

WESTERN ASSET PREMIER BOND FUND  
Form N-CSR  
February 29, 2012

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

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-10603

Western Asset Premier Bond Fund  
(Exact name of registrant as specified in charter)

620 Eighth Avenue, New York, NY  
(Address of principal executive offices)

10018  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902  
(Name and address of agent for service)

Registrant's telephone number, including area code: (888) 777-0102

Date of fiscal year end: December 31

Date of reporting period: December 31, 2011

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ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

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December 31, 2011

**Annual Report**

**Western Asset Premier Bond Fund  
(WEA)**

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
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II Western Asset Premier Bond Fund

**Fund objective**

The Fund's investment objective is to provide current income and capital appreciation.

**What's inside**

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**Letter from the president**

**Dear Shareholder,**

We are pleased to provide the annual report of Western Asset Premier Bond Fund for the twelve-month reporting period ended December 31, 2011. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, [www.leggmason.com/cef](http://www.leggmason.com/cef). Here you can gain immediate access to market and investment information, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

President

January 27, 2012



## Investment commentary

### Economic review

Economic growth in the U.S. accelerated over the twelve months ended December 31, 2011. However, the pace of the expansion was less robust than during most other periods exiting a severe recession. U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was 0.4% and 1.3% in the first and second quarters of 2011, respectively. Third quarter GDP growth then rose to 1.8%. The economy then gathered further momentum late in the year, as the Commerce Department's initial estimate for fourth quarter GDP growth was 2.8% – the fastest pace since the second quarter of 2010. This was attributed, in part, to higher consumer spending, which rose 2.0% in the fourth quarter, versus 1.7% and 0.7% gains in the third and second quarters, respectively.

Two factors holding back the economy were the weak job market and continued strains in the housing market. While there was some improvement in early 2011 and late in the reporting period, unemployment remained elevated. When 2011 began, unemployment, as reported by the U.S. Department of Labor, was 9.4%. After dipping below 9.0% in March 2011 (to 8.9%), unemployment moved back to 9.0% in April. Unemployment stayed above 9.0% over the next five months before declining to 8.9% in October. Unemployment then fell to 8.6% in November and 8.5% in December, the latter being the lowest rate since February 2009. The housing market showed some encouraging signs, although home prices still appear to be searching for a bottom. Looking back, existing-home sales moved somewhat higher in January 2011, according to the National Association of Realtors (NAR). Existing-home sales then fluctuated over the next eight months before rising during each of the last three months of the year. In addition, the year ended with the lowest inventory of unsold homes since April 2006. However, existing-home prices remained weak versus a year ago, with the NAR reporting that the median existing-home price for all housing types was \$164,500 in December 2011, down 2.5% from December 2010.

While the manufacturing sector continued to expand, it experienced a soft patch during a portion of the reporting period. Based on the Institute for Supply Management's PMI (PMI) <sup>ii</sup>, in February 2011, the manufacturing sector expanded at its fastest pace since May 2004, with a reading of 61.4 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). The PMI then generally moderated over the next several months and was 50.6 in August 2011, its lowest reading in two years. However, the manufacturing sector gained some momentum late in the period and ended December at 53.9, its highest reading in the last six months.

The Federal Reserve Board (Fed) <sup>iii</sup> took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate <sup>iv</sup> at a historically low range between zero and 0.25%. In addition, in August 2011, the Fed declared its intention to keep the federal funds rate steady until mid-2013. Then, in September 2011, the Fed announced its intention to purchase \$400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012 (often referred to as Operation Twist). At its

IV Western Asset Premier Bond Fund

**Investment commentary (continued)**

meeting in December, the Fed potentially opened the door to another round of quantitative easing in 2012, saying it is prepared to employ its tools to promote a stronger economic recovery in a context of price stability. Finally, in January 2012 (after the reporting period ended), the Fed extended the period it expects to keep rates on hold, saying economic conditions including low rates of resource utilization and a subdued outlook for inflation over the medium run are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

R. Jay Gerken, CFA

President

January 27, 2012

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.





**Fund overview****Q. What is the Fund's investment strategy?**

**A.** The Fund's investment objective is to provide current income and capital appreciation by investing primarily in a diversified portfolio of investment grade bonds. Under normal market conditions, the Fund expects to invest substantially all (but at least 80%) of its total managed assets in bonds, including corporate bonds, U.S. government and agency securities and mortgage-related securities, and at least 65% of its total managed assets in bonds that, at the time of purchase, are of investment grade quality. The Fund may invest up to 35% of its total managed assets in bonds of below investment grade quality at the time of purchase. The Fund may invest in securities or instruments other than bonds (including preferred stock) and may invest up to 10% of its total managed assets in instruments denominated in currencies other than the U.S. dollar. The Fund expects that the average effective duration of its portfolio will range between 3.5 and seven years, although this target duration may change from time to time.

At Western Asset Management Company (Western Asset), the Fund's adviser, we utilize a fixed-income team approach, with decisions derived from interaction among various investment management sector specialists. The sector teams are comprised of Western Asset's senior portfolio managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The portfolio managers responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, Ronald D. Mass and Michael C. Buchanan. Effective May 1, 2011, S. Kenneth Leech no longer serves as a portfolio manager for this Fund. While Mr. Leech continues to help shape Western Asset's overall investment strategy, his day-to-day role is becoming more concentrated on global portfolios. To reflect this global focus, he will continue to serve as a portfolio manager of the global funds, but not of the non-global funds.

**Q. What were the overall market conditions during the Fund's reporting period?**

**A.** Given changing perceptions for the economy and a number of macro issues, the performance of the spread sectors (non-Treasuries) fluctuated during the reporting period. Most spread sectors rallied during the first four months of the period as expectations for the economy were generally positive. While the spread sectors generally posted positive results in May, they underperformed equal-duration Treasuries. Risk aversion then increased from June through September given a host of disappointing economic data, a further escalation of the European sovereign debt crisis and the Standard & Poor's rating downgrade of U.S. sovereign debt. However, most spread sectors rallied in October given hopes of progress in Europe and some better-than-expected economic data. While risk aversion returned in November given an escalation of the European sovereign debt crisis, risk appetite returned in December as the economy appeared to gather some momentum heading into 2012.

Both short- and long-term Treasury yields fluctuated but, overall, moved

**Fund overview (cont d)**

lower during the reporting period. When the period began, two- and ten-year Treasury yields were 0.61% and 3.30%, respectively. Yields initially moved higher given expectations for stronger growth in 2011 and the potential for rising inflation. Two- and ten-year Treasury yields peaked at 0.87% and 3.75%, respectively, in February 2011. Yields then declined during much of the next seven months due to disappointing economic data and several flights to quality. Two-year Treasuries hit their low for the reporting period of 0.16% on September 19, 2011. Ten-year Treasuries reached their reporting period trough of 1.72% on September 22, 2011. Yields then moved higher in October as investor risk appetite increased. Two-year Treasury yields were then relatively stable during the last two months of the year, whereas ten-year Treasury yields declined in November and December. When the reporting period ended on December 31, 2011, two-year Treasury yields were 0.25% and ten-year Treasury yields were 1.89%.

All told, the Barclays Capital U.S. Aggregate Index<sup>iii</sup> returned 7.84% for the twelve months ended December 31, 2011. Comparatively, riskier fixed-income securities, including high-yield bonds, produced weaker results. Over the fiscal year, the Barclays Capital U.S. High Yield 2% Issuer Cap Index<sup>iv</sup> (the Index ) gained 4.96%. During this period, as measured by the Index, higher-quality BB-rated securities outperformed lower-quality CCC-rated bonds, as they returned 6.81% and 1.18%, respectively.

**Q. How did we respond to these changing market conditions?**

**A.** A number of adjustments were made to the Fund during the reporting period. We significantly reduced the Fund's allocation to high-yield bonds, while increasing its exposure to bank loans. In particular, we emphasized floating-rate bank loans that were senior in the capital structure. We modestly increased the Fund's allocations to asset-backed securities ( ABS ), most of which were government guaranteed student loan ABS. Our exposures to municipal bonds and cash were also increased. In contrast, we pared the Fund's allocation to investment grade corporate bonds.

During the reporting period, we utilized leverage in the Fund. This contributed to results given the market's positive results. We ended the period with leverage as a percentage of gross assets of roughly 32%.

During the reporting period, the Fund held credit default swaps to gain exposure to select individual high-yield companies, as well as the overall high-yield market and commercial mortgage-backed securities. The use of these instruments helped performance. Warrants, which were also used to manage our high-yield exposure, did not meaningfully impact results.

**Performance review**

For the twelve months ended December 31, 2011, Western Asset Premier Bond Fund returned 4.12% based on its net asset value ( NAV )<sup>v</sup> and 24.87% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmarks, the Barclays Capital U.S.

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Corporate High Yield Index<sup>vi</sup> and the Barclays Capital U.S. Credit Index<sup>vii</sup>, returned 4.98% and 8.35%, respectively, for the same period. The Lipper Corporate Debt Closed-End Funds BBB-Rated Category Average<sup>viii</sup> returned 6.47% over the same time

frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to common stock shareholders totaling \$1.49 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of December 31, 2011. **Past performance is no guarantee of future results.**

#### Performance Snapshot as of December 31, 2011

Price Per Share	12-Month Total Return*
\$13.05 (NAV)	4.12%
\$15.95 (Market Price)	24.87%

All figures represent past performance and are not a guarantee of future results.

\* Total returns are based on changes in NAV or market price, respectively.

Total return assumes the reinvestment of all distributions at NAV.

Total return assumes the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

#### Q. What were the leading contributors to performance?

A. The largest contributor to the Fund's absolute performance during the reporting period was its allocation to investment grade corporate bonds. Individual holdings that were additive for performance were our positions in International Lease Finance Corp., AT&T and Comcast Corp.

Security selection in the ABS sector was also beneficial. Among our best performers were securities in the Manufacturing Housing sub-sector, including Merit Securities Corp. and FirstFed Corp. A number of the Fund's high-yield bond holdings contributed to performance. Adding the most value were Consol Energy and First Data Corp.

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The use of leverage added to the performance of the Fund during the reporting period.

### **Q. What were the leading detractors from performance?**

**A.** On an absolute performance basis, the Fund's allocation to non-agency mortgage-backed securities ( MBS ) underperformed relative to other sectors within the portfolio. Liquidity was often challenged given tepid investor demand amid continued concerns about the housing market. Additionally, there were fears that European financial institutions may need to sell their non-agency MBS holdings as they deleverage their balance sheets and shed non-core assets.

A number of the Fund's high-yield holdings were negative for results during the reporting period. General Motors and NewPage Corp. were among our largest high-yield detractors.

### **Looking for additional information?**

The Fund is traded under the symbol WEA and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XWEAX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.leggmason.com/cef](http://www.leggmason.com/cef).

In a continuing effort to provide information concerning the Fund, shareholders

**Fund overview (cont'd)**

may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in Western Asset Premier Bond Fund. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

January 17, 2012

**RISKS:** Bonds are subject to a variety of risks, including interest rate, credit and inflation risks. As interest rates rise, bond prices fall, reducing the value of a fixed-income investment's price. The Fund may invest in high-yield bonds, which are rated below investment grade and carry more risk than higher-rated securities. To the extent that the Fund invests in asset-backed, mortgage-backed or mortgage-related securities, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss. The Fund may invest, to a limited extent, in foreign securities, including emerging markets, which involve additional risks. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

Portfolio holdings and breakdowns are as of December 31, 2011 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 9 through 24 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund's top five sector holdings (as a percentage of net assets) as of December 31, 2011 were: Collateralized Mortgage Obligations (37.3%), Asset-Backed Securities (34.9%), Industrials (11.2%), Consumer Discretionary (9.3%) and Financials (8.1%). The Fund's portfolio composition is subject to change at any time.

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All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.



i Effective duration measures the expected sensitivity of market price to changes in interest rates, taking into account the effects of structural complexities. (For example, some bonds can be prepaid by the issuer.)

ii Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

iii The Barclays Capital U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage- and asset-backed issues, rated investment grade or higher, and having at least one year to maturity.

iv The Barclays Capital U.S. High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

v Net asset value ( NAV ) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total investments) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.

vi The Barclays Capital U.S. Corporate High Yield Index covers the universe of fixed-rate, non-investment grade debt, including corporate and non-corporate sectors. Pay-in-kind ( PIK ) bonds, Eurobonds and debt issues from countries designated as emerging markets are excluded, but Canadian and global bonds (SEC registered) of issuers in non-emerging market countries are included. Original issue zero coupon bonds, step-up coupon structures and 144-As are also included.

vii The Barclays Capital U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB- or higher).

viii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2011, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 26 funds in the Fund's Lipper category.

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**Fund at a glance (unaudited)**

**Investment breakdown (%) as a percent of total investments**

The bar graph above represents the Fund's portfolio as of December 31, 2011 and December 31, 2010 and does not include derivatives such as swap contracts. The Fund's portfolio is actively managed. As a result, the composition of its portfolio holdings and sectors is subject to change at any time.

**Spread duration (unaudited)****Economic Exposure December 31, 2011**

Spread duration measures the sensitivity to changes in spreads. The spread over Treasuries is the annual risk-premium demanded by investors to hold non-Treasury securities. Spread duration is quantified as the % change in price resulting from a 100 basis points change in spreads. For a security with positive spread duration, an increase in spreads would result in a price decline and a decline in spreads would result in a price increase. This chart highlights the market sector exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

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ABS	Asset-Backed Securities
BCI	Barclays Capital U.S. Credit Index
BL	Bank Loans
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage Backed Securities
WEA	Western Asset Premier Bond Fund

**Effective duration (unaudited)**

**Interest Rate Exposure December 31, 2011**

Effective duration measures the sensitivity to changes in relevant interest rates. Effective duration is quantified as the % change in price resulting from a 100 basis points change in interest rates. For a security with positive effective duration, an increase in interest rates would result in a price decline and a decline in interest rates would result in a price increase. This chart highlights the interest rate exposure of the Fund's sectors relative to the selected benchmark sectors as of the end of the reporting period.

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ABS	Asset-Backed Securities
BCI	Barclays Capital U.S. Credit Index
HY	High Yield
IG Credit	Investment Grade Credit
MBS	Mortgage Backed Securities
WEA	Western Asset Premier Bond Fund

**Schedule of investments**

December 31, 2011

**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Corporate Bonds &amp; Notes 47.1%</b>				
<b>Consumer Discretionary 6.7%</b>				
<b>Automobiles 2.4%</b>				
DaimlerChrysler NA Holding Corp., Notes	8.500%	1/18/31	1,000,000	\$ 1,398,202
DaimlerChrysler North America Holding Corp., Notes	7.300%	1/15/12	1,000,000	1,001,862
Ford Motor Credit Co., LLC, Senior Notes	7.500%	8/1/12	70,000	72,248
Ford Motor Credit Co., LLC, Senior Notes	12.000%	5/15/15	1,030,000	1,261,740
<b>Total Automobiles</b>				<b>3,734,052</b>
<b>Diversified Consumer Services 0.1%</b>				
Service Corp. International, Senior Notes	7.625%	10/1/18	5,000	5,562
Service Corp. International, Senior Notes	7.500%	4/1/27	60,000	57,600
<b>Total Diversified Consumer Services</b>				<b>63,162</b>
<b>Hotels, Restaurants &amp; Leisure 0.8%</b>				
Caesars Entertainment Operating Co. Inc., Senior Notes	10.750%	2/1/16	300,000	213,000
El Pollo Loco Inc., Secured Notes	17.000%	1/1/18	380,000	323,475(a)
Inn of the Mountain Gods Resort & Casino, Senior Secured Notes	8.750%	11/30/20	146,000	140,890(a)
Landry's Acquisition Co., Secured Notes	11.625%	12/1/15	20,000	21,050
Landry's Restaurants Inc., Senior Secured Notes	11.625%	12/1/15	110,000	115,775
Mohegan Tribal Gaming Authority, Senior Secured Notes	11.500%	11/1/17	170,000	156,825(a)
NCL Corp. Ltd., Senior Secured Notes	11.750%	11/15/16	170,000	195,500
Snoqualmie Entertainment Authority, Senior Secured Notes	4.179%	2/1/14	110,000	97,625(a)(b)
Station Casinos Inc., Senior Subordinated Notes	6.625%	3/15/18	100,000	0(c)(d)(e)(f)
<b>Total Hotels, Restaurants &amp; Leisure</b>				<b>1,264,140</b>
<b>Media 3.2%</b>				
CCH II LLC/CCH II Capital Corp., Senior Notes	13.500%	11/30/16	61,940	71,541
Cengage Learning Acquisitions Inc., Senior Notes	10.500%	1/15/15	270,000	193,725(a)
Comcast Corp.	5.900%	3/15/16	400,000	457,837
Comcast Corp., Notes	7.050%	3/15/33	1,000,000	1,263,823
DISH DBS Corp., Senior Notes	7.000%	10/1/13	600,000	640,500
DISH DBS Corp., Senior Notes	7.875%	9/1/19	385,000	435,050
EchoStar DBS Corp., Senior Notes	7.125%	2/1/16	120,000	129,300
News America Inc.	8.875%	4/26/23	400,000	526,368
Time Warner Inc., Senior Debentures	7.700%	5/1/32	980,000	1,278,591
<b>Total Media</b>				<b>4,996,735</b>
<b>Textiles, Apparel &amp; Luxury Goods 0.2%</b>				
Oxford Industries Inc., Senior Secured Notes	11.375%	7/15/15	255,000	279,225
<b>Total Consumer Discretionary</b>				<b>10,337,314</b>

See Notes to Financial Statements.

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**Schedule of investments (cont d)**

December 31, 2011

**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Consumer Staples 6.1%</b>				
<b>Food &amp; Staples Retailing 5.5%</b>				
CVS Corp., Pass-Through Trust	9.350%	1/10/23	1,050,000	\$ 1,110,690(a)
CVS Corp., Pass-Through Trust, Secured Bonds	5.789%	1/10/26	767,470	809,681(a)
CVS Corp., Pass-Through Trust, Secured Notes	6.943%	1/10/30	1,625,909	1,802,125
CVS Pass-Through Trust	7.507%	1/10/32	1,927,905	2,229,853(a)
CVS Pass-Through Trust, Secured Notes	5.880%	1/10/28	877,059	904,616
CVS Pass-Through Trust, Secured Notes	6.036%	12/10/28	758,587	789,454
Delhaize Group, Senior Notes	5.700%	10/1/40	235,000	241,244
Safeway Inc., Notes	5.800%	8/15/12	500,000	513,425
<b>Total Food &amp; Staples Retailing</b>				<b>8,401,088</b>
<b>Food Products 0.5%</b>				
Ahold Lease USA Inc., Pass-Through Certificates	8.620%	1/2/25	714,462	812,487(d)
<b>Tobacco 0.1%</b>				
Alliance One International Inc., Senior Notes	10.000%	7/15/16	160,000	144,000
<b>Total Consumer Staples</b>				<b>9,357,575</b>
<b>Energy 5.9%</b>				
<b>Energy Equipment &amp; Services 0.8%</b>				
Compagnie Generale de Geophysique-Veritas, Senior Notes	6.500%	6/1/21	750,000	727,500
Complete Production Services Inc., Senior Notes	8.000%	12/15/16	150,000	156,000
GulfMark Offshore Inc., Senior Subordinated Notes	7.750%	7/15/14	270,000	270,000
Hercules Offshore LLC, Senior Secured Notes	10.500%	10/15/17	155,000	150,737(a)
<b>Total Energy Equipment &amp; Services</b>				<b>1,304,237</b>
<b>Oil, Gas &amp; Consumable Fuels 5.1%</b>				
Anadarko Finance Co., Senior Notes	7.500%	5/1/31	570,000	689,632
Arch Coal Inc., Senior Notes	7.000%	6/15/19	750,000	765,000(a)
Berry Petroleum Co., Senior Notes	10.250%	6/1/14	160,000	181,000
Burlington Resources Finance Co.	7.400%	12/1/31	450,000	620,839
Chesapeake Energy Corp., Senior Notes	7.250%	12/15/18	300,000	331,500
Colorado Interstate Gas Co., Senior Notes	6.800%	11/15/15	150,000	172,189
CONSOL Energy Inc., Senior Notes	8.250%	4/1/20	440,000	486,200
Devon Energy Corp., Debentures	7.950%	4/15/32	310,000	443,670
El Paso Corp., Medium-Term Notes	7.800%	8/1/31	190,000	218,975
EXCO Resources Inc., Senior Notes	7.500%	9/15/18	500,000	472,500
Hess Corp., Notes	7.875%	10/1/29	350,000	470,216
Kinder Morgan Energy Partners LP, Senior Notes	7.125%	3/15/12	390,000	394,457
LUKOIL International Finance BV, Bonds	6.356%	6/7/17	340,000	345,100(a)
Plains Exploration & Production Co., Senior Notes	8.625%	10/15/19	125,000	137,344
Quicksilver Resources Inc., Senior Notes	11.750%	1/1/16	185,000	209,975

See Notes to Financial Statements.



**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b><i>Oil, Gas &amp; Consumable Fuels continued</i></b>				
Regency Energy Partners LP/Regency Energy Finance Corp., Senior Notes	6.500%	7/15/21	750,000	\$ 780,000
Teekay Corp., Senior Notes	8.500%	1/15/20	310,000	298,375
TNK-BP Finance SA, Senior Notes	7.875%	3/13/18	220,000	235,125(a)
Williams Cos. Inc., Debentures	7.500%	1/15/31	413,000	503,358
Williams Cos. Inc., Senior Notes	8.750%	3/15/32	39,000	51,100
<b>Total Oil, Gas &amp; Consumable Fuels</b>				<b>7,806,555</b>
<b>Total Energy</b>				<b>9,110,792</b>
<b>Financials 8.0%</b>				
<b>Capital Markets 0.6%</b>				
Goldman Sachs Group Inc., Senior Notes	6.600%	1/15/12	900,000	<b>901,188</b>
<b>Consumer Finance 1.8%</b>				
Ally Financial Inc., Senior Notes	8.000%	3/15/20	350,000	358,750
Ford Motor Credit Co., LLC, Senior Notes	8.000%	12/15/16	680,000	771,534
HSBC Finance Corp.	4.750%	7/15/13	1,670,000	1,705,309
<b>Total Consumer Finance</b>				<b>2,835,593</b>
<b>Diversified Financial Services 4.9%</b>				
Air 2 US, Notes	8.027%	10/1/19	2,339,552	2,152,388(a)
Citigroup Inc.	6.625%	6/15/32	1,000,000	927,427
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	1,380,000	1,421,400
JPMorgan Chase & Co., Subordinated Notes	5.125%	9/15/14	1,300,000	1,370,591
Liberty Media LLC	3.750%	2/15/30	1,860,000	953,250
Smurfit Kappa Funding PLC, Senior Subordinated Notes	7.750%	4/1/15	150,000	150,000
UFJ Finance Aruba AEC	6.750%	7/15/13	500,000	534,279
Unitymedia GmbH, Senior Secured Bonds	8.125%	12/1/17	100,000	105,625(a)
<b>Total Diversified Financial Services</b>				<b>7,614,960</b>
<b>Insurance 0.7%</b>				
XL Capital Ltd.	5.250%	9/15/14	1,000,000	<b>1,057,515</b>
<b>Total Financials</b>				<b>12,409,256</b>
<b>Health Care 1.0%</b>				
<b>Health Care Providers &amp; Services 1.0%</b>				
Community Health Systems Inc., Senior Notes	8.875%	7/15/15	200,000	206,500
HCA Inc., Debentures	7.500%	11/15/95	185,000	142,450
HCA Inc., Notes	6.375%	1/15/15	430,000	438,062
HCA Inc., Notes	7.690%	6/15/25	90,000	79,650
HCA Inc., Senior Notes	6.250%	2/15/13	85,000	86,700
HCA Inc., Senior Secured Notes	6.500%	2/15/20	310,000	321,625
Vanguard Health Holdings Co., II LLC, Senior Notes	8.000%	2/1/18	215,000	213,388
<b>Total Health Care</b>				<b>1,488,375</b>

See Notes to Financial Statements.

12 Western Asset Premier Bond Fund 2011 Annual Report

**Schedule of investments (cont d)**

December 31, 2011

**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Industrials 11.1%</b>				
<b>Aerospace &amp; Defense 0.5%</b>				
Boeing Co., Notes	6.125%	2/15/33	600,000	\$ 756,329
<b>Airlines 9.8%</b>				
America West Airlines Inc., Ambac Assurance Corp.	8.057%	7/2/20	2,224,781	2,180,285
Continental Airlines Inc.	7.160%	9/24/14	183,698	182,091
Continental Airlines Inc.	6.820%	5/1/18	913,728	932,002
Continental Airlines Inc., Pass-Through Certificates	6.900%	1/2/18	822,945	856,850
Continental Airlines Inc., Pass-Through Certificates	6.545%	2/2/19	1,090,437	1,135,363
Continental Airlines Inc., Pass-Through Certificates	6.703%	6/15/21	674,732	684,853
Continental Airlines Inc., Pass-Through Certificates, 2000-1 A-1	8.048%	11/1/20	522,656	559,869
DAE Aviation Holdings Inc., Senior Notes	11.250%	8/1/15	250,000	260,000(a)
Delta Air Lines Inc., Pass-Through Certificates, Secured Notes	8.021%	8/10/22	164,920	161,820
Delta Air Lines Inc., Senior Secured Notes	9.500%	9/15/14	59,000	60,770(a)
JetBlue Airways Corp., Pass-Through Certificates	0.907%	11/15/16	1,050,000	829,500(b)
Northwest Airlines Corp., Pass-Through Certificates	7.575%	9/1/20	477,027	497,300
Northwest Airlines Inc.	0.758%	2/6/15	2,485,709	2,342,780(b)(d)
US Airways Pass-Through Trust	6.850%	1/30/18	2,765,427	2,544,193
US Airways Pass-Through Trust, Secured Notes	7.125%	10/22/23	2,000,000	1,900,000
<b>Total Airlines</b>				<b>15,127,676</b>
<b>Building Products 0.0%</b>				
Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, step bond	0.000%	6/30/15	65,000	49,400(a)(f)
<b>Commercial Services &amp; Supplies 0.3%</b>				
Altegrity Inc., Senior Subordinated Notes	10.500%	11/1/15	310,000	279,000(a)
RSC Equipment Rental Inc./RSC Holdings III LLC, Senior Secured Notes	10.000%	7/15/17	170,000	198,050(a)
<b>Total Commercial Services &amp; Supplies</b>				<b>477,050</b>
<b>Road &amp; Rail 0.2%</b>				
Kansas City Southern de Mexico, Senior Notes	12.500%	4/1/16	111,000	128,760
RailAmerica Inc., Senior Secured Notes	9.250%	7/1/17	208,000	227,240
<b>Total Road &amp; Rail</b>				<b>356,000</b>
<b>Trading Companies &amp; Distributors 0.3%</b>				
Ashtead Capital Inc., Notes	9.000%	8/15/16	129,000	134,483(a)
H&E Equipment Services Inc., Senior Notes	8.375%	7/15/16	245,000	250,512
<b>Total Trading Companies &amp; Distributors</b>				<b>384,995</b>
<b>Total Industrials</b>				<b>17,151,450</b>

See Notes to Financial Statements.



## Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value	
<b>Information Technology 0.5%</b>					
<i>IT Services 0.4%</i>					
Electronic Data Systems Corp., Notes	7.450%	10/15/29	500,000	\$ 623,150	
<i>Semiconductors &amp; Semiconductor Equipment 0.1%</i>					
Freescall Semiconductor Inc., Senior Subordinated Notes	10.125%	12/15/16	80,000	84,200	
<b>Total Information Technology</b>				<b>707,350</b>	
<b>Materials 2.7%</b>					
<i>Chemicals 0.7%</i>					
Dow Chemical Co.	6.000%	10/1/12	1,000,000	1,038,521	
<i>Metals &amp; Mining 0.9%</i>					
Freeport-McMoRan Copper & Gold Inc., Senior Notes	8.375%	4/1/17	730,000	775,625	
Metals USA Inc., Senior Secured Notes	11.125%	12/1/15	445,000	462,244	
Vedanta Resources PLC, Senior Notes	8.750%	1/15/14	130,000	126,100(a)	
<b>Total Metals &amp; Mining</b>				<b>1,363,969</b>	
<i>Paper &amp; Forest Products 1.1%</i>					
Appleton Papers Inc., Senior Secured Notes	11.250%	12/15/15	235,000	211,500	
NewPage Corp., Senior Secured Notes	11.375%	12/31/14	595,000	439,556(c)	
PE Paper Escrow GmbH, Senior Secured Notes	12.000%	8/1/14	100,000	106,500(a)	
Weyerhaeuser Co., Debentures	7.375%	3/15/32	940,000	986,654	
<b>Total Paper &amp; Forest Products</b>				<b>1,744,210</b>	
<b>Total Materials</b>					<b>4,146,700</b>
<b>Telecommunication Services 1.5%</b>					
<i>Diversified Telecommunication Services 1.5%</i>					
AT&T Inc., Senior Notes	5.350%	9/1/40	170,000	191,233	
Cincinnati Bell Telephone Co., Senior Debentures	6.300%	12/1/28	25,000	19,000	
Deutsche Telekom International Finance BV	5.250%	7/22/13	600,000	630,542	
France Telecom SA, Notes	8.500%	3/1/31	600,000	855,553	
Intelsat Jackson Holdings Ltd., Senior Notes	9.500%	6/15/16	35,000	36,575	
Intelsat Jackson Holdings Ltd., Senior Notes	11.250%	6/15/16	340,000	357,212	
Qwest Communications International Inc., Senior Notes	7.500%	2/15/14	140,000	140,529	
Qwest Corp., Senior Notes	7.500%	10/1/14	150,000	165,213	
<b>Total Telecommunication Services</b>				<b>2,395,857</b>	
<b>Utilities 3.6%</b>					
<i>Electric Utilities 1.1%</i>					
Duke Energy Corp., Notes	6.250%	1/15/12	250,000	250,398	
FirstEnergy Corp., Notes	7.375%	11/15/31	1,020,000	1,254,372	
MidAmerican Energy Holdings Co., Senior Notes	5.875%	10/1/12	250,000	258,794	
<b>Total Electric Utilities</b>				<b>1,763,564</b>	

See Notes to Financial Statements.

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## Schedule of investments (cont d)

December 31, 2011

## Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>Gas Utilities 0.0%</b>				
Southern Natural Gas Co., Senior Notes	8.000%	3/1/32	20,000	\$ 24,737
<b>Independent Power Producers &amp; Energy Traders 2.0%</b>				
AES Corp., Senior Notes	9.750%	4/15/16	360,000	412,200
AES Corp., Senior Notes	8.000%	10/15/17	525,000	577,500
AES Corp., Senior Notes	8.000%	6/1/20	100,000	110,000
Calpine Corp., Senior Secured Notes	7.875%	1/15/23	700,000	752,500(a)
Edison Mission Energy, Senior Notes	7.750%	6/15/16	180,000	131,400
Edison Mission Energy, Senior Notes	7.625%	5/15/27	179,000	105,610
Energy Future Intermediate Holding Co. LLC/EFIH Finance Inc., Senior Secured Notes	10.000%	12/1/20	885,000	933,675
<b>Total Independent Power Producers &amp; Energy Traders</b>				<b>3,022,885</b>
<b>Multi-Utilities 0.5%</b>				
Dominion Resources Inc., Senior Notes	5.700%	9/17/12	770,000	795,817
<b>Total Utilities</b>				<b>5,607,003</b>
<b>Total Corporate Bonds &amp; Notes (Cost \$69,784,083)</b>				<b>72,711,672</b>
<b>Asset-Backed Securities 34.9%</b>				
ABFS Mortgage Loan Trust, 2002-3 M1	5.902%	9/15/33	1,121,581	780,730
Ameriquest Mortgage Securities Inc., 2004-R1 A1B	0.694%	2/25/34	629,663	491,203(b)
Ameriquest Mortgage Securities Inc., 2004-R9 M1	0.914%	10/25/34	400,000	339,629(b)
Amortizing Residential Collateral Trust, 2004-1 A5	0.794%	10/25/34	257,673	224,903(b)
Argent Securities Inc., 2003-W3 M1	1.419%	9/25/33	196,315	173,669(b)
Associates Manufactured Housing Pass Through Certificates, 1997-CLB2	8.900%	6/15/28	2,701,154	2,714,660(d)
Associates Manufactured Housing Pass-Through Certificates, 1997-1 B1	7.600%	6/15/28	344,928	371,107(b)(f)
Associates Manufactured Housing Pass-Through Certificates, 1997-2 B1	7.150%	3/15/28	1,290,488	1,301,388(b)
Bank of America Manufactured Housing Contract Trust, 1997-2M	6.900%	4/10/28	100,000	130,424(b)
Bayview Financial Acquisition Trust, 2007-B 2A1	0.594%	8/28/47	370,529	360,542(b)
Bayview Financial Asset Trust, 2004-SSRA A1	0.894%	12/25/39	346,185	266,562(a)(b)
Bayview Financial Asset Trust, 2007-SR1A A	0.744%	3/25/37	2,066,800	1,374,422(a)(b)
Bayview Financial Asset Trust, 2007-SR1A M1	1.094%	3/25/37	1,359,120	863,041(a)(b)
Bayview Financial Asset Trust, 2007-SR1A M3	1.444%	3/25/37	515,529	237,143(a)(b)
Bayview Financial Asset Trust, 2007-SR1A M4	1.794%	3/25/37	140,599	54,834(a)(b)
Bear Stearns Asset Backed Securities Trust, 2006-SD3 1P0, STRIPS, PO	0.000%	8/25/36	1,021,731	759,319
Bear Stearns Asset Backed Securities Trust, 2007-SD1 1A3A	6.500%	10/25/36	1,281,210	927,123
Centex Home Equity Loan Trust, 2003-B AF4	3.735%	2/25/32	349,152	304,209

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Citigroup Mortgage Loan Trust Inc., 2006-SHL1 A1	0.494%	11/25/45	182,210	127,530(a)(b)
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See Notes to Financial Statements.

## Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>Asset-Backed Securities continued</b>				
Contimortgage Home Equity Trust, 1997-4 B1F	7.330%	10/15/28	372,881	\$ 393,339
Countrywide Asset-Backed Certificates, 2004-3 3A3	0.674%	8/25/34	350,341	312,573(b)
Countrywide Asset-Backed Certificates, 2006-3 3A1	0.414%	6/25/36	786,544	502,221(b)
Countrywide Asset-Backed Certificates, 2007-13 2A1	1.194%	10/25/47	1,131,837	756,626(b)
Countrywide Asset-Backed Certificates, 2007-SEA2 1A1	1.294%	8/25/47	55,931	35,189(a)(b)(d)
Countrywide Home Equity Loan Trust, 2006-HW 2A1B	0.428%	11/15/36	1,258,921	896,874(b)
Credit-Based Asset Servicing & Securitization, 2005-CB4 M1	0.714%	8/25/35	2,000,000	1,346,630(b)
Credit-Based Asset Servicing & Securitization LLC, 2004-CB2 M1	1.074%	7/25/33	2,209,205	1,569,996(b)
Credit-Based Asset Servicing and Securitization LLC, 2005-RP1 M1	0.914%	1/25/35	780,000	705,731(a)(b)
Credit-Based Asset Servicing and Securitization LLC, 2007-SP1 A4	6.020%	12/25/37	900,000	725,115(a)
CS First Boston Mortgage Securities Corp., 2004-CF2 2A1	0.764%	5/25/44	27,768	26,969(a)(b)
Educap Student Loan Asset-Backed Notes, 2004-1 B	1.752%	6/25/38	1,500,000	1,320,000(b)(d)
Ellington Loan Acquisition Trust, 2007-1 A2A1	1.294%	5/26/37	139,547	126,486(a)(b)
EMC Mortgage Loan Trust, 2003-B A1	0.844%	11/25/41	82,893	73,077(a)(b)
Firstfed Corp. Manufactured Housing Contract, 1996-1 B	8.060%	10/15/22	1,631,384	1,456,894(a)
Fremont Home Loan Trust, 2006-2 2A2	0.404%	2/25/36	74,776	74,231(b)
Global Franchise Trust, 1998-1 A2	6.659%	10/6/20	13,319	13,270(a)
GMAC Mortgage Corp. Loan Trust, 2004-VF1 A1	1.044%	2/25/31	401,408	331,756(a)(b)
GMAC Mortgage Servicer Advance Funding Co., Ltd., 2011-1A A	3.720%	3/15/23	340,000	339,150(a)
Green Tree Financial Corp., 1992-2 B	9.150%	1/15/18	75,433	28,594
Green Tree Financial Corp., 1993-1 B	8.450%	4/15/18	120,844	98,337
Green Tree Home Improvement Loan Trust, 1996-D HIB2	8.000%	9/15/27	36,550	26,473
Green Tree Recreational Equipment & Consumer Trust, 1996-C CTFS	7.650%	10/15/17	7,640	7,012
Greenpoint Manufactured Housing, 1999-2 A2	3.785%	3/18/29	425,000	329,946(b)
Greenpoint Manufactured Housing, 1999-3 2A2	3.785%	6/19/29	125,000	96,515(b)
Greenpoint Manufactured Housing, 1999-4 A2	3.787%	2/20/30	125,000	97,058(b)
Greenpoint Manufactured Housing, 1999-5 A5	7.820%	12/15/29	706,000	764,799(b)
Greenpoint Manufactured Housing, 2000-4 A3	2.257%	8/21/31	800,000	621,513(b)
Greenpoint Manufactured Housing, 2000-6 A3	2.257%	11/22/31	475,000	394,461(b)
Greenpoint Manufactured Housing, 2001-2 IA2	3.748%	2/20/32	550,000	416,442(b)

See Notes to Financial Statements.

## Schedule of investments (cont d)

December 31, 2011

## Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>Asset-Backed Securities continued</b>				
Greenpoint Manufactured Housing, 2001-2 IIA2	3.778%	3/13/32	975,000	\$ 734,801(b)
GSAA Home Equity Trust, 2004-8 A3A	0.664%	9/25/34	224,474	199,038(b)
GSAA Home Equity Trust, 2006-19 A3A	0.534%	12/25/36	790,539	320,555(b)
GSAMP Trust, 2003-SEA2 A1	4.422%	7/25/33	1,927,179	1,627,551
GSRPM Mortgage Loan Trust, 2006-1 A1	0.594%	3/25/35	144,577	112,836(a)(b)
GSRPM Mortgage Loan Trust, 2006-2 A2	0.594%	9/25/36	287,757	216,522(a)(b)
Indymac Manufactured Housing Contract, 1997-1 A5	6.970%	2/25/28	208,813	207,989
Iowa Student Loan Liquidity Corp., 2011-1 A	0.000%	6/25/42	1,000,000	943,210(b)
Lehman XS Trust, 2007-1 WF1	5.646%	1/25/37	891,365	473,151(b)
Merit Securities Corp., 13 A4	7.910%	12/28/33	2,463,815	2,639,391(b)
Morgan Stanley ABS Capital I, 2003-SD1 A1	1.294%	3/25/33	22,266	19,156(b)
Morgan Stanley Capital Inc., 2003-NC9 M	1.419%	9/25/33	1,880,204	1,346,910(b)
MSDWCC Heloc Trust, 2003-2 A	0.740%	4/25/16	96,018	88,573(b)
New Century Home Equity Loan Trust, 2004-2 A2	0.664%	8/25/34	475,320	359,667(b)
New Century Home Equity Loan Trust, 2004-3 M1	1.224%	11/25/34	917,006	617,528(b)
Oakwood Mortgage Investors Inc., 2002-B A3	6.060%	3/15/25	251,593	229,233(b)
Option One Mortgage Loan Trust, 2003-2 A2	0.894%	4/25/33	405,122	330,471(b)
Origen Manufactured Housing, 2006-A A2	3.750%	10/15/37	2,700,000	1,458,000(b)
Origen Manufactured Housing, 2007-A A2	3.750%	4/15/37	3,497,335	1,923,534(b)
PAMCO CLO, 1997-1A B	7.910%	8/6/09	761,499	266,525(g)
Park Place Securities Inc., 2004-WCW1 M2	0.974%	9/25/34	1,900,000	1,705,649(b)
Park Place Securities Inc., 2004-WHQ2 M2	0.924%	2/25/35	750,000	577,694(b)
Pegasus Aviation Lease Securitization, 2000-1 A2	8.370%	3/25/30	1,600,000	616,000(a)
Pennsylvania Higher Education Assistance Agency, 2003-1 B1	2.430%	7/25/42	3,000,000	2,310,000(b)
People's Choice Home Loan Securities Trust, 2004-1 A3	1.334%	6/25/34	400,842	331,272(b)
RAAC Series, 2007-RP1 M1	0.844%	5/25/46	210,000	34,017(a)(b)
Renaissance Home Equity Loan Trust, 2004-2 AF4	5.392%	7/25/34	555,340	548,021
Renaissance Home Equity Loan Trust, 2005-2 AF5	5.201%	8/25/35	750,000	433,644
Renaissance Home Equity Loan Trust, 2005-3 AV3	0.674%	11/25/35	741,543	501,007(b)
Residential Asset Mortgage Products Inc., 2004-RZ1 AII	0.774%	3/25/34	376,160	250,153(b)
Residential Asset Securities Corp., 2001-KS3 AII	0.754%	9/25/31	300,571	225,126(b)
Residential Asset Securities Corp., 2002-KS2 AI6	6.228%	4/25/32	493,955	497,644(b)
Residential Asset Securities Corp., 2003-KS8 AI6	4.830%	10/25/33	712,574	689,041(b)
Settlement Fee Finance LLC, 2004-1A A	9.100%	7/25/34	901,591	931,517(a)
SLM Student Loan Trust, 2001-4 B	0.918%	1/25/21	1,000,000	998,064(b)
Structured Asset Securities Corp., 2002-AL1 A3	3.450%	2/25/32	737,043	674,761
Structured Asset Securities Corp., 2003-AL1 A	3.357%	4/25/31	106,414	102,341(a)



See Notes to Financial Statements.

## Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>Asset-Backed Securities continued</b>				
Structured Asset Securities Corp., 2005-4XS 2A1A	2.007%	3/25/35	501,709	\$ 342,193(b)
Structured Asset Securities Corp., 2006-GEL3 A2	0.524%	7/25/36	1,687,433	1,220,132(a)(b)
Structured Asset Securities Corp., 2007-BC1 A2	0.344%	2/25/37	346,702	335,327(b)
Vanderbilt Mortgage Finance, 2000-B IB2	9.250%	7/7/30	752,608	758,639(b)
<b>Total Asset-Backed Securities (Cost \$52,660,421)</b>				<b>53,886,598</b>
<b>Collateralized Mortgage Obligations 37.3%</b>				
American Home Mortgage Investment Trust, 2007-A 4A	0.744%	7/25/46	771,255	224,276(a)(b)
Banc of America Funding Corp., 2004-B 6A1	3.062%	12/20/34	552,200	240,174(b)
Bayview Commercial Asset Trust, 2005-3A A2	0.694%	11/25/35	625,206	470,254(a)(b)
Bayview Commercial Asset Trust, 2005-4A A1	0.594%	1/25/36	349,020	247,994(a)(b)
BCAP LLC Trust, 2009-RR12 2A2	0.617%	3/26/35	1,844,014	853,223(a)(b)
Bear Stearns Adjustable Rate Mortgage Trust, 2004-1 23A1	5.476%	4/25/34	306,071	287,611(b)
Bear Stearns Alt-A Trust, 2004-03 A1	0.934%	4/25/34	448,165	324,927(b)
Bear Stearns Alt-A Trust, 2004-08 1A	0.994%	9/25/34	230,185	179,794(b)
Bear Stearns Alt-A Trust, 2005-10 21A1	2.943%	1/25/36	1,114,575	554,120(b)
Bear Stearns Asset Backed Securities Trust, 2002-AC1 B4	7.000%	1/25/32	835,978	143,926(a)
Bella Vista Mortgage Trust, 2004-2 A1	0.664%	2/25/35	1,976,213	996,711(b)
BlackRock Capital Finance LP, 1997-R2 B5	6.188%	12/25/35	291,371	11,655(b)(d)
CBA Commercial Small Balance Commercial Trust, 2005-1A	0.614%	7/25/35	1,437,723	719,505(a)(b)
Chevy Chase Mortgage Funding Corp., 2004-3A A1	0.544%	8/25/35	1,371,060	843,295(a)(b)
Chevy Chase Mortgage Funding Corp., 2004-4A A1	0.524%	10/25/35	1,941,608	1,245,967(a)(b)
Chevy Chase Mortgage Funding Corp., 2005-4A A1	0.494%	10/25/36	1,725,829	957,233(a)(b)
Countrywide Home Loan Mortgage Pass-Through Trust, 2004-HYB5 7A1	2.412%	4/20/35	2,686,516	1,938,386(b)
Countrywide Home Loans, 2004-R1 1AF	0.694%	11/25/34	1,473,199	1,213,377(a)(b)
Countrywide Home Loans, 2004-R2 1AF1	0.714%	11/25/34	444,639	365,471(a)(b)
Countrywide Home Loans, 2004-R2 1AF2	0.714%	11/25/34	1,000,437	822,310(a)(b)
Countrywide Home Loans, 2005-7 1A1	0.564%	3/25/35	1,356,129	1,038,725(b)
Countrywide Home Loans, 2005-R2 2A1	7.000%	6/25/35	1,310,414	1,277,847(a)
Countrywide Home Loans, 2006-HYB4 3B	5.179%	6/20/36	1,210,908	602,147(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-09 1A1	0.594%	5/25/35	1,558,299	896,370(b)

See Notes to Financial Statements.

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**Schedule of investments (cont d)**

December 31, 2011

**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Collateralized Mortgage Obligations continued</b>				
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-R1 1AF1	0.654%	3/25/35	742,111	\$ 574,497(a)(b)
Credit Suisse Mortgage Capital Certificates, 2007-C3 A4	5.713%	6/15/39	242,000	254,056(b)
Credit Suisse Mortgage Capital Certificates, 2009-16R 4A1	2.507%	3/26/35	400,695	366,503(a)(b)
Extended Stay America Trust, 2010-ESHA XB1, IO	1.165%	1/5/16	20,500,000	231,589(a)(b)
Federal Home Loan Mortgage Corp. (FHLMC), K007 X1, IO	1.238%	4/25/20	11,195,224	788,401(b)
Federal Home Loan Mortgage Corp. (FHLMC), K008 X1, IO	1.682%	6/25/20	988,883	97,554(b)
Federal Home Loan Mortgage Corp. (FHLMC), K009 X1, IO	1.515%	8/25/20	5,844,723	504,066(b)
GMAC Commercial Mortgage Securities Inc., 1998-C2 F	6.500%	5/15/35	926,246	962,001(a)
Greenpoint Mortgage Funding Trust, 2005-AR5 2A2	0.564%	11/25/46	1,454,336	683,829(b)
Greenpoint Mortgage Funding Trust, 2005-AR5 3A2	0.564%	11/25/46	1,457,498	699,599(b)
GS Mortgage Securities Corp., 2010-C1 X, IO	1.567%	8/10/43	12,801,868	1,094,099(a)(b)
GS Mortgage Securities Corp., IO	2.168%	2/10/21	6,193,228	213,604(a)(b)
GSMPS Mortgage Loan Trust, 2001-2 A	7.500%	6/19/32	1,491,558	1,491,798(a)(b)
GSMPS Mortgage Loan Trust, 2004-4 1AF	0.694%	6/25/34	927,708	757,107(a)(b)
GSMPS Mortgage Loan Trust, 2005-RP1 1AF	0.644%	1/25/35	527,275	404,913(a)(b)
GSMPS Mortgage Loan Trust, 2005-RP1 2A1	3.706%	1/25/35	1,460,887	1,322,155(a)(b)
GSMPS Mortgage Loan Trust, 2005-RP3 1AF	0.644%	9/25/35	1,206,582	941,913(a)(b)
Harborview Mortgage Loan Trust, 2004-08 3A2	0.685%	11/19/34	153,925	78,972(b)
Harborview Mortgage Loan Trust, 2004-10 4A	2.623%	1/19/35	393,748	353,350(b)
Harborview Mortgage Loan Trust, 2005-9 B10	2.035%	6/20/35	1,079,207	65,073(b)
Impac CMB Trust, 2004-9 1A1	1.054%	1/25/35	51,350	33,904(b)
Impac CMB Trust, 2005-2 2A2	0.694%	4/25/35	293,359	227,522(b)
Impac CMB Trust, 2A-10	0.934%	3/25/35	418,095	271,129(b)
Indymac Index Mortgage Loan Trust, 2007-AR15 2A1	4.996%	8/25/37	4,183,764	2,417,149(b)
Indymac Manufactured Housing Contract, A2-2	6.170%	8/25/29	221,323	221,323
Jefferies & Co., 2009-B 9A	0.587%	11/21/35	145,519	265,384(a)(b)(d)
JP Morgan Mortgage Trust, 2005-A6 3A3	2.773%	9/25/35	630,000	385,435(b)
JPMorgan Alternative Loan Trust, 2006-S1 3A4	6.180%	3/25/36	1,100,000	461,364(b)
JPMorgan Mortgage Trust, 2007-A2 4A2	5.853%	4/25/37	300,000	232,453(b)
JPMorgan Reremic, 2009-5 6A1	5.812%	4/26/37	61,917	61,400(a)(b)
LB-UBS Commercial Mortgage Trust, 2001-C3 X, IO, STRIPS	0.754%	6/15/36	422,292	372(a)(b)(f)
Luminent Mortgage Trust, 2006-6 A1	0.494%	10/25/46	1,000,582	559,907(b)

See Notes to Financial Statements.

## Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>Collateralized Mortgage Obligations continued</b>				
MASTR Adjustable Rate Mortgages Trust, 2004-13 3A7	2.718%	11/21/34	2,000,000	\$ 1,824,688(b)
MASTR Alternative Loans Trust, PAC, 2003-7 7A1	0.694%	11/25/33	141,420	137,893(b)
MASTR ARM Trust, 2004-7 6M1	0.944%	8/25/34	800,000	622,135(b)
Merit Securities Corp., 11PA 3A1	0.914%	4/28/27	158,639	128,019(a)(b)
Merit Securities Corp., 11PA B3	2.544%	9/28/32	850,000	548,749(a)(b)
Metropolitan Asset Funding Inc., 1998-BI B1	8.000%	11/20/24	795,344	482,212(b)
Nomura Asset Acceptance Corp., 2004-AR4 1A1	2.415%	12/25/34	430,352	394,227(b)
Prime Mortgage Trust, 2005-2 2XB, STRIPS, IO	1.743%	10/25/32	3,459,749	192,523(b)
Prime Mortgage Trust, 2005-5 1X, STRIPS, IO	0.908%	7/25/34	7,195,974	75,594(b)
Prime Mortgage Trust, 2005-5 1XB, STRIPS, IO	1.283%	7/25/34	2,385,843	25,742(b)
Regal Trust IV, 1999-1 A	2.816%	9/29/31	86,069	75,832(a)(b)
Residential Asset Mortgage Products Inc., 2004-SL4 A5	7.500%	7/25/32	1,188,689	1,088,314
Residential Asset Mortgage Products, Inc., 2005-SL2 APO, STRIPS, PO	0.000%	2/25/32	204,465	190,620
Sequoia Mortgage Trust, 2003-2 A2	1.278%	6/20/33	46,031	35,968(b)
Sequoia Mortgage Trust, 2004-10 A1A	0.595%	11/20/34	28,397	23,444(b)
Sequoia Mortgage Trust, 2004-11 A1	0.585%	12/20/34	42,340	34,081(b)
Sequoia Mortgage Trust, 2004-12 A1	0.555%	1/20/35	339,343	257,753(b)
Structured Asset Securities Corp., 1998-RF2 A	7.714%	7/15/27	407,929	410,662(a)(b)
Structured Asset Securities Corp., 2002-9 A2	0.594%	10/25/27	918,619	779,755(b)
Structured Asset Securities Corp., 2003-9A 2A2	2.386%	3/25/33	235,953	196,852(b)
Structured Asset Securities Corp., 2004-NP1 A	0.694%	9/25/33	240,539	208,430(a)(b)
Structured Asset Securities Corp., 2005-4XS 3A4	4.790%	3/25/35	796,810	790,876
Structured Asset Securities Corp., 2005-RF2 A	0.644%	4/25/35	1,192,212	949,176(a)(b)
Structured Asset Securities Corp., 2005-RF3 2A	3.716%	6/25/35	1,969,867	1,635,671(a)(b)
Thornburg Mortgage Securities Trust, 2003-4 A1	0.934%	9/25/43	821,299	729,807(b)
Thornburg Mortgage Securities Trust, 2004-03 A	1.034%	9/25/44	830,325	711,094(b)
Thornburg Mortgage Securities Trust, 2007-4 2A1	6.039%	9/25/37	576,843	512,073(b)
Thornburg Mortgage Securities Trust, 2007-4 3A1	6.054%	9/25/37	589,241	573,041(b)
WaMu Mortgage Pass-Through Certificates, 2004-AR06 A	0.670%	5/25/44	676,912	501,414(b)
WaMu Mortgage Pass-Through Certificates, 2004-AR08 A1	0.608%	6/25/44	430,655	284,726(b)
WaMu Mortgage Pass-Through Certificates, 2004-AR13 A2A	0.620%	11/25/34	1,791,324	1,221,323(b)
WaMu Mortgage Pass-Through Certificates, 2007-HY7 2A3	5.242%	7/25/37	1,669,473	911,985(b)
WaMu Mortgage Pass-Through Certificates, 2007-OA3 2A	0.978%	4/25/47	1,079,379	573,238(b)

See Notes to Financial Statements.

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**Schedule of investments (cont d)**

December 31, 2011

**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Collateralized Mortgage Obligations continued</b>				
Washington Mutual Alternative Mortgage Pass-Through Certificates, 2006-5 3A3	6.221%	7/25/36	817,295 \$	355,449
Washington Mutual Alternative Mortgage Pass-Through Certificates, 2006-7 A2A	5.667%	9/25/36	1,329,587	724,230
Washington Mutual Alternative Mortgage Pass-Through Certificates, 2006-7 A3	6.081%	9/25/36	162,732	86,436
Washington Mutual Inc., 2004-AR11	2.497%	10/25/34	485,919	427,766(b)
Washington Mutual Inc., 2004-AR12 A2A	0.640%	10/25/44	517,317	355,609(b)
Washington Mutual Inc., 2005-AR8 2A1A	0.584%	7/25/45	423,971	309,557(b)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2004-AR02 A	1.608%	4/25/44	300,732	220,106(b)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2004-AR13 A1A	0.610%	11/25/34	1,273,760	884,284(b)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2005-AR06 2A1A	0.524%	4/25/45	381,068	276,313(b)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2005-AR08 1A1A	0.564%	7/25/45	28,508	21,559(b)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2005-AR09 A1A	0.614%	7/25/45	190,645	139,648(b)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2005-AR13 A1A1	0.584%	10/25/45	346,451	248,573(b)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2005-AR19 A1A1	0.564%	12/25/45	707,220	505,665(b)
Washington Mutual Inc., MSC Pass-Through Certificates, 2004-RA1 2A	7.000%	3/25/34	42,310	45,041
Washington Mutual Mortgage Pass-Through Certificates, 2006-AR5 3A	1.148%	7/25/46	1,301,373	414,555(b)
Wells Fargo Mortgage Loan Trust, 2010-RR2 1A2	5.125%	9/27/35	2,418,992	1,928,493(a)(b)
<b>Total Collateralized Mortgage Obligations (Cost</b>			<b>\$58,233,371)</b>	<b>57,548,920</b>
<b>Collateralized Senior Loans 6.4%</b>				
<b>Consumer Discretionary 2.4%</b>				
Carmike Cinemas Inc., Term Loan	5.500%	1/27/16	885,336	876,040(h)
Getty Images Inc., Term Loan B	5.250%	11/7/16	980,689	981,098(h)
Las Vegas Sands LLC, Delayed Draw Term Loan	2.930%	11/23/16	165,672	159,045(h)
Las Vegas Sands LLC, Term Loan B	2.930%	11/23/16	824,303	789,270(h)
Univision Communications Inc.	4.546%	3/31/17	990,478	882,144(h)
<b>Total Consumer Discretionary</b>				<b>3,687,597</b>
<b>Health Care 2.5%</b>				
Community Health Systems Inc., Delayed Draw Term Loan	2.546%	7/25/14	72,678	70,393(h)

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Community Health Systems Inc., Term Loan B	2.546 - 2.773%	7/25/14	1,416,522	1,372,002(h)
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See Notes to Financial Statements.

**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Health Care continued</b>				
Grifols Inc., Term Loan B	6.000%	6/1/17	1,496,250	\$ 1,488,769(h)
MedAssets Inc., Term Loan B	5.250%	11/16/16	913,760	909,191(h)
<b>Total Health Care</b>				<b>3,840,355</b>
<b>Industrials 0.0%</b>				
Trico Shipping AS, Term Loan A	10.000%	5/13/14	18,802	18,708(f)(h)
Trico Shipping AS, Term Loan B		5/13/14	33,104	32,939(f)(i)
<b>Total Industrials</b>				<b>51,647</b>
<b>Information Technology 1.5%</b>				
First Data Corp., Term Loan B	4.294%	3/23/18	424,158	354,474(h)
First Data Corp., Term Loan B2	3.044%	9/24/14	514,436	462,863(h)
Freescale Semiconductor Inc., Term Loan	4.520%	12/1/16	1,478,386	1,419,251(h)
<b>Total Information Technology</b>				<b>2,236,588</b>
<b>Total Collateralized Senior Loans (Cost \$10,025,417)</b>				<b>9,816,187</b>
<b>Mortgage-Backed Securities 0.3%</b>				
<b>FNMA 0.3%</b>				
Federal National Mortgage Association (FNMA), Whole Loan (Cost \$447,201)	6.500%	8/25/44	435,545	<b>488,042</b>
<b>Municipal Bonds 6.7%</b>				
<b>Florida 1.5%</b>				
Florida Educational Loan Marketing Corp., 2002-1 B	0.473%	12/1/36	700,000	546,000(b)(d)(j)
Florida Educational Loan Marketing Corp., Education Loan Revenue	0.390%	12/1/18	2,400,000	1,800,000(b)(j)
<b>Total Florida</b>				<b>2,346,000</b>
<b>Kentucky 0.9%</b>				
Carroll County, KY, PCR, Kentucky Utilities Co. Project, AMBAC	0.080%	10/1/32	1,800,000	<b>1,422,000(b)</b>
<b>Nevada 0.9%</b>				
Washoe County, NV, Pollution Control, Gas & Water Facilities Revenue, Sierra Pacific Power Co., AMBAC	0.746%	3/1/36	1,700,000	<b>1,343,000(b)(j)</b>
<b>New York 0.9%</b>				
New York State Energy Research & Development Authority Facilities Revenue, Consolidated Edison Co. of New York Inc., AMBAC	0.210%	10/1/36	1,600,000	1,136,000(b)(j)
New York State Energy Research & Development Authority, Gas Facilities Revenue, Brooklyn Union Gas Project, NATL-RE	1.050%	12/1/20	200,000	154,000(b)(d)
<b>Total New York</b>				<b>1,290,000</b>

See Notes to Financial Statements.



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## Schedule of investments (cont d)

December 31, 2011

## Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
<b>Pennsylvania 2.5%</b>				
Pennsylvania State Higher Education Assistance Agency, Student Loan Revenue	1.265%	6/1/47	4,200,000	\$ 3,864,000 <sup>(b)</sup>
<b>Total Municipal Bonds (Cost \$10,655,702)</b>				<b>10,265,000</b>
<b>Non-U.S. Treasury Inflation Protected Securities 5.7%</b>				
Brazil Nota do Tesouro Nacional	5.952%	5/15/45	4,700,000BRL	5,692,568
Brazil Nota do Tesouro Nacional, Notes	5.905%	8/15/50	5,468,150BRL	3,174,793
<b>Total Non-U.S. Treasury Inflation Protected Securities (Cost \$8,096,152)</b>				<b>8,867,361</b>
<b>Sovereign Bonds 1.6%</b>				
<b>Brazil 0.4%</b>				
Brazil Nota do Tesouro Nacional, Notes	9.762%	1/1/14	280,000BRL	148,676
Brazil Nota do Tesouro Nacional, Notes	9.762%	1/1/17	826,000BRL	425,619
<b>Total Brazil</b>				<b>574,295</b>
<b>India 0.1%</b>				
ICICI Bank Ltd., Junior Subordinated Bonds	6.375%	4/30/22	184,000	160,080 <sup>(a)(b)</sup>
<b>Malaysia 0.4%</b>				
Government of Malaysia, Senior Bonds	3.835%	8/12/15	1,500,000MYR	484,050
Government of Malaysia, Senior Bonds	4.262%	9/15/16	290,000MYR	95,209
<b>Total Malaysia</b>				<b>579,259</b>
<b>Mexico 0.7%</b>				
Mexican Bonos, Bonds	8.000%	6/11/20	11,147,000MXN	885,485
United Mexican States, Bonds	10.000%	12/5/24	2,750,000MXN	253,489
<b>Total Mexico</b>				<b>1,138,974</b>
<b>Venezuela 0.0%</b>				
Bolivarian Republic of Venezuela, Collective Action Securities, Global Senior Bonds	9.375%	1/13/34	2,000	1,380
<b>Total Sovereign Bonds (Cost \$2,722,496)</b>				<b>2,453,988</b>
<b>Shares</b>				
<b>Common Stocks 0.3%</b>				
<b>Consumer Discretionary 0.1%</b>				
<b>Automobiles 0.1%</b>				
General Motors Co.			8,922	180,849*
<b>Energy 0.0%</b>				
<b>Oil, Gas &amp; Consumable Fuels 0.0%</b>				
SemGroup Corp., Class A Shares			789	20,561*
<b>Industrials 0.1%</b>				
<b>Building Products 0.0%</b>				

Nortek Inc.

1,206

**31,549\***

See Notes to Financial Statements.

## Western Asset Premier Bond Fund

	Shares	Value
<b>Security</b>		
<i>Marine 0.1%</i>		
DeepOcean Group Holding AS	8,860	\$141,760(d)
<b>Total Industrials</b>		<b>173,309</b>
<i>Materials 0.1%</i>		
<i>Chemicals 0.1%</i>		
Georgia Gulf Corp.	8,950	174,436*
<b>Total Common Stocks (Cost \$1,202,350)</b>		<b>549,155</b>
	<b>Rate</b>	
<b>Convertible Preferred Stocks 0.1%</b>		
<b>Financials 0.1%</b>		
<i>Thriffs &amp; Mortgage Finance 0.1%</i>		
Federal National Mortgage Association (FNMA)		
(Cost \$1,357,500)	5.375%	15
<b>Preferred Stocks 0.0%</b>		<b>75,000*</b>
<b>Consumer Discretionary 0.0%</b>		
<i>Automobiles 0.0%</i>		
Escrow GCB General Motors	0.000%	55,025
<b>Financials 0.0%</b>		<b>17,195</b>
<i>Diversified Financial Services 0.0%</i>		
Corporate-Backed Trust Certificates, Series 2001-8, Class A-1	7.375%	33,900
<i>Thriffs &amp; Mortgage Finance 0.0%</i>		<b>13,899*(c)(f)</b>
Federal Home Loan Mortgage Corp. (FHLMC)	0.000%	100
Federal Home Loan Mortgage Corp. (FHLMC)	5.000%	200
<b>Total Thriffs &amp; Mortgage Finance</b>		<b>592</b>
<b>Total Financials</b>		<b>14,491</b>
<b>Total Preferred Stocks (Cost \$12,240)</b>		<b>31,686</b>
	<b>Expiration Date</b>	<b>Warrants</b>
<b>Warrants 0.1%</b>		
Buffets Restaurant Holdings	4/28/14	223
Charter Communications Inc.	11/30/14	265
CMP Susquehanna Radio Holdings Co.	3/23/19	3,624
General Motors Co.	7/10/16	8,159
General Motors Co.	7/10/19	8,159
Nortek Inc.	12/7/14	576
SemGroup Corp.	11/30/14	830
<b>Total Warrants (Cost \$749,707)</b>		<b>188,207</b>
<b>Total Investments before Short-Term Investments (Cost \$215,946,640)</b>		<b>216,881,816</b>

See Notes to Financial Statements.



**Schedule of investments (cont d)**

December 31, 2011

**Western Asset Premier Bond Fund**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Short-Term Investments</b> 5.0%				
<b>Repurchase Agreements</b> 5.0%				
Deutsche Bank Securities Inc. repurchase agreement dated 12/30/11; Proceeds at maturity \$7,709,034; (Fully collateralized by U.S. government agency obligations, 3.150% due 10/28/20;				
Market value \$7,863,178) (Cost \$7,709,000)	0.040%	1/3/12	7,709,000	\$ 7,709,000
<b>Total Investments</b> 145.5% (Cost \$223,655,640#)				<b>224,590,816</b>
<b>Other Assets in Excess of Liabilities</b> 1.1%				<b>1,814,826</b>
<b>Liquidation value of Preferred Shares</b> (46.6)%				<b>(72,000,000)</b>
<b>Total Net Assets</b> 100.0%			\$	<b>154,405,642</b>

Face amount denominated in U.S. dollars, unless otherwise noted.

\* Non-income producing security.

- (a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Trustees, unless otherwise noted.
  - (b) Variable rate security. Interest rate disclosed is as of the most recent information available.
  - (c) The coupon payment on these securities is currently in default as of December 31, 2011.
  - (d) Security is valued in good faith in accordance with procedures approved by the Board of Trustees (See Note 1).
  - (e) Value is less than \$1.
  - (f) Illiquid security.
  - (g) The maturity principal is currently in default as of December 31, 2011.
  - (h) Interest rates disclosed represent the effective rates on collateralized senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.
  - (i) All or a portion of this loan is unfunded as of December 31, 2011.
  - (j) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax ( AMT ).
- # Aggregate cost for federal income tax purposes is \$225,386,525.

**Abbreviations used in this schedule:**

ARM	Adjustable Rate Mortgage
BRL	Brazilian Real
CMB	Cash Management Bill
IO	Interest Only
MXN	Mexican Peso
MYR	Malaysian Ringgit
PAC	Planned Amortization Class
PO	Principal Only

STRIPS

Separate Trading of Registered Interest and Principal Securities

See Notes to Financial Statements.

**Statement of assets and liabilities**

December 31, 2011

**Assets:**

Investments, at value (Cost \$223,655,640)	\$224,590,816
Foreign currency, at value (Cost \$342,166)	303,555
Cash	35,019
Interest receivable	1,922,597
Swaps, at value (net premiums paid \$24,140)	133,584
Deposits with brokers for swap contracts	100,000
Principal paydown receivable	6,181
Prepaid expenses	58,360
<b>Total Assets</b>	<b>227,150,112</b>

**Liabilities:**

Swaps, at value (net premiums received \$32,324)	176,006
Investment management fee payable	106,620
Payable for securities purchased	33,104
Distributions payable to auction rate preferred stockholders	9,675
Payable for open swap contracts	4,255
Accrued expenses	414,810
<b>Total Liabilities</b>	<b>744,470</b>

**Preferred Shares:**

No par value, 2,880 shares authorized, issued and outstanding, \$25,000 liquidation value per share (Note 6)	72,000,000
<b>Total Net Assets</b>	<b>\$154,405,642</b>

**Net Assets:**

Common shares, no par value, unlimited number of shares authorized, 11,828,498 shares issued and outstanding (Note 5)	\$165,643,047
Undistributed net investment income	8,315,379
Accumulated net realized loss on investments, swap contracts and foreign currency transactions	(20,407,687)
Net unrealized appreciation on investments, swap contracts and foreign currencies	854,903
<b>Total Net Assets</b>	<b>\$154,405,642</b>

**Shares Outstanding**

11,828,498

**Net Asset Value**

\$13.05

See Notes to Financial Statements.

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**Statement of operations**

For the Year Ended December 31, 2011

**Investment Income:**

Interest	\$17,616,873
Dividends	8,552
<b>Total Investment Income</b>	<b>17,625,425</b>

**Expenses:**

Investment management fee (Note 2)	1,299,387
Excise tax (Note 1)	381,000
Legal fees	66,616
Transfer agent fees	59,855
Audit and tax	55,659
Fund accounting fees	50,296
Interest expense (Note 3)	41,559
Auction participation fees	36,230
Custody fees	35,850
Shareholder reports	33,674
Rating agency fees	24,304
Stock exchange listing fees	16,325
Trustees fees	12,687
Auction agent fees	10,041
Insurance	4,411
Miscellaneous expenses	1,187
<b>Total Expenses</b>	<b>2,129,081</b>
<b>Net Investment Income</b>	<b>15,496,344</b>

**Realized and Unrealized Gain (Loss) on Investments, Swap Contracts and Foreign Currency Transactions (Notes 1, 3 and 4):**

Net Realized Gain (Loss) From:	
Investment transactions	(2,418,234)
Swap contracts	280,870
Foreign currency transactions	25,698
<b>Net Realized Loss</b>	<b>(2,111,666)</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(6,210,234)
Swap contracts	(128,820)
Foreign currencies	(53,303)
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	<b>(6,392,357)</b>
<b>Net Loss on Investments, Swap Contracts and Foreign Currency Transactions</b>	<b>(8,504,023)</b>
<b>Distributions Paid to Auction Rate Preferred Stockholders from Net Investment Income</b>	<b>(165,905)</b>
<b>Increase in Net Assets from Operations</b>	<b>\$ 6,826,416</b>

See Notes to Financial Statements.



## Statements of changes in net assets

For the years ended December 31,	2011	2010
<b>Operations:</b>		
Net investment income	\$ 15,496,344	\$ 17,135,971
Net realized gain (loss)	(2,111,666)	3,802,044
Change in net unrealized appreciation (depreciation)	(6,392,357)	14,388,419
Distributions paid to auction rate preferred stockholders from net investment income	(165,905)	(219,880)
<b><i>Increase in Net Assets From Operations</i></b>	<b><i>6,826,416</i></b>	<b><i>35,106,554</i></b>
<b>Distributions to Shareholders From (Note 1):</b>		
Net investment income	(17,556,033)	(16,932,624)
<b><i>Decrease in Net Assets From Distributions to Shareholders</i></b>	<b><i>(17,556,033)</i></b>	<b><i>(16,932,624)</i></b>
<b>Fund Share Transactions:</b>		
Reinvestment of distributions (89,956 and 131,781 shares issued, respectively)	1,321,616	1,780,994
<b><i>Increase in Net Assets From Fund Share Transactions</i></b>	<b><i>1,321,616</i></b>	<b><i>1,780,994</i></b>
<b><i>Increase (Decrease) in Net Assets</i></b>	<b><i>(9,408,001)</i></b>	<b><i>19,954,924</i></b>
<b>Net Assets:</b>		
Beginning of year	163,813,643	143,858,719
<b>End of year*</b>	<b>\$154,405,642</b>	<b>\$163,813,643</b>
* Includes undistributed net investment income of:	\$8,315,379	\$9,663,047

See Notes to Financial Statements.

**Financial highlights**

For a share of capital stock outstanding throughout each year ended December 31:

	2011	2010	2009	2008	2007
<b>Net asset value, beginning of year</b>	\$13.96	\$12.39	\$8.72	\$14.26	\$15.15
<b>Income (loss) from operations:</b>					
Net investment income <sup>1</sup>	1.32	1.47	1.64	1.46	1.27
Net realized and unrealized gain (loss)	(0.73)	1.57	3.33	(5.64)	(0.60)
<b>Distributions paid to auction rate preferred stockholders from:</b>					
Net investment income	(0.01)	(0.02)	(0.02)	(0.19)	(0.25)
Net realized gains				(0.02)	(0.09)
<b>Total income (loss) from operations</b>	<b>0.58</b>	<b>3.02</b>	<b>4.95</b>	<b>(4.39)</b>	<b>0.33</b>
<b>Less distributions from:</b>					
Net investment income	(1.49)	(1.45)	(1.28)	(1.05)	(0.97)
Net realized gains				(0.10)	(0.25)
<b>Total distributions</b>	<b>(1.49)</b>	<b>(1.45)</b>	<b>(1.28)</b>	<b>(1.15)</b>	<b>(1.22)</b>
<b>Net asset value, end of year</b>	\$13.05	\$13.96	\$12.39	\$8.72	\$14.26
<b>Market price, end of year</b>	\$15.95	\$14.13	\$13.36	\$8.90	\$13.13
<b>Total return, based on NAV<sup>2,3</sup></b>	<b>4.12%</b>	<b>25.50%</b>	<b>60.98%</b>	<b>(32.45)%</b>	<b>2.17%</b>
<b>Total return, based on market price<sup>4</sup></b>	<b>24.87%</b>	<b>17.56%</b>	<b>68.84%</b>	<b>(24.60)%</b>	<b>(5.79)%</b>
<b>Net assets, end of year (000s)</b>	\$154,406	\$163,814	\$143,859	\$100,102	\$163,544