes in priorities and capitalize on windows of opportunity .

Our Compensation Committee reviews and approves all of our compensation policies.

## Executive Compensation Policy

### Overview