

WESTERN ASSET PREMIER BOND FUND
Form N-CSR
March 01, 2013

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, 49th Floor, 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, 2012

ITEM 1. REPORT TO STOCKHOLDERS.

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

December 31, 2012

Annual Report

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

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

II Western Asset Premier Bond Fund

Fund objective

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

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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, 2012. 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.

Recent regulations adopted by the Commodity Futures Trading Commission (the "CFTC") require operators of registered investment companies, including closed-end funds, to register as commodity pool operators unless the fund limits its investments in commodity interests. Effective December 31, 2012, your Fund's manager has claimed the exclusion from the definition of commodity pool operator. More information about the CFTC rules and their effect on the Fund is included later in this report on page 48.

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.lmcef.com. 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 31, 2013

Investment commentary**Economic review**

The U.S. economy continued to grow over the twelve months ended December 31, 2012, but it did so at an uneven pace. U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was 2.0% in the first quarter of 2012. The economy then slowed in the second quarter, as GDP growth was a tepid 1.3%. Economic growth accelerated to 3.1% in the third quarter, partially due to increased private inventory investment, higher federal government spending and moderating imports. However, this was a temporary uptick, as the Commerce Department's initial estimate showed that fourth quarter GDP contracted 0.1%. This was the first negative reading since the second quarter of 2009, and was driven by a reversal of the above factors, as private inventory investment and federal government spending weakened.

While there was some improvement in the U.S. job market, unemployment remained elevated throughout the reporting period. When the period began, unemployment, as reported by the U.S. Department of Labor, was 8.3%. Unemployment then generally declined and was 7.8% in September 2012, the lowest rate since January 2009, but still high by historical standards. The unemployment rate then rose to 7.9% in October, before falling to 7.8% in November, where it remained in December. The number of longer-term unemployed continued to be a headwind for the economy, as roughly 39% of the 12.2 million people without a job have been out of work for more than six months.

Meanwhile, the housing market brightened, as sales generally improved and home prices continued to rebound. According to the National Association of Realtors (NAR), while existing-home sales dipped 1.0% on a seasonally adjusted basis in December 2012 versus the previous month, they were still 12.8% higher than in December 2011. In addition, the NAR reported that the median existing-home price for all housing types was \$180,800 in December 2012, up 11.5% from December 2011. This marked the tenth consecutive month that home prices rose compared to the same period a year earlier. Furthermore, the inventory of homes available for sale fell 8.5% in December, which represents a 4.4 month supply at the current sales pace. This represents the lowest inventory since May 2005.

The manufacturing sector expanded during much of the reporting period, although it experienced several soft patches. Based on the Institute for Supply Management's PMI (PMI), after expanding 34 consecutive months, the PMI fell to 49.7 in June 2012, which represented the first contraction in the manufacturing sector since July 2009 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). Manufacturing continued to contract in July and August before ticking up to 51.5 in September and 51.7 in October. The PMI fell back to contraction territory with a reading of 49.5 in November, its lowest level since July 2009. However, manufacturing again expanded in December, with the PMI increasing to 50.7.

The Federal Reserve Board (Fed) 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 at a historically low range between zero and 0.25%. In January 2012, the Fed extended the period it expects to keep rates on

IV Western Asset Premier Bond Fund

Investment commentary (continued)

hold until at least through late 2014. At its June 2012 meeting, the Fed announced that it would continue its program of purchasing longer-term Treasury securities and selling an equal amount of shorter-term Treasury securities (often referred to as Operation Twist) until the end of 2012. In September, the Fed announced a third round of quantitative easing (QE3), which involves purchasing \$40 billion each month of agency mortgage-backed securities on an open-end basis. In addition, the Fed further extended the duration that it expects to keep the federal funds rate on hold, until at least mid-2015. Finally, at its meeting in December, the Fed announced that it would continue purchasing \$40 billion per month of agency mortgage-backed securities, as well as initially purchasing \$45 billion a month of longer-term Treasuries. The Fed also said that it would keep the federal funds rate on hold ...as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2.0% longer-run goal, and longer-term inflation expectations continue to be well anchored.

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

Sincerely,

R. Jay Gerken, CFA

President

January 31, 2013

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.

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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 management personnel, 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 individuals responsible for development of investment strategy, day-to-day portfolio management, oversight and coordination of the Fund are Stephen A. Walsh, Michael C. Buchanan, Paul Jablansky and Christopher F. Kilpatrick.

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

A. The spread sectors (non-Treasuries) overcame several periods of heightened risk aversion and outperformed equal-duration Treasuries over the twelve months ended December 31, 2012. To a great extent, demand for the spread sectors was robust during the first two months of the reporting period. This was due to several factors, including signs that the U.S. economy was gathering momentum and some progress in the European sovereign debt crisis. However, fears that the economy may be experiencing a soft patch and contagion fears from Europe led to flights to quality during portions of March, April and May 2012. The spread sectors then generally rallied over the last seven months of the period as investor sentiment was largely positive.

Short-term U.S. Treasury yields fluctuated in 2012, but ended the year where they began. In contrast, 10-year Treasury yields fell from 1.89% to 1.78% during the twelve months ended December 31, 2012. When the period began, two-year Treasury yields were 0.25%. They moved as low as 0.21% on January 17, 2012 and as high as 0.41% on March 20, 2012. Ten-year Treasury yields were 1.89% at the beginning of the period and peaked at 2.39% on March 19, 2012. On July 25, 2012, ten-year Treasuries closed at an all-time low of 1.43%. Yields then moved higher due to some positive developments in Europe and additional Federal Reserve Board (Fed) actions to stimulate the economy. When the reporting period

Fund overview (cont d)

ended on December 31, 2012, two-year Treasury yields were 0.25% and ten-year Treasury yields were 1.78%.

All told, the Barclays U.S. Aggregate Index^{iv} returned 4.22% for the twelve months ended December 31, 2012. Comparatively, riskier fixed-income securities, including high-yield bonds produced superior results. Over the fiscal year, the Barclays U.S. Corporate High Yield 2% Issuer Cap Index^v gained 15.78%. During this period, as measured by the Barclays U.S. Corporate High Yield 2% Issuer Cap Index, lower-quality CCC-rated bonds outperformed higher-quality BB-rated securities, as they returned 18.34% and 14.49%, 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 as valuations changed. We increased the Fund's allocations to investment grade Financials and U.S. and European high-yield corporate bonds, emerging markets and cash. In contrast, we reduced our largest allocation to strong performing non-agency mortgage-backed securities (MBS) with valuations becoming less compelling as the year progressed. By the end of the period, we eliminated the Fund's small municipal bond position and reduced our modest position in commercial mortgage-backed securities (CMBS).

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 29%, a reduction of nearly 3% from the beginning of the year.

During the reporting period, the Fund held credit default swaps in an attempt to generate incremental returns from relative value trades in the CMBS sector. These derivative instruments modestly contributed to performance. Currency forwards were used to hedge the Fund's currency risk and manage our exposure to the euro. The gains or losses in our currency hedges are intended to offset the gains or declines in the value of our euro bonds when translated back to U.S. dollars. Currency forwards contributed to performance. All told, derivatives had a small positive impact to the Fund's net performance during the reporting period.

Performance review

For the twelve months ended December 31, 2012, Western Asset Premier Bond Fund returned 24.90% based on its net asset value (NAV)^{vi} and 6.16% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmarks, the Barclays U.S. Corporate High Yield Index^{vii} and the Barclays U.S. Credit Index^{viii}, returned 15.81% and 9.39%, respectively, for the same period. The Lipper Corporate Debt Closed-End Funds BBB-Rated Category Average^{ix} returned 15.61% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

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During the twelve-month period, the Fund made distributions to shareholders totaling \$1.32 per share. The performance table shows the Fund's twelve-month total return based on its

NAV and market price as of December 31, 2012. Past performance is no guarantee of future results.

Performance Snapshot as of December 31, 2012

	12-Month Total Return*
Price Per Share	
\$14.84 (NAV)	24.90%
\$15.54 (Market Price)	6.16%

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 non-agency MBS. The sector was supported by continued signs of improvement in the housing market and positive supply/demand technicals. The Fund was well positioned within the sector, as we held a diverse portfolio of seasoned issuers, primarily floating rate, with lower dollar prices. We also favored lower duration exposure.

Our U.S. high-yield and investment-grade and European corporate credit allocations contributed positively to performance. A number of the Fund's holdings were standouts and benefited results, including our allocations to Wind Acquisition Finance SA, Sprint Capital Corp. and Citigroup Inc. Wind Acquisition Finance SA is Italy's third largest wireless and second largest fixed-line service provider. The company is controlled by the Russian multinational corporation, Vimplecom. We felt investors were overly discounting Italian sovereign risk, mediocre fundamental performance and their relatively weak balance sheet, while overlooking Wind Acquisition Finance's strong ownership structure and the actions of the European Union to stabilize the region. We increased exposure to the issuer at distressed levels during the reporting period and the bonds rallied significantly. Bonds issued by Sprint Nextel Corp. (and Sprint Capital Corporation) rallied given their attractive valuation, as well as an improved outlook for the wireless competitive landscape and the pricing environment. In addition, B-rated Sprint Nextel's board agreed to terms of an acquisition by Japan's investment grade rated Softbank toward the end of the reporting period, sending Sprint Nextel's bonds even higher. We increased our exposure to Citigroup Inc. in May 2012, based on attractive valuations and our expectations for stable fundamental results and an improving balance sheet. Citigroup bonds and preferred shares performed very well during the period.

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Our emerging market sovereign and corporate allocations contributed positively to performance and we added to this exposure toward the end of the reporting period. A specific standout was our allocation to the Republic of Venezuela. Venezuela sovereign bonds, which began the period at cheap valuations, benefited from higher oil prices and increased expectations that President Chavez would not be re-elected. While Chavez was re-elected in October 2012, it was not enough to offset the country's sovereign bond s

Fund overview (cont'd)

earlier strong results.

Q. What were the leading detractors from performance?

A. The Fund performed very well during the reporting period. However, there were a few issuer allocations that detracted from results, including our exposures to NewPage Corp. and Edison Mission Energy. NewPage Corp. is the largest North American maker of coated papers. We began the period with NewPage Corp. in bankruptcy and we had a relatively constructive outlook for our small position in its senior secured first-lien bonds. In addition, based on our research we felt that there would be a favorable recovery. However, as the period progressed, the company's fundamental performance continued to deteriorate and we reduced our position in July 2012 at roughly 72% of face value. We should have exited the position completely because NewPage Corp. bonds traded lower as spread sectors continued to rally. We exited the position at roughly 51% of face value in November 2012. Edison Mission Energy operates primarily coal fired electricity plants. These plants did not perform well during the period, which negatively impacted the company's fundamental performance. Low natural gas prices and fears that the current administration may enact tougher coal standards sent the bond's prices lower. We exited the position in August 2012 at a loss and the bonds have since fallen further following our sale.

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.lmcef.com.

In a continuing effort to provide information concerning the Fund, shareholders 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 22, 2013

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, 2012 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 9 through 25 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. Portfolio holdings are subject to change at any time and may not be representative of the portfolio managers' current or future investments. The Fund's top five sector holdings (as a percentage of net assets) as of December 31, 2012 were: Asset-Backed Securities (30.2%), Collateralized Mortgage Obligations (23.2%), Financials (12.9%), Short-term Investments (12.6%) and Consumer Discretionary (11.8%). The Fund's portfolio composition is subject to change at any time.

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 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 Barclays 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.

v The Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. The Caa Component is comprised of Caa-rated securities included in this Index.

vi 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.

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vii The Barclays 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-A securities are also included.

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

ix 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, 2012, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 12 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, 2012 and December 31, 2011 and does not include derivatives such as forward foreign currency contracts and 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.

Represents less than 0.1%.

* Prior year percentages have been restated to reflect current period classifications.

Spread duration (unaudited)**Economic Exposure December 31, 2012**

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.

ABS	Asset-Backed Securities
Benchmark	Barclays U.S. Credit Index
EM	Emerging Markets
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, 2012

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.

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

Schedule of investments

December 31, 2012

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Corporate Bonds & Notes 53.3%				
Consumer Discretionary 10.6%				
Automobiles 2.1%				
DaimlerChrysler NA Holding Corp., Notes	8.500%	1/18/31	1,000,000	\$ 1,556,433
Ford Motor Credit Co., LLC, Senior Notes	12.000%	5/15/15	1,030,000	1,264,325
Ford Motor Credit Co., LLC, Senior Notes	8.000%	12/15/16	680,000	821,078
Total Automobiles				3,641,836
Diversified Consumer Services 0.4%				
Service Corp. International, Senior Notes	7.625%	10/1/18	5,000	5,950
Service Corp. International, Senior Notes	7.500%	4/1/27	60,000	64,500
ServiceMaster Co., Senior Notes	7.000%	8/15/20	650,000	651,625 ^(a)
Total Diversified Consumer Services				722,075
Hotels, Restaurants & Leisure 2.0%				
Caesars Entertainment Operating Co. Inc., Senior Notes	10.750%	2/1/16	300,000	243,000
El Pollo Loco Inc., Secured Notes	17.000%	1/1/18	396,951	424,738 ^{(a)(b)}
Landry's Holdings II Inc., Senior Notes	10.250%	1/1/18	720,000	716,400 ^(a)
Mohegan Tribal Gaming Authority, Secured Notes	11.500%	11/1/17	170,000	182,325 ^(a)
NCL Corp. Ltd., Senior Notes	9.500%	11/15/18	1,500,000	1,665,000
NCL Corp. Ltd., Senior Secured Notes	11.750%	11/15/16	170,000	192,100
Total Hotels, Restaurants & Leisure				3,423,563
Household Durables 0.2%				
William Lyon Homes Inc., Senior Notes	8.500%	11/15/20	390,000	405,600 ^(a)
Media 5.9%				
Clear Channel Worldwide Holdings Inc., Senior Notes	6.500%	11/15/22	680,000	705,500 ^(a)
Clear Channel Worldwide Holdings Inc., Senior Notes	6.500%	11/15/22	160,000	164,400 ^(a)
Comcast Corp., Notes	5.900%	3/15/16	400,000	459,574
Comcast Corp., Notes	7.050%	3/15/33	1,000,000	1,332,081
CSC Holdings LLC, Senior Notes	6.750%	11/15/21	1,000,000	1,108,750 ^(a)
DISH DBS Corp., Senior Notes	7.875%	9/1/19	385,000	456,225
Good Sam Enterprises LLC, Secured Notes	11.500%	12/1/16	250,000	267,500
Nara Cable Funding Ltd., Senior Secured Notes	8.875%	12/1/18	1,500,000	1,526,250 ^(a)
News America Inc., Notes	8.875%	4/26/23	400,000	553,310
Time Warner Inc., Senior Debentures	7.700%	5/1/32	980,000	1,370,213
UPC Holding BV, Junior Secured Subordinated Notes	6.375%	9/15/22	1,820,000EUR	2,450,357 ^(a)
Total Media				10,394,160
Total Consumer Discretionary				18,587,234

See Notes to Financial Statements.

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Schedule of investments (cont d)

December 31, 2012

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Consumer Staples 3.1%				
Food & Staples Retailing 2.0%				
CVS Corp., Pass-Through Trust, Secured Bonds	5.789%	1/10/26	510,838	\$ 582,355(a)
CVS Pass-Through Trust, Secured Notes	5.880%	1/10/28	502,699	578,843
CVS Pass-Through Trust, Secured Notes	6.036%	12/10/28	496,329	580,343
CVS Pass-Through Trust, Secured Notes	6.943%	1/10/30	470,207	591,873
CVS Pass-Through Trust, Secured Notes	7.507%	1/10/32	452,191	596,087(a)
Post Holdings Inc., Senior Notes	7.375%	2/15/22	640,000	701,200(a)
Total Food & Staples Retailing				3,630,701
Food Products 0.5%				
Ahold Lease USA Inc., Pass-Through Certificates	8.620%	1/2/25	686,921	851,782(c)
Household Products 0.2%				
Harbinger Group Inc., Senior Secured Notes	7.875%	7/15/19	340,000	337,025(a)
Tobacco 0.4%				
Alliance One International Inc., Senior Notes	10.000%	7/15/16	660,000	694,650
Total Consumer Staples				5,514,158
Energy 6.3%				
Energy Equipment & Services 0.8%				
Compagnie Generale de Geophysique-Veritas, Senior Notes	6.500%	6/1/21	750,000	802,500
GulfMark Offshore Inc., Senior Notes	6.375%	3/15/22	410,000	422,300(a)
Hercules Offshore Inc., Senior Secured Notes	10.500%	10/15/17	155,000	167,012(a)
Total Energy Equipment & Services				1,391,812
Oil, Gas & Consumable Fuels 5.5%				
Anadarko Finance Co., Senior Notes	7.500%	5/1/31	570,000	754,148
Arch Coal Inc., Senior Notes	7.000%	6/15/19	750,000	697,500
Atlas Pipeline Partners LP/Atlas Pipeline Finance Corp., Senior Notes	6.625%	10/1/20	170,000	175,950(a)
Burlington Resources Finance Co., Senior Notes	7.400%	12/1/31	450,000	641,509
Chesapeake Energy Corp., Senior Notes	7.250%	12/15/18	270,000	294,300
Chesapeake Energy Corp., Senior Notes	6.625%	8/15/20	220,000	235,950
Chesapeake Energy Corp., Senior Notes	6.125%	2/15/21	440,000	456,500
Colorado Interstate Gas Co., Senior Notes	6.800%	11/15/15	150,000	173,824
CONSOL Energy Inc., Senior Notes	8.250%	4/1/20	440,000	476,300
Devon Energy Corp., Debentures	7.950%	4/15/32	310,000	458,632
El Paso Corp., Medium-Term Notes	7.800%	8/1/31	190,000	221,531
EXCO Resources Inc., Senior Notes	7.500%	9/15/18	490,000	475,300
Hess Corp., Notes	7.875%	10/1/29	350,000	486,638
Magnum Hunter Resources Corp., Senior Notes	9.750%	5/15/20	290,000	300,875(a)
Pacific Rubiales Energy Corp., Senior Notes	7.250%	12/12/21	350,000	404,250(a)
Petrobras International Finance Co., Senior Notes	5.375%	1/27/21	1,060,000	1,193,369

See Notes to Financial Statements.

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Oil, Gas & Consumable Fuels continued				
Plains Exploration & Production Co., Senior Notes	8.625%	10/15/19	125,000	\$ 142,188
Quicksilver Resources Inc., Senior Notes	11.750%	1/1/16	185,000	182,688
Regency Energy Partners LP/Regency Energy Finance Corp., Senior Notes	6.500%	7/15/21	750,000	821,250
Reliance Holdings USA Inc., Senior Notes	5.400%	2/14/22	250,000	279,619(a)
Teekay Corp., Senior Notes	8.500%	1/15/20	310,000	327,050
Williams Cos. Inc., Debentures	7.500%	1/15/31	413,000	516,344
Williams Cos. Inc., Senior Notes	8.750%	3/15/32	39,000	54,059
Total Oil, Gas & Consumable Fuels				9,769,774
Total Energy				11,161,586
Financials 10.5%				
Capital Markets 1.2%				
Goldman Sachs Group Inc., Senior Notes	5.250%	7/27/21	800,000	911,981
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	1,000,000	1,133,327
Total Capital Markets				2,045,308
Commercial Banks 1.9%				
Barclays Bank PLC, Subordinated Notes	10.179%	6/12/21	610,000	830,466(a)
BBVA US Senior SAU, Senior Notes	4.664%	10/9/15	230,000	235,823
Credit Agricole SA, Subordinated Notes	8.375%	10/13/19	510,000	540,600(a)(d)(e)
Intesa Sanpaolo SpA, Senior Notes	3.625%	8/12/15	300,000	300,177(a)
M&T Bank Corp., Junior Subordinated Notes	6.875%	6/15/16	760,000	791,433(a)(e)
Royal Bank of Scotland Group PLC, Subordinated Notes	5.050%	1/8/15	230,000	238,002
Santander US Debt SA Unipersonal, Senior Notes	3.724%	1/20/15	300,000	301,362(a)
Total Commercial Banks				3,237,863
Consumer Finance 1.2%				
Ally Financial Inc., Senior Notes	8.000%	3/15/20	350,000	428,750
HSBC Finance Corp., Notes	4.750%	7/15/13	1,670,000	1,704,853
Total Consumer Finance				2,133,603
Diversified Financial Services 5.0%				
Bank of America Corp., Senior Notes	5.000%	5/13/21	1,100,000	1,255,817
Citigroup Inc., Subordinated Notes	6.625%	6/15/32	1,000,000	1,155,055
General Electric Capital Corp., Notes	5.300%	2/11/21	450,000	522,352
General Electric Capital Corp., Subordinated Debentures	6.375%	11/15/67	500,000	527,500(d)
International Lease Finance Corp., Senior Notes	8.750%	3/15/17	1,380,000	1,593,900
International Lease Finance Corp., Senior Notes	5.875%	8/15/22	750,000	794,409
JPMorgan Chase & Co., Subordinated Notes	5.125%	9/15/14	1,300,000	1,382,607
Nationstar Mortgage LLC/Nationstar Capital Corp., Senior Notes	7.875%	10/1/20	550,000	580,250(a)

See Notes to Financial Statements.

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Schedule of investments (cont d)

December 31, 2012

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
<i>Diversified Financial Services continued</i>				
UFJ Finance Aruba AEC	6.750%	7/15/13	500,000	\$ 515,792
ZFS Finance USA Trust II, Bonds	6.450%	12/15/65	500,000	535,000(a)(d)
<i>Total Diversified Financial Services</i>				8,862,682
<i>Insurance 1.2%</i>				
ING Capital Funding Trust III, Junior Subordinated Bonds	3.911%	3/31/13	100,000	94,937(d)(e)
Liberty Mutual Group Inc., Junior Subordinated Bonds	7.800%	3/7/37	200,000	222,500(a)
Metlife Inc., Junior Subordinated Notes	10.750%	8/1/39	500,000	755,000
XL Capital Ltd.	5.250%	9/15/14	1,000,000	1,064,837
<i>Total Insurance</i>				2,137,274
Total Financials				
				18,416,730
<i>Health Care 0.7%</i>				
<i>Health Care Providers & Services 0.7%</i>				
HCA Holdings Inc., Senior Notes	6.250%	2/15/21	200,000	205,000
HCA Inc., Debentures	7.500%	11/15/95	185,000	159,563
HCA Inc., Notes	6.375%	1/15/15	430,000	464,937
HCA Inc., Notes	7.690%	6/15/25	90,000	92,025
HCA Inc., Senior Notes	6.250%	2/15/13	85,000	85,425
Vanguard Health Holdings Co., II LLC, Senior Notes	8.000%	2/1/18	215,000	222,525
Total Health Care				1,229,475
<i>Industrials 10.7%</i>				
<i>Aerospace & Defense 0.5%</i>				
Boeing Co., Notes	6.125%	2/15/33	600,000	802,660
<i>Airlines 8.5%</i>				
Air 2 US, Notes	8.027%	10/1/19	2,066,322	2,128,311(a)
America West Airlines Inc., Ambac Assurance Corp.	8.057%	7/2/20	2,034,850	2,182,377
Continental Airlines Inc., Pass-Through Certificates	7.160%	9/24/14	14,041	13,971
Continental Airlines Inc., Pass-Through Certificates	6.900%	1/2/18	740,014	804,765
Continental Airlines Inc., Pass-Through Certificates	6.820%	5/1/18	908,918	954,363(c)
Continental Airlines Inc., Pass-Through Certificates	6.545%	2/2/19	1,007,567	1,098,248
Continental Airlines Inc., Pass-Through Certificates	8.048%	11/1/20	508,217	575,556
Continental Airlines Inc., Pass-Through Certificates	6.703%	6/15/21	669,050	727,592

See Notes to Financial Statements.

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Airlines continued				
Continental Airlines Inc., Pass-Through Trust, Secured Notes	6.250%	4/11/20	1,000,000	\$ 1,060,000
DAE Aviation Holdings Inc., Senior Notes	11.250%	8/1/15	231,000	237,353(a)
Delta Air Lines Inc., Pass-Through Certificates, Secured Notes	8.021%	8/10/22	147,598	161,428
Northwest Airlines Corp., Pass-Through Certificates	7.575%	3/1/19	438,934	476,244
US Airways Pass-Through Trust, Pass-Through Certificates	6.850%	1/30/18	2,346,868	2,452,478
US Airways Pass-Through Trust, Secured Notes	7.125%	10/22/23	1,886,976	2,122,848
Total Airlines				14,995,534
Building Products 0.0%				
Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes	11.000%	6/30/15	65,000	64,350(a)(f)
Commercial Services & Supplies 1.2%				
Algeco Scotsman Global Finance PLC, Senior Notes	10.750%	10/15/19	420,000	413,700(a)
Altegrity Inc., Senior Subordinated Notes	10.500%	11/1/15	310,000	269,700(a)
American Reprographics Co., Senior Notes	10.500%	12/15/16	490,000	481,425
Taylor Morrison Communities Inc./Monarch Communities Inc., Senior Notes	7.750%	4/15/20	820,000	869,200(a)
Taylor Morrison Communities Inc./Monarch Communities Inc., Senior Notes	7.750%	4/15/20	100,000	106,000(a)
Total Commercial Services & Supplies				2,140,025
Electrical Equipment 0.2%				
International Wire Group Holdings Inc., Senior Secured Notes	8.500%	10/15/17	340,000	343,400(a)
Machinery 0.2%				
Cleaver-Brooks Inc., Senior Secured Notes	8.750%	12/15/19	150,000	154,875(a)
Silver II Borrower/Silver II U.S. Holdings LLC, Senior Notes	7.750%	12/15/20	250,000	258,750(a)
Total Machinery				413,625
Road & Rail 0.1%				
Kansas City Southern de Mexico, Senior Notes	12.500%	4/1/16	111,000	120,990
Total Industrials				18,880,584
Information Technology 0.7%				
Computers & Peripherals 0.3%				
Hewlett-Packard Co., Senior Notes	4.650%	12/9/21	500,000	501,945
IT Services 0.4%				
Electronic Data Systems Corp., Notes	7.450%	10/15/29	500,000	586,266
First Data Corp., Senior Secured Notes	6.750%	11/1/20	150,000	151,500(a)
Total IT Services				737,766

See Notes to Financial Statements.

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Schedule of investments (cont d)

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Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Semiconductors & Semiconductor Equipment 0.0%				
Freescal Semiconductor Inc., Senior Subordinated Notes	10.125%	12/15/16	28,000	\$ 28,840
Total Information Technology				1,268,551
Materials 4.6%				
Construction Materials 0.1%				
Cemex SAB de CV, Senior Secured Notes	9.000%	1/11/18	230,000	248,975(a)
Containers & Packaging 1.6%				
Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., Senior Notes	9.125%	10/15/20	415,000	450,275(a)
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC/Reynolds Group Issuer (Luxembourg) SA, Senior Notes	9.875%	8/15/19	2,300,000	2,461,000
Total Containers & Packaging				2,911,275
Metals & Mining 2.1%				
ArcelorMittal, Senior Notes	5.000%	2/25/17	310,000	312,912
ArcelorMittal, Senior Notes	6.000%	3/1/21	460,000	458,681
Cliffs Natural Resources Inc., Senior Notes	3.950%	1/15/18	10,000	10,065
Cliffs Natural Resources Inc., Senior Notes	4.800%	10/1/20	30,000	29,814
Cliffs Natural Resources Inc., Senior Notes	4.875%	4/1/21	920,000	913,710
Molycorp Inc., Senior Secured Notes	10.000%	6/1/20	910,000	846,300(a)
Prince Mineral Holding Corp., Senior Secured Notes	11.500%	12/15/19	260,000	269,100(a)
Vedanta Resources PLC, Senior Bonds	8.250%	6/7/21	580,000	639,450(a)
Vedanta Resources PLC, Senior Notes	8.750%	1/15/14	130,000	136,500(a)
Total Metals & Mining				3,616,532
Paper & Forest Products 0.8%				
Appleton Papers Inc., Senior Secured Notes	11.250%	12/15/15	235,000	253,800
Fibria Overseas Finance Ltd., Senior Notes	6.750%	3/3/21	390,000	431,925(a)
Weyerhaeuser Co., Debentures	7.375%	3/15/32	560,000	705,642
Total Paper & Forest Products				1,391,367
Total Materials				8,168,149
Telecommunication Services 2.9%				
Diversified Telecommunication Services 2.4%				
AT&T Inc., Senior Notes	5.350%	9/1/40	170,000	197,973
Cincinnati Bell Telephone Co., Senior Debentures	6.300%	12/1/28	25,000	23,750
Deutsche Telekom International Finance BV	5.250%	7/22/13	600,000	615,344
France Telecom SA, Notes	8.500%	3/1/31	600,000	898,122
Intelsat Luxembourg SA, Senior Notes	11.250%	2/4/17	750,000	793,125
Qwest Corp., Senior Notes	7.500%	10/1/14	150,000	164,174
Wind Acquisition Finance SA, Senior Notes	11.750%	7/15/17	1,500,000	1,571,250(a)
Total Diversified Telecommunication Services				4,263,738

See Notes to Financial Statements.

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Wireless Telecommunication Services 0.5%				
Sprint Capital Corp., Senior Notes	6.875%	11/15/28	750,000	\$ 780,000
Total Telecommunication Services				5,043,738
Utilities 3.2%				
Electric Utilities 1.0%				
FirstEnergy Corp., Notes	7.375%	11/15/31	1,020,000	1,317,417
GenOn REMA LLC, Pass-Through Certificates	9.681%	7/2/26	500,000	537,500
Total Electric Utilities				1,854,917
Gas Utilities 0.2%				
Southern Natural Gas Co., Senior Notes	8.000%	3/1/32	20,000	28,519
Transportadora de Gas Internacional SA ESP, Senior Notes	5.700%	3/20/22	220,000	243,100(a)
Total Gas Utilities				271,619
Independent Power Producers & Energy Traders 2.0%				
AES Corp., Senior Notes	9.750%	4/15/16	360,000	430,200
AES Corp., Senior Notes	8.000%	6/1/20	100,000	115,000
Calpine Corp., Senior Secured Notes	7.875%	1/15/23	630,000	711,900(a)
Energy Future Intermediate Holding Co. LLC/EFIH Finance Inc., Senior Secured Notes	10.000%	12/1/20	885,000	997,837
First Wind Holdings Inc., Senior Secured Notes	10.250%	6/1/18	436,000	447,990(a)
Foresight Energy LLC/Foresight Energy Corp., Senior Notes	9.625%	8/15/17	750,000	802,500(a)
Total Independent Power Producers & Energy Traders				3,505,427
Total Utilities				5,631,963
Total Corporate Bonds & Notes (Cost \$85,781,799)				93,902,168
Asset-Backed Securities 30.2%				
AAA Trust, 2005-1A 1A3B	0.620%	2/27/35	474,078	346,373(a)(d)
ABFS Mortgage Loan Trust, 2002-3 M1	5.902%	9/15/33	1,052,680	795,703
ACE Securities Corp., 2005-WF1 M1	0.630%	5/25/35	470,000	449,306(d)
Ameriquest Mortgage Securities Inc., 2004-R1 A1B	1.010%	2/25/34	571,781	494,376(d)
Ameriquest Mortgage Securities Inc., 2004-R9 M1	1.140%	10/25/34	384,364	372,696(d)
Amortizing Residential Collateral Trust, 2004-1 A5	0.710%	10/25/34	231,962	222,864(d)
Argent Securities Inc., 2003-W3 M1	1.335%	9/25/33	150,189	144,938(d)
Associates Manufactured Housing Pass Through Certificates, 1997-CLB2	8.900%	6/15/28	2,461,402	2,486,016(c)
Associates Manufactured Housing Pass-Through Certificates, 1997-1 B1	7.600%	6/15/28	298,305	323,090(d)
Associates Manufactured Housing Pass-Through Certificates, 1997-2 B1	7.150%	3/15/28	1,230,448	1,461,229(d)
Bank of America Manufactured Housing Contract Trust, 1997-2M	6.900%	4/10/28	98,142	111,878(d)

See Notes to Financial Statements.

Schedule of investments (cont d)

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Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Asset-Backed Securities continued				
Bayview Financial Asset Trust, 2004-SSRA A1	0.810%	12/25/39	286,284	\$ 240,479(a)(d)
Bayview Financial Asset Trust, 2007-SR1A A	0.660%	3/25/37	1,831,362	1,410,149(a)(d)
Bayview Financial Asset Trust, 2007-SR1A M1	1.010%	3/25/37	1,204,297	809,890(a)(d)
Bayview Financial Asset Trust, 2007-SR1A M3	1.360%	3/25/37	456,802	274,081(a)(d)
Bayview Financial Asset Trust, 2007-SR1A M4	1.710%	3/25/37	124,582	67,275(a)(d)
Bear Stearns Asset Backed Securities Trust, 2006-SD3 1P0, STRIPS, PO	0.000%	8/25/36	779,618	520,118
Bear Stearns Asset Backed Securities Trust, 2007-SD1 1A3A	6.500%	10/25/36	1,229,295	986,363
Centex Home Equity Loan Trust, 2003-B AF4	3.735%	2/25/32	349,152	333,580
Citigroup Mortgage Loan Trust Inc., 2006-SHL1 A1	0.410%	11/25/45	149,478	139,320(a)(d)
Contimortgage Home Equity Trust, 1997-4 B1F	7.330%	10/15/28	289,230	294,143
Countrywide Asset-Backed Certificates, 2004-3 3A3	0.970%	8/25/34	147,705	145,797(d)
Countrywide Asset-Backed Certificates, 2006-3 3A1	0.330%	6/25/36	648,023	595,045(d)
Countrywide Asset-Backed Certificates, 2007-13 2A1	1.110%	10/25/47	1,049,655	762,624(d)
Countrywide Asset-Backed Certificates, 2007-SEA2 1A1	1.210%	8/25/47	49,370	34,547(a)(d)
Countrywide Home Equity Loan Trust, 2006-HW 2A1B	0.359%	11/15/36	1,097,716	934,994(d)
Credit-Based Asset Servicing and Securitization LLC, 2004-CB2 M1	0.990%	7/25/33	2,177,849	1,824,482(d)
Credit-Based Asset Servicing and Securitization LLC, 2005-CB4 M1	0.630%	8/25/35	2,000,000	1,576,438(d)
Credit-Based Asset Servicing and Securitization LLC, 2005-RP1 M1	0.830%	1/25/35	756,683	724,980(a)(d)
CS First Boston Mortgage Securities Corp., 2004-CF2 2A1	0.680%	5/25/44	24,230	23,723(a)(d)
Educap Student Loan Asset-Backed Notes, 2004-1 B	1.716%	6/25/38	1,255,340	1,098,422(c)(d)
Education Funding Capital Trust, 2004-1 B1	1.950%	6/15/43	1,200,000	1,080,000(c)(d)
EMC Mortgage Loan Trust, 2003-B A1	0.760%	11/25/41	58,457	55,425(a)(d)
Firstfed Corp. Manufactured Housing Contract, 1996-1 B	8.060%	10/15/22	1,246,160	1,020,955(a)
Fremont Home Loan Trust, 2006-2 2A2	0.320%	2/25/36	13,686	13,660(d)
GMAC Mortgage Corp. Loan Trust, 2004-VF1 A1	0.960%	2/25/31	292,958	279,131(a)(d)
Green Tree Financial Corp., 1992-2 B	9.150%	1/15/18	26,818	5,442
Green Tree Financial Corp., 1993-1 B	8.450%	4/15/18	50,603	36,141
Green Tree Home Improvement Loan Trust, 1996-D HIB2	8.000%	9/15/27	27,277	20,665

See Notes to Financial Statements.

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Asset-Backed Securities continued				
Greenpoint Manufactured Housing, 1999-2 A2	2.977%	3/18/29	425,000	\$ 359,218(d)
Greenpoint Manufactured Housing, 1999-3 2A2	3.604%	6/19/29	125,000	107,772(d)
Greenpoint Manufactured Housing, 1999-4 A2	3.708%	2/20/30	125,000	107,026(d)
Greenpoint Manufactured Housing, 1999-5 A5	7.820%	12/15/29	670,801	709,259(d)
Greenpoint Manufactured Housing, 2001-2 IA2	3.712%	2/20/32	450,000	383,342(d)
Greenpoint Manufactured Housing, 2001-2 IIA2	3.709%	3/13/32	675,000	565,782(d)
GSAA Home Equity Trust, 2004-8 A3A	0.580%	9/25/34	208,778	204,887(d)
GSAA Home Equity Trust, 2006-19 A3A	0.450%	12/25/36	712,868	391,570(d)
GSAMP Trust, 2003-SEA2 A1	4.422%	7/25/33	1,708,368	1,460,157
GSRPM Mortgage Loan Trust, 2006-1 A1	0.510%	3/25/35	128,352	122,670(a)(d)
GSRPM Mortgage Loan Trust, 2006-2 A2	0.510%	9/25/36	235,216	205,888(a)(d)
Indymac Manufactured Housing Contract, 1997-1 A5	6.970%	2/25/28	178,411	177,742
Keycorp Student Loan Trust, 2003-A 1A2	0.575%	10/25/32	968,886	893,693(d)
Lehman XS Trust, 2007-1 WF1	5.525%	1/25/37	821,629	484,996(d)
Long Beach Mortgage Loan Trust, 2004-4 M1	1.110%	10/25/34	1,620,000	1,431,242(d)
Morgan Stanley ABS Capital I, 2003-SD1 A1	1.210%	3/25/33	19,765	17,897(d)
Morgan Stanley Capital Inc., 2003-NC9 M	1.335%	9/25/33	1,581,043	1,202,222(d)
Morgan Stanley Capital Inc., 2004-HE7 M1	1.110%	8/25/34	1,539,471	1,408,428(d)
New Century Home Equity Loan Trust, 2004-2 A2	0.580%	8/25/34	475,320	433,529(d)
New Century Home Equity Loan Trust, 2004-3 M1	1.140%	11/25/34	1,480,740	1,232,508(d)
Oakwood Mortgage Investors Inc., 2002-B A3	6.060%	3/15/25	223,674	232,645(d)
Option One Mortgage Loan Trust, 2003-2 A2	0.810%	4/25/33	373,888	338,114(d)
Origen Manufactured Housing, 2006-A A2	2.920%	10/15/37	2,700,000	1,782,000(d)
Origen Manufactured Housing, 2007-A A2	2.630%	4/15/37	3,227,827	2,098,087(d)
PAMCO CLO, 1997-1A B	7.910%	8/6/13	738,191	232,530(c)
Park Place Securities Inc., 2004-WCW1 M2	0.890%	9/25/34	1,900,000	1,865,426(d)
Park Place Securities Inc., 2004-WHQ2 M2	0.840%	2/25/35	750,000	739,414(d)
Pegasus Aviation Lease Securitization, 2000-1 A2	8.370%	3/25/30	1,600,000	432,000(a)
Pennsylvania Higher Education Assistance Agency, 2003-1 B1	2.430%	7/25/42	3,000,000	2,640,000(d)
People's Choice Home Loan Securities Trust, 2004-1 A3	1.250%	6/25/34	400,842	371,414(d)
RAAC Series, 2007-RP1 M1	0.760%	5/25/46	210,000	94,949(a)(d)
Renaissance Home Equity Loan Trust, 2004-2 AF4	5.392%	7/25/34	471,869	478,092
Renaissance Home Equity Loan Trust, 2005-2 AF5	5.201%	8/25/35	750,000	561,935
Renaissance Home Equity Loan Trust, 2005-3 AV3	0.590%	11/25/35	653,321	567,227(d)
Residential Asset Mortgage Products Inc., 2004-RZ1 AII	0.690%	3/25/34	362,894	301,692(d)
Residential Asset Securities Corp., 2001-KS3 AII	0.670%	9/25/31	269,709	250,026(d)

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Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Asset-Backed Securities continued				
Residential Asset Securities Corp., 2002-KS2 AI6	6.228%	4/25/32	373,804	\$ 385,651(d)
Residential Asset Securities Corp., 2003-KS8 AI6	4.830%	10/25/33	431,621	418,328(d)
Settlement Fee Finance LLC, 2004-1A A	9.100%	7/25/34	788,670	815,327(a)
SLM Student Loan Trust, 2001-4 B	0.815%	1/25/21	1,000,000	945,300(d)
Structured Asset Securities Corp., 2002-AL1 A3	3.450%	2/25/32	623,688	618,127
Structured Asset Securities Corp., 2003-AL1 A	3.357%	4/25/31	90,508	88,145(a)
Structured Asset Securities Corp., 2005-4XS 2A1A	1.962%	3/25/35	470,658	425,278(d)
Structured Asset Securities Corp., 2006-GEL3 A2	0.440%	7/25/36	1,267,769	1,227,036(a)(d)
Structured Asset Securities Corp., 2007-BC1 A2	0.260%	2/25/37	138,529	137,856(d)
Vanderbilt Mortgage Finance, 2000-B IB2	9.250%	7/7/30	634,633	656,791(d)
Total Asset-Backed Securities (Cost \$48,275,331)				53,119,556
Collateralized Mortgage Obligations 23.2%				
American Home Mortgage Investment Trust, 2007-A 4A	0.660%	7/25/46	739,956	232,131(a)(d)
Banc of America Funding Corp., 2004-B 6A1	2.681%	12/20/34	473,828	307,040(d)
BCAP LLC Trust, 2009-RR12 2A2	0.571%	3/26/35	1,844,014	748,782(a)(d)
Bear Stearns Adjustable Rate Mortgage Trust, 2004-1 23A1	5.362%	4/25/34	175,995	173,629(d)
Bear Stearns Alt-A Trust, 2004-03 A1	0.850%	4/25/34	399,230	368,586(d)
Bear Stearns Alt-A Trust, 2004-08 1A	0.910%	9/25/34	203,328	197,706(d)
Bear Stearns Alt-A Trust, 2005-10 21A1	3.062%	1/25/36	945,877	600,892(d)
Bear Stearns Asset Backed Securities Trust, 2002-AC1 B4	7.000%	1/25/32	753,031	254,219(a)
Bella Vista Mortgage Trust, 2004-2 A1	0.580%	2/25/35	1,721,798	1,082,066(d)
BlackRock Capital Finance LP, 1997-R2 B5	6.188%	12/25/35	78,434	3,333(c)(d)
Chevy Chase Mortgage Funding Corp., 2004-3A A1	0.460%	8/25/35	1,228,803	970,123(a)(d)
Chevy Chase Mortgage Funding Corp., 2004-4A A1	0.440%	10/25/35	1,792,629	1,419,440(a)(d)
Chevy Chase Mortgage Funding Corp., 2005-4A A1	0.410%	10/25/36	1,529,354	1,139,740(a)(d)
Countrywide Home Loan Mortgage Pass-Through Trust, 2004-HYB5 7A1	2.435%	4/20/35	2,542,944	2,192,183(d)
Countrywide Home Loans, 2004-R2 1AF1	0.630%	11/25/34	392,799	331,256(a)(d)
Countrywide Home Loans, 2005-7 1A1	0.750%	3/25/35	1,314,901	1,143,200(d)
Countrywide Home Loans, 2005-R2 2A1	7.000%	6/25/35	1,116,813	1,083,122(a)
Countrywide Home Loans, 2006-HYB4 3B	4.913%	6/20/36	1,039,149	705,080(d)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-R1 1AF1	0.570%	3/25/35	657,106	541,019(a)(d)
Credit Suisse Mortgage Capital Certificates, 2009-16R 4A1	2.868%	3/26/35	365,061	344,066(a)(d)
Federal Home Loan Mortgage Corp. (FHLMC), Multi-Family Structured Pass-Through Certificates, K007 X1, IO	1.229%	4/25/20	11,041,937	740,903(d)

See Notes to Financial Statements.

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Collateralized Mortgage Obligations continued				
Federal Home Loan Mortgage Corp. (FHLMC), Multi-Family Structured Pass-Through Certificates, K008 X1, IO	1.675%	6/25/20	977,001	\$ 91,894(d)
Federal Home Loan Mortgage Corp. (FHLMC), Multi-Family Structured Pass-Through Certificates, K009 X1, IO	1.506%	8/25/20	5,770,860	476,552(d)
Greenpoint Mortgage Funding Trust, 2005-AR5 2A2	0.480%	11/25/46	247,807	808,472(d)
Greenpoint Mortgage Funding Trust, 2005-AR5 3A2	0.480%	11/25/46	858,918	643,072(d)
GSMPS Mortgage Loan Trust, 2001-2 A	7.500%	6/19/32	1,350,208	1,420,193(a)(d)
GSMPS Mortgage Loan Trust, 2004-4 1AF	0.610%	6/25/34	824,319	704,513(a)(d)
Harborview Mortgage Loan Trust, 2004-08 3A2	0.610%	11/19/34	141,542	96,160(d)
Harborview Mortgage Loan Trust, 2004-10 4A	2.913%	1/19/35	354,609	357,106(d)
Harborview Mortgage Loan Trust, 2005-9 B10	1.961%	6/20/35	1,029,123	34,244(d)
Impac CMB Trust, 2004-9 1A1	0.970%	1/25/35	45,664	41,026(d)
Impac CMB Trust, 2005-2 2A2	0.610%	4/25/35	199,028	190,537(d)
Impac CMB Trust, 2A-10	0.850%	3/25/35	377,331	306,252(d)
Indymac Manufactured Housing Contract, A2-2	6.170%	8/25/29	168,029	167,380
Jefferies & Co., 2009-B 9A	0.538%	11/21/35	98,614	325,899(a)(c)(d)
JP Morgan Mortgage Trust, 2005-A6 3A3	3.109%	9/25/35	630,000	513,584(d)
JPMorgan Alternative Loan Trust, 2006-S1 3A4	6.180%	3/25/36	1,087,132	633,388(d)
JPMorgan Mortgage Trust, 2007-A2 4A2	5.524%	4/25/37	259,501	236,314(d)
LB-UBS Commercial Mortgage Trust, 2001-C3 X, IO, STRIPS	0.738%	6/15/36	375,120	305(a)(d)(f)
Luminent Mortgage Trust, 2006-6 A1	0.410%	10/25/46	880,252	689,918(d)
MASTR Adjustable Rate Mortgages Trust, 2004-13 3A7	2.630%	11/21/34	2,000,000	2,069,896(d)
MASTR Alternative Loans Trust, PAC, 2003-7 7A1	0.610%	11/25/33	7,684	7,668(d)
MASTR ARM Trust, 2004-7 6M1	0.860%	8/25/34	799,601	738,349(d)
Merit Securities Corp., 11PA 3A1	0.830%	4/28/27	139,844	116,952(a)(d)
Merit Securities Corp., 11PA B3	2.460%	9/28/32	850,000	677,041(a)(d)
Metropolitan Asset Funding Inc., 1998-BI B1	8.000%	11/20/24	670,891	476,901(d)
Nomura Asset Acceptance Corp., 2004-AR4 1A1	2.658%	12/25/34	354,270	357,073(d)
Prime Mortgage Trust, 2005-2 2XB, STRIPS, IO	1.743%	10/25/32	3,250,927	83,143(d)
Prime Mortgage Trust, 2005-5 1X, STRIPS, IO	0.941%	7/25/34	6,124,170	63,110(d)
Prime Mortgage Trust, 2005-5 1XB, STRIPS, IO	1.182%	7/25/34	1,771,242	14,702(d)
Regal Trust IV, 1999-1 A	2.538%	9/29/31	66,547	63,251(a)(d)
Residential Asset Mortgage Products, Inc., 2005-SL2 AP0, STRIPS, PO	0.010%	2/25/32	146,234	133,998
Sequoia Mortgage Trust, 2003-2 A2	1.246%	6/20/33	41,882	40,938(d)
Sequoia Mortgage Trust, 2004-10 A1A	0.521%	11/20/34	25,724	24,784(d)

See Notes to Financial Statements.

Schedule of investments (cont d)

December 31, 2012

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Collateralized Mortgage Obligations continued				
Sequoia Mortgage Trust, 2004-11 A1	0.511%	12/20/34	39,358	\$ 36,587(d)
Sequoia Mortgage Trust, 2004-12 A1	0.481%	1/20/35	320,815	290,988(d)
Structured Asset Securities Corp., 1998-RF2 A	7.493%	7/15/27	351,432	357,403(a)(d)
Structured Asset Securities Corp., 2002-9 A2	0.510%	10/25/27	775,255	765,851(d)
Structured Asset Securities Corp., 2003-9A 2A2	2.734%	3/25/33	219,773	217,564(d)
Structured Asset Securities Corp., 2004-NP1 A	0.610%	9/25/33	211,068	192,184(a)(d)
Structured Asset Securities Corp., 2005-4XS 3A4	4.790%	3/25/35	291,827	292,104
Thornburg Mortgage Securities Trust, 2003-4 A1	0.850%	9/25/43	699,048	694,565(d)
Thornburg Mortgage Securities Trust, 2004-03 A	0.950%	9/25/44	714,042	700,398(d)
Thornburg Mortgage Securities Trust, 2007-4 3A1	6.108%	9/25/37	441,032	451,453(d)
WaMu Mortgage Pass-Through Certificates, 2004-AR06 A	0.670%	5/25/44	562,014	531,418(d)
WaMu Mortgage Pass-Through Certificates, 2004-AR08 A1	0.670%	6/25/44	388,945	332,633(d)
WaMu Mortgage Pass-Through Certificates, 2004-AR13 A2A	0.620%	11/25/34	1,591,101	1,551,734(d)
WaMu Mortgage Pass-Through Certificates, 2007-HY7 2A3	2.569%	7/25/37	1,359,897	1,027,897(d)
Washington Mutual Alternative Mortgage Pass-Through Certificates, 2006-5 3A3	6.221%	7/25/36	767,575	388,647
Washington Mutual Alternative Mortgage Pass-Through Certificates, 2006-7 A2A	5.667%	9/25/36	1,259,221	791,597
Washington Mutual Alternative Mortgage Pass-Through Certificates, 2006-7 A3	6.081%	9/25/36	154,499	93,080
Washington Mutual Inc., 2004-AR12 A2A	0.640%	10/25/44	470,612	445,279(d)
Washington Mutual Inc., 2005-AR8 2A1A	0.500%	7/25/45	378,005	356,777(d)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2004-AR02 A	1.565%	4/25/44	263,214	246,963(d)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2004-AR13 A1A	0.610%	11/25/34	1,131,386	1,119,537(d)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2005-AR13 A1A1	0.500%	10/25/45	313,722	297,830(d)
Washington Mutual Inc., Mortgage Pass-Through Certificates, 2006-AR5 3A	1.100%	7/25/46	1,052,653	514,210(d)
Washington Mutual Inc., MSC Pass-Through Certificates, 2004-RA1 2A	7.000%	3/25/34	33,196	35,034
Wells Fargo Mortgage Loan Trust, 2010-RR2 1A2	3.090%	9/27/35	2,418,992	2,016,460(a)(d)
Total Collateralized Mortgage Obligations (Cost \$35,764,174)				40,931,324
Collateralized Senior Loans 2.0%				
Consumer Discretionary 1.2%				
Equinox Fitness Clubs, 2nd Lien Term Loan		5/16/20	430,000	430,000(g)(h)
Las Vegas Sands LLC, Extended Delayed Draw Term Loan	2.760%	11/23/16	140,566	140,722(g)

See Notes to Financial Statements.

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Consumer Discretionary continued				
Las Vegas Sands LLC, Extended Term Loan B	2.760%	11/23/16	699,388	\$ 700,161(g)
Univision Communications Inc., Extended Term Loan	4.462%	3/31/17	791,841	777,984(g)
Total Consumer Discretionary				2,048,867
Consumer Staples 0.1%				
AdvancePierre Foods Inc., 2nd Lien Term Loan		10/10/17	180,000	182,925(g)(h)
Energy 0.2%				
Chesapeake Energy Corp., New Term Loan	5.750%	12/1/17	330,000	330,229(g)
Health Care 0.1%				
Community Health Systems Inc., Term Loan	3.811%	1/25/17	91,687	92,159(g)
Industrials 0.0%				
Trico Shipping AS, New Term Loan A	10.000%	5/13/14	18,802	18,708(f)(g)
Trico Shipping AS, New Term Loan B		5/13/14	33,104	32,939(f)(h)
Total Industrials				51,647
Information Technology 0.2%				
CompuCom Systems Inc., 2nd Lien Term Loan	10.250%	10/2/19	410,000	406,925(g)
First Data Corp., Non-Extended Term Loan B2	2.961%	9/24/14	22,827	22,791(g)
Total Information Technology				429,716
Materials 0.2%				
Kronos Inc., 2nd Lien New Term Loan	9.750%	4/30/20	330,000	330,000(g)
Total Collateralized Senior Loans (Cost \$3,386,068)				3,465,543
Mortgage-Backed Securities 0.2%				
FNMA 0.2%				
Federal National Mortgage Association (FNMA), Whole Loan (Cost \$373,894)	6.500%	8/25/44	365,081	418,643
Municipal Bonds 6.0%				
Florida 1.3%				
Florida Educational Loan Marketing Corp.	0.560%	12/1/36	600,000	489,959(d)(i)
Southwest Student Services Corp.	0.088%	12/1/18	2,000,000	1,837,484(d)(i)
Total Florida				2,327,443
Pennsylvania 4.7%				
Pennsylvania State Higher Education Assistance Agency, Student Loan Revenue	1.179%	6/1/47	4,150,000	3,953,572(d)
Pennsylvania State Higher Education Assistance Agency, Student Loan Revenue	1.511%	5/1/46	1,300,000	1,235,827(d)
Pennsylvania State Higher Education Assistance Agency, Student Loan Revenue	1.831%	5/1/46	2,525,000	2,400,129(d)
Pennsylvania State Higher Education Assistance Agency, Student Loan Revenue	2.112%	5/1/46	650,000	617,816(d)
Total Pennsylvania				8,207,344
Total Municipal Bonds (Cost \$10,083,620)				10,534,787

See Notes to Financial Statements.

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Schedule of investments (cont d)

December 31, 2012

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Sovereign Bonds 10.6%				
<i>Argentina 0.4%</i>				
Republic of Argentina, Senior Bonds	7.000%	10/3/15	830,000 \$	740,934
<i>Brazil 1.3%</i>				
Brazil Nota do Tesouro Nacional, Notes	10.000%	1/1/14	280,000BRL	140,277
Brazil Nota do Tesouro Nacional, Notes	10.000%	1/1/17	3,748,000BRL	1,927,296
Brazil Nota do Tesouro Nacional, Notes	10.000%	1/1/21	523,000BRL	269,058
Total Brazil				2,336,631
<i>Indonesia 1.1%</i>				
JPMorgan Chase Bank N.A., Credit-Linked Notes (Indonesia Government)	7.000%	5/17/22	16,255,000,000IDR	1,911,674 (a)(c)
<i>Malaysia 0.3%</i>				
Government of Malaysia, Senior Bonds	3.835%	8/12/15	1,500,000MYR	500,233
Government of Malaysia, Senior Bonds	4.262%	9/15/16	290,000MYR	98,562
Total Malaysia				598,795
<i>Mexico 2.6%</i>				
Mexican Bonos, Bonds	8.000%	6/11/20	11,147,000MXN	1,011,972
Mexican Bonos, Bonds	6.500%	6/9/22	39,782,400MXN	3,329,826
Mexican Bonos, Bonds	10.000%	12/5/24	2,750,000MXN	297,693
Total Mexico				4,639,491
<i>Peru 1.4%</i>				
Republic of Peru, Senior Bonds	7.840%	8/12/20	5,100,000PEN	2,518,131
<i>Russia 1.4%</i>				
Russian Federation, Bonds	7.400%	6/14/17	54,810,000RUB	1,861,669
Russian Foreign Bond-Eurobond, Senior Bonds	7.500%	3/31/30	480,500	617,154(a)
Total Russia				2,478,823
<i>Turkey 0.9%</i>				
Republic of Turkey, Bonds	9.000%	3/5/14	2,140,000TRY	1,238,572
Republic of Turkey, Senior Bonds	5.625%	3/30/21	210,000	249,375
Total Turkey				1,487,947
<i>Venezuela 1.2%</i>				
Bolivarian Republic of Venezuela, Collective Action Securities, Global Senior Bonds	9.375%	1/13/34	2,000	1,980
Bolivarian Republic of Venezuela, Senior Bonds	9.250%	9/15/27	2,010,000	2,010,000
Total Venezuela				2,011,980
Total Sovereign Bonds (Cost \$18,422,934)				18,724,406

Shares

Common Stocks 0.7%

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Consumer Discretionary 0.0%

Automobiles 0.0%

General Motors Co.

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1,845*

See Notes to Financial Statements.

Western Asset Premier Bond Fund

	Shares	Value
Security		
Financials 0.6%		
<i>Diversified Financial Services 0.6%</i>		
Citigroup Inc.	25,132	\$ 994,206
Industrials 0.1%		
<i>Building Products 0.0%</i>		
Nortek Inc.	121	8,016*
<i>Marine 0.1%</i>		
DeepOcean Group Holding AS	8,860	179,616(c)(f)
Total Industrials		187,632
Total Common Stocks (Cost \$963,265)		1,183,683
	Rate	
Convertible Preferred Stocks 0.0%		
Financials 0.0%		
<i>Thriffs & Mortgage Finance 0.0%</i>		
Federal National Mortgage Association (FNMA) (Cost \$1,357,500)	5.375%	15 55,875*
Preferred Stocks 0.7%		
Consumer Discretionary 0.0%		
<i>Automobiles 0.0%</i>		
Escrow GCB General Motors		55,025 0*(c)(f)(j)
Financials 0.7%		
<i>Capital Markets 0.1%</i>		
Goldman Sachs Group Inc.	5.950%	8,062 201,389*
<i>Diversified Financial Services 0.6%</i>		
Citigroup Capital XIII	7.875%	37,975 1,059,502(d)
Corporate-Backed Trust Certificates, Series 2001-8, Class A-1	7.375%	33,900 1,017*(f)(k)
Total Diversified Financial Services		1,060,519
<i>Thriffs & Mortgage Finance 0.0%</i>		
Federal Home Loan Mortgage Corp. (FHLMC)	0.000%	100 328*(d)
Federal Home Loan Mortgage Corp. (FHLMC)	5.000%	200 534*
Total Thriffs & Mortgage Finance		862
Total Financials		1,262,770
Total Preferred Stocks (Cost \$1,195,823)		1,262,770
	Expiration Date	Warrants
Warrants 0.0%		
Charter Communications Inc.	11/30/14	265 7,221*
SemGroup Corp.	11/30/14	830 12,268*(f)
Total Warrants (Cost \$530)		19,489
Total Investments before Short-Term Investments (Cost \$205,604,938)		223,618,244

See Notes to Financial Statements.

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Schedule of investments (cont d)

December 31, 2012

Western Asset Premier Bond Fund

Security	Rate	Maturity Date	Face Amount	Value
Short-Term Investments 12.6%				
Repurchase Agreements 12.6%				
Barclays Capital Inc. repurchase agreement dated 12/31/12; Proceeds at maturity \$17,228,153; (Fully collateralized by U.S. government obligations, 0.250% due 9/15/15; Market value \$17,571,402)	0.160%	1/2/13	17,228,000	\$ 17,228,000
Deutsche Bank Securities Inc. repurchase agreement dated 12/31/12; Proceeds at maturity \$5,004,053; (Fully collateralized by U.S. government agency obligations, 1.250% due 9/28/16; Market value \$5,104,080)	0.190%	1/2/13	5,004,000	5,004,000
Total Short-Term Investments (Cost \$22,232,000)				22,232,000
Total Investments 139.5% (Cost \$227,836,938#)				245,850,244
Other Assets in Excess of Liabilities 1.4%				2,364,187
Liquidation value of Preferred Shares (40.9)%				(72,000,000)
Total Net Assets 100.0%				\$ 176,214,431

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) Payment-in-kind security for which part of the income earned may be paid as additional principal.
- (c) Security is valued in good faith in accordance with procedures approved by the Board of Trustees (See Note 1).
- (d) Variable rate security. Interest rate disclosed is as of the most recent information available.
- (e) Security has no maturity date. The date shown represents the next call date.
- (f) Illiquid security.
- (g) Interest rates disclosed represent the effective rates on collateralized senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.
- (h) All or a portion of this loan is unfunded as of December 31, 2012.
- (i) Income from this issue is considered a preference item for purposes of calculating the alternative minimum tax (AMT).
- (j) Value is less than \$1.
- (k) The coupon payment on these securities is currently in default as of December 31, 2012.
- # Aggregate cost for federal income tax purposes is \$227,926,981.

See Notes to Financial Statements.

Western Asset Premier Bond Fund

Abbreviations used in this schedule:

ARM	Adjustable Rate Mortgage
BRL	Brazilian Real
CMB	Cash Management Bill
EUR	Euro
IDR	Indonesian Rupiah
IO	Interest Only
MXN	Mexican Peso
MYR	Malaysian Ringgit
PAC	Planned Amortization Class
PEN	Peruvian Nuevo Sol
PO	Principal Only
RUB	Russian Ruble
STRIPS	Separate Trading of Registered Interest and Principal Securities
TRY	Turkish Lira

See Notes to Financial Statements.

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Statement of assets and liabilities

December 31, 2012

Assets:

Investments, at value (Cost \$205,604,938)	\$223,618,244
Repurchase agreements, at value (Cost \$22,232,000)	22,232,000
Foreign currency, at value (Cost \$289,002)	287,270
Cash	627,723
Interest receivable	2,297,875
Principal paydown receivable	54,404
Receivable for securities sold	25,000
Prepaid expenses	44,180
Total Assets	249,186,696

Liabilities:

Payable for securities purchased	447,883
Investment management fee payable	115,074
Unrealized depreciation on forward foreign currency contracts	61,700
Distributions payable to auction rate preferred stockholders	11,522
Trustees' fees payable	162
Accrued expenses	335,924
Total Liabilities	972,265

Preferred Shares:

No par value, 2,880 shares authorized, issued and outstanding, \$25,000 liquidation value per share (Note 6)	72,000,000
Total Net Assets	\$176,214,431

Net Assets:

Common shares, no par value, unlimited number of shares authorized, 11,875,364 shares issued and outstanding (Note 5)	166,091,944
Undistributed net investment income	7,223,926
Accumulated net realized loss on investments, swap contracts and foreign currency transactions	(15,053,013)
Net unrealized appreciation on investments and foreign currencies	17,951,574
Total Net Assets	\$176,214,431

Shares Outstanding	11,875,364
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Net Asset Value	\$14.84
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See Notes to Financial Statements.

Statement of operations

For the Year Ended December 31, 2012

Investment Income:	
Interest	\$15,706,582
Dividends	89,719
Total Investment Income	15,796,301
Expenses:	
Investment management fee (Note 2)	1,307,821
Excise tax (Note 1)	266,647
Audit and tax	66,136
Fund accounting fees	48,866
Shareholder reports	47,017
Custody fees	37,722
Rating agency fees	36,462
Auction participation fees	36,329
Transfer agent fees	31,911
Legal fees	27,937
Stock exchange listing fees	21,608
Auction agent fees	21,033
Trustees fees	8,584
Insurance	4,703
Miscellaneous expenses	9,164
Total Expenses	1,971,940
Net Investment Income	13,824,361
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	5,445,292
Swap contracts	(12,011)
Foreign currency transactions	484,505
Net Realized Gain	5,917,786
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	17,078,130
Swap contracts	34,238
Foreign currencies	(15,697)
Change in Net Unrealized Appreciation (Depreciation)	17,096,671
Net Gain on Investments, Swap Contracts and Foreign Currency Transactions	23,014,457
Distributions Paid to Auction Rate Preferred Stockholders from Net Investment Income	(161,617)
Increase in Net Assets from Operations	\$36,677,201

See Notes to Financial Statements.

Statements of changes in net assets

For the Years Ended December 31,	2012	2011
Operations:		
Net investment income	\$13,824,361	\$15,496,344
Net realized gain (loss)	5,917,786	(2,111,666)
Change in net unrealized appreciation (depreciation)	17,096,671	(6,392,357)
Distributions paid to auction rate preferred stockholders from net investment income	(161,617)	(165,905)
<i>Increase in Net Assets From Operations</i>	<i>36,677,201</i>	<i>6,826,416</i>
Distributions to Shareholders From (Note 1):		
Net investment income	(15,583,956)	(17,556,033)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(15,583,956)</i>	<i>(17,556,033)</i>
Fund Share Transactions:		
Reinvestment of distributions (46,866 and 89,956 shares issued, respectively)	715,544	1,321,616
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>715,544</i>	<i>1,321,616</i>
<i>Increase (Decrease) in Net Assets</i>	<i>21,808,789</i>	<i>(9,408,001)</i>
Net Assets:		
Beginning of year	154,405,642	163,813,643
End of year*	\$176,214,431	\$154,405,642
* Includes undistributed net investment income of:	\$7,223,926	\$8,315,379

See Notes to Financial Statements.

Financial highlights

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

	2012	2011	2010	2009	2008
Net asset value, beginning of year	\$13.05	\$13.96	\$12.39	\$8.72	\$14.26
Income (loss) from operations:					
Net investment income ¹	1.16	1.32	1.47	1.64	1.46
Net realized and unrealized gain (loss)	1.96	(0.73)	1.57	3.33	(5.64)
Distributions paid to auction rate preferred stockholders from:					
Net investment income	(0.01)	(0.01)	(0.02)	(0.02)	(0.19)
Net realized gains					(0.02)
Total income (loss) from operations	3.11	0.58	3.02	4.95	(4.39)
Less distributions from:					
Net investment income	(1.32)	(1.49)	(1.45)	(1.28)	(1.05)
Net realized gains					(0.10)
Total distributions	(1.32)	(1.49)	(1.45)	(1.28)	(1.15)
Net asset value, end of year	\$14.84	\$13.05	\$13.96	\$12.39	\$8.72
Market price, end of year	\$15.54	\$15.95	\$14.13	\$13.36	\$8.90
Total return, based on NAV^{2,3}	24.90%	4.12%	25.50%	60.98%	(32.45)%
Total return, based on market price⁴	6.16%	24.87%	17.56%	68.84%	(24.60)%
Net assets, end of year (000s)	\$176,214	\$154,406	\$163,814	\$143,859	\$100,102
Ratios to average net assets:^{5,6}					
Gross expenses	1.19%	1.30%	1.38%	1.95%	2.06%
Net expenses ⁷	1.19	1.30	1.38	1.95	2.06
Net investment income	8.33	9.45	11.12	15.94	10.68
Portfolio turnover rate	36%	18%	33%	29%	45%
Auction Rate Preferred Stock:					
Total Amount Outstanding (000s)	\$72,000	\$72,000	\$72,000	\$72,000	\$72,000
Asset Coverage ⁸	345%	314%	327%	300%	239%
Involuntary Liquidating Preference Per Share (000s)	25	25	25	25	25

1 Per share amounts have been calculated using the average shares method.

2 Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past

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performance is no guarantee of future results.

- 3 The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results.
- 4 The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.
- 5 Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to preferred stockholders.
- 6 Gross expenses reflects operating expenses prior to any voluntary expense waivers and/or compensating balance arrangements. Net expenses reflects expenses less any compensating balance arrangements and/or voluntary expense waivers.
- 7 The impact of compensating balance arrangements, if any, was less than 0.01%.
- 8 Asset coverage on preferred shares equals net assets of common shares plus the redemption value of the preferred shares divided by the value of outstanding preferred stock.

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

Western Asset Premier Bond Fund (the Fund) is registered under the Investment Company Act of 1940, as amended (the 1940 Act), as a diversified, closed-end management investment company. The Fund commenced investment operations on March 28, 2002.

The Fund's investment objective is to provide current income and capital appreciation by investing primarily in a diversified portfolio of investment grade bonds.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

(a) Investment valuation. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Trustees.

The Board of Trustees is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Trustees, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Trustees. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Trustees, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Trustees quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Notes to financial statements (cont d)

- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets and liabilities carried at fair value:

ASSETS				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-term investments :				
Corporate bonds & notes		\$ 92,096,023	\$1,806,145	\$ 93,902,168
Asset-backed securities		48,222,588	4,896,968	53,119,556
Collateralized mortgage obligations		40,927,991	3,333	40,931,324
Collateralized senior loans		3,465,543		3,465,543
Mortgage-backed securities		418,643		418,643
Municipal bonds		10,534,787		10,534,787
Sovereign bonds		18,724,406		18,724,406
Common stocks	\$1,004,067		179,616	1,183,683
Convertible preferred stocks		55,875		55,875
Preferred stocks	1,262,770		0*	1,262,770
Warrants		19,489		19,489
Total long-term investments	\$2,266,837	\$214,465,345	\$6,886,062	\$223,618,244
Short-term investments		22,232,000		22,232,000
Total investments	\$2,266,837	\$236,697,345	\$6,886,062	\$245,850,244

LIABILITIES				
Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Other financial instruments:				
Forward foreign currency contracts		\$61,700		\$61,700

See Schedule of Investments for additional detailed categorizations.

* Value is less than \$1.

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The Fund policy is to recognize transfers between levels as of the end of the reporting period. At December 31, 2012, securities valued at \$1,879 were transferred from Level 2 to Level 1 within the fair value hierarchy because a quoted, active market price became available.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Investments In Securities	Corporate Bonds & Notes	Asset-Backed Securities	Collateralized Mortgage Obligations	Municipal Bonds	Common Stocks	Preferred Stocks	Warrants	Total
Balance as of December 31, 2011	\$ 3,155,267	\$4,034,660	\$ 11,655	\$ 154,000	\$141,760		\$ 6,197	\$ 7,503,539
Accrued premiums/discounts	54,217	76,228	(4,234)	2,568				128,779
Realized gain (loss) ¹	37,253	(111,327)	(95,807)	20,673				(149,208)
Change in unrealized appreciation (depreciation) ²	118,295	(134,463)	132,131	3,259	37,856		13,414	170,492
Purchases		1,044,000						1,044,000
Sales	(2,513,250)	(244,660)	(40,412)	(180,500)			(7,344)	(2,986,166)
Transfers into Level 33	954,363	232,530				\$ 0*		1,186,893
Transfers out of Level 34							(12,267)	(12,267)
Balance as of December 31, 2012	\$ 1,806,145	\$4,896,968	\$ 3,333		\$179,616	\$ 0*		\$ 6,886,062
Net change in unrealized appreciation (depreciation) for investments in securities still held at December 31, 2012	\$ 77,124	\$ (134,463)	\$132,131		\$ 37,856			\$ 112,648

The Fund's policy is to recognize transfers between levels as of the end of the reporting period.

* Value is less than \$1.

1 This amount is included in net realized gain (loss) from investment transactions in the accompanying Statement of Operations

2 This amount is included in the change in net unrealized appreciation (depreciation) in the accompanying Statement of Operations. Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized.

3 Transferred into Level 3 as a result of the unavailability of a quoted price in an active market for an identical investment or the unavailability of other significant observable inputs.

4 Transferred out of Level 3 as a result of the availability of a quoted price in an active market for an identical investment or the availability of other significant observable inputs.

(b) Repurchase agreements. The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at

Notes to financial statements (cont d)

an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Loan participations. The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund's investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

(d) Unfunded loan commitments. The Fund may enter into certain credit agreements all or a portion of which may be unfunded. The Fund is obligated to fund these commitments at the borrower's discretion. The commitments are disclosed in the accompanying Schedule of Investments. At December 31, 2012, the Fund had sufficient cash and/or securities to cover these commitments.

(e) Stripped securities. The Fund may invest in Stripped Securities, a term used collectively for components, or strips, of fixed income securities. Stripped securities can be principal only securities (PO), which are debt obligations that have been stripped of unmatured interest coupons, or interest only securities (IO), which are unmatured interest coupons that have been stripped from debt obligations. The market value of Stripped Securities will fluctuate in response to changes in economic conditions, rates of pre-payment, interest rates and the market's perception of the securities. However, fluctuations in response to interest rates may be greater in Stripped Securities than for debt obligations of comparable maturities that

pay interest currently. The amount of fluctuation may increase with a longer period of maturity.

The yield to maturity on IO s is sensitive to the rate of principal repayments (including prepayments) on the related underlying debt obligation and principal payments may have a material effect on yield to maturity. If the underlying debt obligation experiences greater than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in IO s.

(f) Inflation-indexed bonds. Inflation-indexed bonds are fixed-income securities whose principal value or interest rate is periodically adjusted according to the rate of inflation. As the index measuring inflation changes, the principal value or interest rate of inflation-indexed bonds will be adjusted accordingly. Inflation adjustments to the principal amount of inflation-indexed bonds are reflected as an increase or decrease to investment income on the Statement of Operations. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

(g) Swap agreements. The Fund invests in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with other portfolio transactions.

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund s custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts are identified in the Schedule of Investments and restricted cash, if any, is identified on the Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts terms, and the possible lack of liquidity with respect to the swap agreements.

Payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as a realized gain or loss in the Statement of Operations.

The Fund s maximum exposure in the event of a defined credit event on a credit default swap to sell protection is the notional amount. As of December 31, 2012, the Fund did not hold any credit default swaps to sell protection.

Notes to financial statements (cont d)

For average notional amounts of swaps held during the year ended December 31, 2012, see Note 4.

Credit default swaps

The Fund enters into credit default swap (CDS) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to an issuer) or to take an active long or short position with respect to the likelihood of a particular issuer's default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to Financial Statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund's maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty). As the protection seller, the Fund's maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

Total return swaps

The Fund enters into total return swaps for investment purposes. Total return swaps are agreements to exchange the return generated by one instrument for the return generated by another instrument. For example, the agreement to pay a predetermined or fixed interest rate in exchange for a market-linked return based on a notional amount. To the extent the total return of a referenced index or instrument exceeds the offsetting interest obligation, the Fund will receive a payment from the counterparty. To the extent it is less, the Fund will make a payment to the counterparty.

(h) Forward foreign currency contracts. The Fund enters into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

(i) Foreign currency translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar

Notes to financial statements (cont d)

amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(j) Credit and market risk. The Fund invests in high-yield and emerging market instruments that are subject to certain credit and market risks. The yields of high-yield and emerging market debt obligations reflect, among other things, perceived credit and market risks. The Fund's investments in securities rated below investment grade typically involve risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading. The consequences of political, social, economic or diplomatic changes may have disruptive effects on the market prices of investments held by the Fund. The Fund's investments in non-U.S. dollar denominated securities may also result in foreign currency losses caused by devaluations and exchange rate fluctuations.

Investments in securities that are collateralized by residential real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in default rates of the underlying mortgages and the foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages, collection of the full amount of accrued interest and principal on these investments may be doubtful. Such market conditions may significantly impair the value and

liquidity of these investments and may result in a lack of correlation between their credit ratings and values.

(k) Foreign investment risks. The Fund's investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.

(l) Counterparty risk and credit-risk-related contingent features of derivative instruments. The Fund may invest in certain securities or engage in other transactions, where the Fund is exposed to counterparty credit risk in addition to broader market risks. The Fund may invest in securities of issuers, which may also be considered counterparties as trading partners in other transactions. This may increase the risk of loss in the event of default or bankruptcy by the counterparty or if the counterparty otherwise fails to meet its contractual obligations. The Fund's investment manager attempts to mitigate counterparty risk by (i) periodically assessing the creditworthiness of its trading partners, (ii) monitoring and/or limiting the amount of its net exposure to each individual counterparty based on its assessment and (iii) requiring collateral from the counterparty for certain transactions. Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the investment manager. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

The Fund has entered into master agreements with certain of its derivative counterparties that provide for general obligations, representations, agreements, collateral, events of default or termination and credit related contingent features. The credit related contingent features include, but are not limited to, a percentage decrease in the Fund's net assets or NAV over a specified period of time. If these credit related contingent features were triggered, the derivatives counterparty could terminate the positions and demand payment or require additional collateral.

As of December 31, 2012, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of \$61,700. If a contingent feature in the master agreements would have been triggered, the Fund would have been required to pay this amount to its derivatives counterparties.

(m) Security transactions and investment income. Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis.

Notes to financial statements (cont d)

Dividend income is recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

(n) Distributions to shareholders. Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

(o) Compensating balance arrangements. The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

(p) Single sourced securities. Certain securities held by the Fund at December 31, 2012 are valued based on a price provided by a single source or dealer. The prices provided may differ from the value that would be realized if the securities were sold. As of December 31, 2012, 12.8% of the securities held by the Fund were either fair valued securities or were valued based on a price provided by a single independent pricing service or dealer (single source securities).

(q) Federal and other taxes. It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

However, due to the timing of when distributions are made by the Fund, the Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund's annual taxable income and 98.2% net realized gains exceed the distributions from such taxable income and realized gains for the calendar year. The Fund paid \$368,810 of Federal excise taxes attributable to calendar year 2011 in March 2012. The Fund anticipates being subject to an excise tax for calendar year 2012 of approximately \$261,000.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of December 31, 2012, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

(r) Reclassification. GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. During the current year, the following reclassifications have been made:

	Undistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
(a)	\$266,647		\$(266,647)
(b)	563,112	\$(563,112)	

(a) Reclassifications are primarily due to a non-deductible excise tax paid by the Fund.

(b) Reclassifications are primarily due to foreign currency transactions treated as ordinary income for tax purposes, losses from mortgage backed securities treated as capital losses for tax purposes, book/tax differences in the treatment of swaps and book/tax differences in the treatment of certain securities.

2. Investment management agreement and other transactions with affiliates

The Fund has a management agreement with Western Asset Management Company (Western Asset). Pursuant to the terms of the management agreement, the Fund pays Western Asset an annual fee, payable monthly, in an amount equal to 0.55% of the average weekly value of the Fund's total managed assets. Total managed assets means the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities. The liquidation preference of any Preferred Shares outstanding is not considered a liability. Pursuant to a Portfolio Management Agreement between Western Asset and Western Asset Management Company Limited (WAML), Western Asset pays a portion of the fees it receives from the Fund to WAML at an annual rate of 0.425% of the average weekly value of the Fund's total managed assets that WAML manages. Western Asset Management Company Pte. Ltd. (Western Singapore) and Western Asset Management Company Ltd (Western Japan) are additional subadvisers to the Fund under portfolio management agreements between Western Asset and Western Singapore, and Western Asset and Western Japan.

Western Singapore and Western Japan provide certain subadvisory services to the Fund relating to currency transactions and investments in non-U.S. dollar-denominated securities and related foreign currency instruments in Asia (excluding Japan) and Japan, respectively.

Under the terms of the administration services agreement among the Fund, Western Asset and Legg Mason Partners Fund Adviser, LLC (LMPFA), Western Asset (not the Fund) pays LMPFA, a monthly fee at an annual rate of 0.125% of the Fund's average weekly total managed assets, subject to a monthly minimum fee of \$12,500.

LMPFA, Western Asset, WAML, Western Singapore and Western Japan are wholly-owned subsidiaries of Legg Mason, Inc.

Notes to financial statements (cont d)**3. Investments**

During the year ended December 31, 2012, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S Government & Agency Obligations were as follows:

	Investments	U.S. Government & Agency Obligations
Purchases	\$78,574,586	\$279,431
Sales	97,255,126	285,731

At December 31, 2012, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$25,105,133
Gross unrealized depreciation	(7,181,870)
Net unrealized appreciation	\$17,923,263

At December 31, 2012, the Fund had the following open forward foreign currency contracts:

Foreign Currency Contracts to Sell:	Counterparty	Local Currency	Market Value	Settlement Date	Unrealized Loss
Euro	JPMorgan Chase Bank	1,800,000	\$2,376,856	2/15/13	\$(61,700)

4. Derivative instruments and hedging activities

GAAP requires enhanced disclosure about an entity's derivative and hedging activities.

Below is a table, grouped by derivative type, that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at December 31, 2012.

LIABILITY DERIVATIVES¹

	Foreign Exchange Risk
Forward foreign currency contracts	\$61,700

¹ Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation (depreciation) and for liability derivatives is payables/net unrealized appreciation (depreciation).

The following tables provide information about the effect of derivatives and hedging activities on the Fund's Statement of Operations for the year ended December 31, 2012. The first table provides additional detail about the amounts and sources of gains (losses) realized on derivatives during the period. The second table provides additional information about the change in

unrealized appreciation (depreciation) resulting from the Fund's derivatives and hedging activities during the period.

AMOUNT OF REALIZED GAIN (LOSS) ON DERIVATIVES RECOGNIZED

	Foreign Exchange Risk	Credit Risk	Total
Swap contracts		\$(12,011)	\$(12,011)
Forward foreign currency contracts	\$544,077		544,077
Total	\$544,077	\$(12,011)	\$532,066

CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED

	Foreign Exchange Risk	Credit Risk	Total
Swap contracts		\$34,238	\$ 34,238
Forward foreign currency contracts	\$(61,700)		(61,700)
Total	\$(61,700)	\$34,238	\$(27,462)

During the year ended December 31, 2012, the volume of derivative activity for the Fund was as follows:

	Average Market Value
Forward foreign currency contracts (to buy)	\$ 429,635
Forward foreign currency contracts (to sell)	2,115,930
	Average Notional Balance
Credit default swap contracts (to buy protection)	\$1,891,923
Credit default swap contracts (to sell protection)	9,894,519
Total return swap contracts	153,846

At December 31, 2012, there were no open positions held in this derivative.

5. Common shares

Of the 11,875,364 shares of common stock outstanding at December 31, 2012, the Investment Adviser owned 19,197 shares.

6. Preferred shares

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There are 2,880 shares of Auction Market Preferred Shares (Preferred Shares) authorized. The Preferred Shares have rights as set forth in the Fund s Agreement and Declaration of Trust, as amended to date, and its Bylaws, as amended to date (the Bylaws), or as otherwise determined by the Trustees. The 2,880 Preferred Shares outstanding consist of two series, 1,440 shares of Series M and 1,440 shares of Series W. The Preferred Shares have a liquidation value of \$25,000 per share, plus any accumulated but unpaid dividends whether or not earned or declared.

Notes to financial statements (cont'd)

Dividends on the Series M and Series W Preferred Shares are cumulative and are paid at a rate typically reset every seven and twenty-eight days, respectively, based on the results of an auction. The weekly auctions for Series M and W have all failed during the year ended December 31, 2012; consequently, the dividend rate paid on the preferred shares has moved to the maximum rate as defined in the prospectus. Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Fund have been impacted by the lack of liquidity, which has similarly affected ARPS holders in many of the nation's closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Fund have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and ARPS holders have continued to receive dividends at the defined maximum rate. The maximum rate is calculated at 200% of the reference rates, which is the 7-day AA Financial Composite Commercial Paper rate for Series M and the 30-day AA Commercial Paper rate for Series W. Dividend rates ranged from 0.040% to 0.602% between January 1, 2012 to December 31, 2012.

The Preferred Shares are redeemable at the option of the Fund, in whole or in part, on the second business day preceding any dividend payment date at \$25,000 per share plus any accumulated but unpaid dividends.

The Fund is subject to certain restrictions relating to the Preferred Stock. The Fund may not declare dividends or make other distributions on shares of common stock or purchase any such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding Preferred Stock would be less than 200%. The Preferred Stock is also subject to mandatory redemption at \$25,000 per share plus any accumulated or unpaid dividends, whether or not declared, if certain requirements relating to the composition of the assets and liabilities of the Fund as set forth in Bylaws are not satisfied.

The Preferred Stock Shareholders are entitled to one vote per share and generally vote with the common shareholders but vote separately as a class to elect two trustees and on certain matters affecting the rights of the Preferred Stock. The issuance of Preferred Stock poses certain risks to holders of common stock, including, among others, the possibility of greater market price volatility, and in certain market conditions, the yield to holders of common stock may be adversely affected. The Fund is required to maintain certain asset coverages with respect to the Preferred Stock. If the Fund fails to maintain these coverages and does not cure any such failure within the required time period, the Fund is required to redeem a requisite number of shares of the Preferred Stock in order to meet the applicable requirement. The Preferred Stock is otherwise not redeemable by holders of the shares.

Additionally, failure to meet the foregoing asset coverage requirements would restrict the Fund's ability to pay dividends to common shareholders.

After each auction, the auction agent will pay to each broker/dealer, from monies the Fund provides, a participation fee. For the previous periods since the ARPS have been outstanding, the participation fee has been paid at the annual rate of 0.25% of the purchase price of the ARPS that the broker/dealer places at the auction. Since January 1, 2010, the participation fee has been reduced to an annual rate of 0.05% of the purchase price of the ARPS, in the case of failed auctions.

7. Trustee compensation

Each Trustee of the Fund who is not an interested person (as defined in the 1940 Act) of the Fund, Western Asset, WAML, Western Singapore or Western Japan receives an aggregate fee of \$75,000 annually for serving on the combined Board of Trustees/Directors of the Fund, Western Asset Funds, Inc. and Western Asset Income Fund. Each Trustee also receives a fee of \$7,500 and related expenses for each meeting of the Board or of a committee attended in-person and a fee of \$2,500 for participating in each telephonic meeting. The Chairman of the Board receives an additional \$30,000 per year for serving in such capacity.

The Chairman of the Audit Committee receives an additional \$25,000 per year for serving in such capacity. Each member of the Audit Committee receives a fee of \$6,000 for serving as a member of the Audit Committee. Other committee members receive a fee of \$3,000 for serving as a member of each committee upon which they serve. All such fees are allocated among the Fund, Western Asset Funds, Inc. and Western Asset Income Fund according to each such investment company's average annual net assets.

Trustee Ronald Olson receives from Western Asset an aggregate fee of \$75,000 annually for serving on the combined Board of Trustees/Directors of the Fund, Western Asset Funds, Inc. and Western Asset Income Fund, as well as a fee of \$7,500 and related expenses for each meeting of the Board attended in person and a fee of \$2,500 for participating in each telephonic meeting.

8. Distributions subsequent to December 31, 2012

On November 14, 2012, the Fund's Board of Trustees declared three distributions, each in the amount of \$0.105 per share, payable on December 21, 2012, January 25, 2013 and February 22, 2013 to shareholders of record on December 14, 2012, January 18, 2013 and February 15, 2013, respectively. The January and February record date distributions were made subsequent to the period end of this report.

Notes to financial statements (cont d)**9. Income tax information and distributions to shareholders**

The tax character of distributions paid during the fiscal years ended December 31, was as follows:

	2012	2011
Distributions Paid to Common Shareholders From:		
Ordinary income	\$15,583,956	\$17,556,033
Distributions Paid to Preferred Shareholders From:		
Ordinary income	161,617	165,905
Total Distributions Paid	\$15,745,573	\$17,721,938

As of December 31, 2012, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income net	\$ 7,374,121
Capital loss carryforward*	(15,040,825)
Other book/tax temporary differences(a)	(72,340)
Unrealized appreciation (depreciation)(b)	17,861,531
Total accumulated earnings (losses) net	\$10,122,487

* During the taxable year ended December 31, 2012, the Fund utilized \$5,357,838 of its capital loss carryforward available from prior years. As of December 31, 2012, the Fund had the following net capital loss carryforward remaining:

Year of Expiration	Amount
12/31/2017	\$(15,040,825)

This amount will be available to offset any future taxable capital gains.

(a) Other book/tax temporary differences are attributable primarily to the realization for tax purposes of unrealized losses on certain foreign currency contracts, the deferral of ordinary late year loss for tax purposes, book/tax differences in the accrual of interest income on securities in default and book/tax differences in the timing of the deductibility of various expenses.

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(b) The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable primarily to the tax deferral of losses on wash sales and book/tax differences in the accrual of income on certain securities.

Report of independent registered public accounting firm

**To the Board of Trustees and Shareholders of
Western Asset Premier Bond Fund:**

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Western Asset Premier Bond Fund (the "Fund") at December 31, 2012, the results of its operations, the changes in its net assets, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2012 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 21, 2013

Commodity exchange act regulation exclusion (unaudited)

The Fund is operated by persons who have claimed an exclusion, granted to operators of registered investment companies like the Fund, from registration as a commodity pool operator with respect to the Fund under the Commodity Exchange Act (the CEA), and, therefore, are not subject to registration or regulation with respect to the Fund under the CEA. As a result, effective December 31, 2012, the Fund is limited in its ability to use commodity futures (which include futures on broad-based securities indexes and interest rate futures) (collectively, commodity interests) or options on commodity futures, engage in certain swaps transactions or make certain other investments (whether directly or indirectly through investments in other investment vehicles) for purposes other than bona fide hedging, as defined in the rules of the Commodity Futures Trading Commission. With respect to transactions other than for bona fide hedging purposes, either: (1) the aggregate initial margin and premiums required to establish the Fund's positions in such investments may not exceed 5% of the liquidation value of the Fund's portfolio (after accounting for unrealized profits and unrealized losses on any such investments); or (2) the aggregate net notional value of such instruments, determined at the time the most recent position was established, may not exceed 100% of the liquidation value of the Fund's portfolio (after accounting for unrealized profits and unrealized losses on any such positions). In addition to meeting one of the foregoing trading limitations, the Fund may not market itself as a commodity pool or otherwise as a vehicle for trading in the futures, options or swaps markets.

Board approval of management and subadvisory agreements (unaudited)

The Executive and Contracts Committee of the Board of Trustees considered the Investment Management Agreement (the Management Agreement) between the Fund and Western Asset Management Company (Western Asset) and the Portfolio Management Agreements (together with the Management Agreement, the Agreements) between Western Asset and each of Western Asset Management Company Limited in London (WAML), Western Asset Management Company Pte. Ltd. in Singapore (Western Singapore) and Western Asset Management Company Ltd in Japan (Western Japan, and together with Western Singapore and WAML the Non-U.S. Advisers and together with Western Asset, the Advisers) with respect to the Fund at meetings held on September 10, October 18 and October 25, 2012. At a meeting held on November 13, 2012, the Executive and Contracts Committee reported to the full Board of Trustees its considerations and recommendation with respect to the Agreements, and the Board of Trustees, including a majority of the Independent Trustees, considered and approved renewal of the Agreements.

The Trustees noted that although Western Asset's business is operated through separate legal entities, such as the Non-U.S. Advisers, its business is highly integrated and senior investment personnel at Western Asset have supervisory oversight responsibility over the investment decisions made by the Non-U.S. Advisers. Therefore, in connection with their deliberations noted below, the Trustees primarily focused on the information provided by Western Asset when considering the approval of the Portfolio Management Agreements. The Trustees also noted that the Fund does not pay any management fees directly to any of the Non-U.S. Advisers because Western Asset pays the Non-U.S. Advisers for services provided to the Fund out of the management fee Western Asset receives from the Fund.

In arriving at their decision to renew the Agreements, the Trustees met with representatives of Western Asset, including relevant investment advisory personnel; reviewed a variety of information prepared by Western Asset and materials provided by Lipper Inc. (Lipper) and counsel to the Independent Trustees; and reviewed performance and expense information for a peer group of comparable funds selected and prepared by Lipper and for certain other comparable products available from Western Asset, including separate accounts managed by Western Asset. These reviews were in addition to information obtained by the Trustees at their regular quarterly meetings with respect to the Fund's performance and other relevant matters, such as information on differences between the Fund's share price and net asset value per share, and related discussions with the Advisers' personnel.

As part of their review, the Trustees examined the Advisers' ability to provide high quality investment management services to the Fund. The Trustees considered the investment philosophy and research and decision-making processes of the Advisers; the experience of their key advisory personnel

Board approval of management and subadvisory agreements (unaudited) (cont d)

responsible for management of the Fund; the ability of the Advisers to attract and retain capable research and advisory personnel; the capability and integrity of the Advisers' senior management and staff; and the level of skill required to manage the Fund. In addition, the Trustees reviewed the quality of the Advisers' services with respect to regulatory compliance and compliance with the investment policies of the Fund and conditions that might affect the Advisers' ability to provide high quality services to the Fund in the future under the Agreements, including their business reputation, financial condition and operational stability. Based on the foregoing, the Trustees concluded that the Advisers' investment process, research capabilities and philosophy were well suited to the Fund given its investment objectives and policies, and that the Advisers would be able to meet any reasonably foreseeable obligations under the Agreements.

In reviewing the quality of the services provided to the Fund, the Trustees also reviewed comparisons of the performance of the Fund to the performance of certain comparable leveraged funds in a peer group consisting of funds that invest at least 65% of their assets in corporate and government debt issues rated in the top four grades. The Trustees noted that the performance of the Fund exceeded its peer average for each of the three- and ten-year periods, but was lower than its peer average for each of the one- and five-year periods ended August 31, 2012.

The Trustees also considered the management fee and total expenses payable by the Fund. They reviewed information concerning management fees paid to investment advisers of similarly-managed funds, as well as fees paid by the Advisers' other clients, including separate accounts managed by the Advisers. The Trustees observed that the Fund's total expenses were slightly higher than the average of the fees paid by funds in its Lipper peer group and the management fee paid by the Fund to Western Asset, whether measured as a percentage of net assets attributable to common shares or total assets, was slightly higher than the average of the funds in its Lipper peer group. They noted that the management fee paid by the Fund was generally higher than the fees paid by other clients of the Advisers with similar investment strategies, but that Western Asset was responsible for payment of the management fee to the Non-U.S. Advisers and that the administrative and operational responsibilities for the Advisers with respect to the Fund were also relatively higher. In light of these differences, the Trustees concluded that the management fee paid by the Fund relative to the fees paid by the Advisers' other clients was reasonable.

The Trustees further evaluated the benefits of the advisory relationship to the Advisers, including, among others, the profitability of the relationship to the Advisers and the direct and indirect benefits that the Advisers may receive from their relationship with the Fund, including any fallout benefits, such as

reputational value derived from serving as investment adviser to the Fund; and the affiliation between the Advisers and Legg Mason Partners Funds Advisor, LLC, the Fund's administrator. In that connection, the Trustees concluded that the Advisers' profitability was consistent with levels of profitability that had been determined by courts not to be excessive. The Trustees noted that Western Asset does not have soft dollar arrangements.

Finally, the Trustees considered, in light of the profitability information provided by Western Asset, the extent to which economies of scale would be realized by the Advisers as the assets of the Fund grow. The Trustees concluded that because the Fund is a closed-end fund and does not make a continuous offer of its securities, the Fund's size was relatively fixed and it would be unlikely that the Advisers would realize economies of scale from the Fund's growth.

In their deliberations with respect to these matters, the Independent Trustees were advised by their independent counsel, who are independent of the Advisers within the meaning of the Securities and Exchange Commission rules regarding the independence of counsel. The Independent Trustees weighed each of the foregoing matters in light of the advice given to them by their independent counsel as to the law applicable to the review of investment advisory contracts. In arriving at a decision, the Trustees, including the Independent Trustees, did not identify any single matter as all-important or controlling, and the foregoing summary does not detail all the matters considered. The Trustees judged the terms and conditions of the Agreements, including the investment advisory fees, in light of all of the surrounding circumstances.

Based upon their review, the Trustees, including all of the Independent Trustees, determined, in the exercise of their business judgment, that they were generally satisfied with the quality of investment advisory services being provided by the Advisers, but would continue to closely monitor the Advisers' performance; that the fees to be paid to the Advisers under the Agreements were fair and reasonable given the scope and quality of the services rendered by the Advisers; and that approval of the Agreements was in the best interest of the Fund and its shareholders.

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Additional information (unaudited)**Information about Trustees and Officers**

The business and affairs of Western Asset Premier Bond Fund (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Trustees. The business address of each Trustee is 100 International Drive, Baltimore, Maryland 21202. Information pertaining to the Trustees and officers of the Fund is set forth below.

Independent Trustees :**Ronald J. Arnault**

Year of birth	1943
Position(s) held with Fund	Trustee
Term of office and length of time served ¹	Served since 1997
Principal occupation(s) during past five years	Retired.
Number of portfolios in fund complex overseen by Trustee (including the Fund) ²	13
Other board memberships held by Trustee	None

Anita L. DeFrantz

Year of birth	1952
Position(s) held with Fund	Trustee
Term of office and length of time served ¹	Served since 1998
Principal occupation(s) during past five years	President (1987-present) and Director (1990-present) of LA84 (formerly Amateur Athletic Foundation of Los Angeles); Director of Kids in Sports (1994-present); Vice President, International Rowing Federation (1995-present); Member of the International Olympic Committee (1986-present).
Number of portfolios in fund complex overseen by Trustee (including the Fund) ²	13
Other board memberships held by Trustee	OBN Holdings, Inc. (film, television and media company)

Avedick B. Poladian

Year of birth	1951
Position(s) held with Fund	Trustee
Term of office and length of time served ²	Served since 2007
Principal occupation(s) during past five years	Executive Vice President and Chief Operating Officer of Lowe Enterprises, Inc. (real estate and hospitality firm) (2002-present); Partner, Arthur Andersen, LLP (1974-2002).
Number of portfolios in fund complex overseen by Trustee (including the Fund) ²	13
Other board memberships held by Trustee	Occidental Petroleum Corporation and Public Storage

Independent Trustees cont d**William E. B. Siart**

Year of birth	1946
Position(s) held with Fund	Trustee and Chairman
Term of office and length of time served ¹	Served since 1997
Principal occupation(s) during past five years	Trustee of The Getty Trust (2005-present); Chairman of Walt Disney Concert Hall, Inc. (1998-2006); Chairman of Excellent Education Development (2000-present).
Number of portfolios in fund complex overseen by Trustee (including the Fund) ²	13
Other board memberships held by Trustee	None

Jaynie Miller Studenmund

Year of birth	1954
Position(s) held with Fund	Trustee
Term of office and length of time served ¹	Served since 2004
Principal occupation(s) during past five years	Director of Orbitz Worldwide, Inc. (2007-present) (online travel company); Director of Pinnacle Entertainment, Inc. (2012-present) (gaming and hospitality company); Director of Core Logic, Inc. (2012-present) (information, analytics and business services). Formerly: Director of MarketTools, Inc. (2010-2012) (market research software provider); Director of eHarmony, Inc. (2005-2011) (online dating company).
Number of portfolios in fund complex overseen by Trustee (including the Fund) ²	13
Other board memberships held by Trustee	Orbitz Worldwide (global on-line travel company)

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Additional information (unaudited) (continued)

Information about Trustees and Officers

Interested Trustees:

R. Jay Gerken³

Year of birth	1951
Position(s) with Fund	President and Trustee
Term of office and length of time served ²	Since 2011
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC (Legg Mason & Co.) (since 2005); Officer and Trustee/Director of 161 funds associated with Legg Mason Partners Fund Advisor, LLC (LMPFA) or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); President and Chief Executive Officer (CEO) of LMPFA (since 2006); President and CEO of Smith Barney Fund Management LLC (SBFM) (formerly a registered investment adviser) (since 2002)
Number of Portfolios in fund complex overseen by Trustee (including the Fund) ²	161
Other board memberships held by Trustee	None

Ronald L. Olson⁴

Year of birth	1941
Position(s) held with Fund	Trustee
Term of office and length of time served ¹	Served since 2005
Principal occupation(s) during past five years	Senior Partner of Munger, Tolles & Olson LLP (a law partnership) (1968-present).
Number of portfolios in fund complex overseen by Trustee (including the Fund) ²	13
Other board memberships held by Trustee	Edison International, City National Corporation (financial services company), The Washington Post Company, and Berkshire Hathaway, Inc.

Officers:5**Richard F. Sennett****100 International Drive, Baltimore, MD 21202**

Year of birth

1970

Position(s) with Fund

Principal Financial Officer

Term of office and length of time served²

Since 2011

Principal occupation(s) during past five years

Principal Financial Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co.'s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC's Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC's Division of Investment Management (2002 to 2007)

Erin K. Morris**100 International Drive, Baltimore, MD 21202**

Year of birth

1966

Position(s) held with Fund

Treasurer

Term of office and length of time served¹

Served since 2006

Principal occupation(s) during past five years

Vice President Legg Mason & Co., LLC (since 2005); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006); formerly, Assistant Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2009)

Todd F. Kuehl**100 International Drive, Baltimore, MD 21202**

Year of birth

1969

Position(s) held with Fund

Chief Compliance Officer

Term of office and length of time served¹

Served since 2007

Principal occupation(s) during past five years

Managing Director of Legg Mason & Co. (since 2011); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006); formerly, Chief Compliance Officer of Legg Mason Private Portfolio Group (prior to 2010); Branch Chief, Division of Investment Management, U.S. Securities and Exchange Commission (2002 to 2006)

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Additional information (unaudited) (continued)

Information about Trustees and Officers

Officers continued

Robert I. Frenkel

100 First Stamford Place, Stamford, CT 06902

<p>Year of birth</p> <p>Position(s) held with Fund</p> <p>Term of office and length of time served</p> <p>Principal occupation(s) during past five years</p>	<p>1954</p> <p>Secretary and Chief Legal Officer</p> <p>Served since 2009</p> <p>Vice President and Deputy General Counsel of Legg Mason, Inc. (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006).</p>
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Trustees who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the 1940 Act.

- 1 Each officer holds office until his or her respective successor is chosen and qualified, or in each case until he or she sooner dies, resigns, is removed with or without cause or becomes disqualified. Each of the Trustees of the Fund holds office until his or her successor shall have been duly elected and shall qualify, subject to prior death, resignation, retirement, disqualification or removed from office and applicable law and the rules of the New York Stock Exchange.
- 2 Each Trustee also serves as a Director of Western Asset Income Fund (closed-end investment company) and as a Director of Western Asset Funds, Inc. (open-end investment company), which are considered part of the same Fund Complex as the Fund. In addition, Mr. Gerken serves as Director/Trustee to 149 other portfolios associated with Legg Mason & Co., LLC or its affiliates. Legg Mason & Co., LLC is an affiliate of Western Asset Management Co. (WAM).
- 3 Mr. Gerken is an interested person (as defined in section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act)) of the Fund because of his positions with subsidiaries of, and ownership of shares of common stock of, Legg Mason, Inc., the parent company of WAM.
- 4 Mr. Olson is an interested person (as defined above) of the Fund because his law firm has provided legal services to WAM.
- 5 Each officer of the Fund is an interested person (as defined above) of the Fund.

Annual principal executive officer and principal financial officer certifications (unaudited)

The Fund's Principal Executive Officer (PEO) has submitted to the NYSE the required annual certification and the Fund also has included the Certifications of the Fund's PEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund's Form N-CSR filed with the SEC for the period of this report.

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Other shareholder communications regarding accounting matters (unaudited)

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer ("CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair (together with the CCO, "Complaint Officers"). Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:
Legg Mason & Co., LLC
Compliance Department
100 International Drive
Baltimore, MD 21202

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

Dividend reinvestment plan (unaudited)

The Fund and American Stock Transfer & Trust Company LLC (Agent), as the Transfer Agent and Registrar of the Fund, offer a convenient way to add shares of the Fund to your account. The Fund offers to all common shareholders a Dividend Reinvestment Plan (Plan). Under the Plan, cash distributions (e.g., dividends and capital gains) of registered shareholders (those who own shares in their own name on the Fund's records) on the common shares are automatically invested in shares of the Fund unless the shareholder elects otherwise by contacting the Agent at the address set forth below. Shareholders who own shares in a brokerage, bank or other financial institution account must contact the company where their account is held in order to participate in the Plan.

As a participant in the Dividend Reinvestment Plan you will automatically receive your dividend or net capital gains distribution in newly issued shares of the Fund if the market price of a share on the date of the distribution is at or above the NAV of a Fund share, minus estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market. The number of shares to be issued to you will be determined by dividing the amount of the cash distribution to which you are entitled (net of any applicable withholding taxes) by the greater of the NAV per share on such date or 95% of the market price of a share on such date. If the market price of a share on such distribution date is below the NAV, minus estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market, the Agent will, as agent for the participants, buy shares of the Fund through a broker on the open market. The price per share of shares purchased for each participant's account with respect to a particular dividend or other distribution will be the average price (including brokerage commissions, transfer taxes and any other costs of purchase) of all shares purchased with respect to that dividend or other distribution. All common shares acquired on your behalf through the Plan will be automatically credited to an account maintained on the books of the Agent. Full and fractional shares will be voted by the Agent in accordance with your instructions.

Additional information regarding the plan

The Fund will pay all costs applicable to the Plan, except for brokerage commissions for open market purchases by the Agent under the Plan, which will be charged to participants. All shares acquired through the Plan receive voting rights and are eligible for any stock split, stock dividend, or other rights accruing to shareholders that the Board of Trustees may declare. Registered shareholder may terminate participation in the Plan at any time by giving notice to the Agent. Such termination will be effective prior to the record date next succeeding the receipt of such instructions or by a later date of termination specified in such instructions. Upon termination, a participant will receive a certificate for the full shares credited to his or her account or may request the sale of all or part of such shares. Fractional shares credited to a

Dividend reinvestment plan (unaudited) (cont d)

terminating account will be paid for in cash at the current market price at the time of termination. Shareholders who own shares in a brokerage, bank or other financial institution account must contact the company where their account is held in order to terminate participation in the Plan.

Dividends and other distributions invested in additional shares under the Plan are subject to income tax just as if they had been received in cash. After year end, dividends paid on the accumulated shares will be included in the Form 1099-DIV information return to the Internal Revenue Service (IRS) and only one Form 1099-DIV will be sent to participants each year. Inquiries regarding the Plan, as well as notices of termination, should be directed to American Stock Transfer & Trust Company LLC, 5201 15th Avenue, Brooklyn, New York, 11219. Investor Relations Telephone number 1-888-888-0151.

Western Asset Premier Bond Fund

Trustees

William E. B. Siart
Chairman
R. Jay Gerken
Ronald J. Arnault
Anita L. DeFrantz
Ronald L. Olson
Avedick B. Poladian
Jaynie Miller Studenmund

Officers

R. Jay Gerken
President
Richard F. Sennett
Principal Financial Officer
Todd F. Kuehl
Chief Compliance Officer
Robert I. Frenkel
Secretary and Chief Legal Officer
Erin K. Morris
Treasurer

Western Asset Premier Bond Fund

620 Eighth Avenue
49th Floor
New York, NY 10018

Investment advisers

Western Asset Management Company
Western Asset Management Company Limited
Western Asset Management Company Pte. Ltd.
Western Asset Management Company Ltd

Custodian

State Street Bank and
Trust Company
1 Lincoln Street
Boston, MA 02111

Independent registered public accounting firm

PricewaterhouseCoopers LLP
100 East Pratt Street
Baltimore, MD 21202

Legal counsel

Ropes & Gray LLP
1211 Avenue of the Americas
New York, NY 10036

Transfer agent

American Stock Transfer & Trust Company
5201 15th Avenue,
Brooklyn, NY 11219

New York Stock Exchange Symbol

WEA

Legg Mason Funds Privacy and Security Notice

Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds

This Privacy and Security Notice (the "Privacy Notice") addresses the Legg Mason Funds' privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds' distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

The Type of Nonpublic Personal Information the Funds Collect About You

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

- Personal information included on applications or other forms;
- Account balances, transactions, and mutual fund holdings and positions;
- Online account access user IDs, passwords, security challenge question responses; and
- Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual's total debt, payment history, etc.).

How the Funds Use Nonpublic Personal Information About You

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

- Employees, agents, and affiliates on a "need to know" basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;
- Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform marketing services solely for the Funds;

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- The Funds' representatives such as legal counsel, accountants and auditors; and
- Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

NOT PART OF THE ANNUAL REPORT

Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds' behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds' practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

Keeping You Informed of the Funds' Privacy and Security Practices

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

The Funds' Security Practices

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds' internal data security policies restrict access to your nonpublic personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds' privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds' website at www.leggmason.com, or contact the Fund at 1-888-777-0102.

Revised April 2011

NOT PART OF THE ANNUAL REPORT

Western Asset Premier Bond Fund

Western Asset Premier Bond Fund
620 Eighth Avenue
49th Floor
New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase at market prices, shares of its Common Stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at www.sec.gov. The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund's website at www.lmcef.com and (3) on the SEC's website at www.sec.gov.

This report is transmitted to the shareholders of Western Asset Premier Bond Fund for their information. This is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or any securities mentioned in this report.

American Stock
Transfer & Trust Company
5201 15th Avenue,
Brooklyn, NY 11219

WASX013147 2/13 SR13-1863

ITEM 2. CODE OF ETHICS.

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors of the registrant has determined that Mr. Ronald J. Arnault, the chairman of the Board's Audit Committee, possesses the attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert, and has designated Mr. Arnault as the audit committee financial expert. Mr. Arnault is an independent Director pursuant to paragraph (a)(2) of Item 3 to Form N-CSR.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the last two fiscal years ending December 31, 2011 and December 31, 2012 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$56,629 in 2011 and \$50,264 in 2012.

b) Audit-Related Fees. The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$0 in December 31, 2011 and \$0 in December 31, 2012. These services consisted of procedures performed in connection with the audit performed relating to the Tender Options Bonds for the Western Asset Premier Bond Fund.

In addition, there were no Audit-Related Fees billed in the Reporting Period for assurance and related services by the Auditor to the Registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Western Asset Premier Bond Fund (service affiliates), that were reasonably related to the performance of the annual audit of the service affiliates.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$4,100 in December 2011 and \$4,200 in December 31, 2012. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

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There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. The aggregate fees for other fees billed in the Reporting Periods for products and services provided by the Auditor were \$0 in December 31, 2011 and \$1,756 in December 31, 2012, other than the services reported in paragraphs (a) through (c) of this Item 4 for the Western Asset Premier Bond Fund.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to Western Asset Premier Bond Fund requiring pre-approval by the Audit Committee in the Reporting Period.

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(e) Audit Committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the Western Asset Premier Bond Fund, the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2011 and 2012; Tax Fees were 100% and 100% for 2011 and 2012; and Other Fees were 100% and 100% for 2011 and 2012.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Western Asset Premier Bond Fund, LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Western Asset Premier Bond Fund during the reporting period were \$0 in 2012.

(h) Yes. Western Asset Premier Bond Fund's Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant's independence. All services provided by the Auditor to the Western Asset Premier Bond Fund or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

a) *Registrant has a separately - designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act.* The Audit Committee consists of the following Board members:

Ronald J. Arnault

Anita L. DeFrantz

Avedick B. Poladian

William E.B. Siart

Jaynie Miller Studenmund

b) Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The Registrant has delegated the voting of proxies relating to its portfolio securities to its advisers, Western Asset Management Company and Western Asset Management Company Limited (together, the Advisers). The Proxy Voting Policies and Procedures of the Advisers are attached as an exhibit to this Form N-CSR.

ITEM 8. INVESTMENT PROFESSIONALS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

As of December 31, 2012, a team of investment professionals at the Advisers, led by Chief Investment Officer Stephen A. Walsh, Portfolio Manager Michael C. Buchanan, Portfolio Manager Paul Jablansky and Portfolio Manager Christopher F. Kilpatrick manages the Western Asset Premier Bond Fund (the Fund).

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Messrs. Walsh, Buchanan and Kilpatrick have each served as investment professionals for the Advisers for over five years. Mr. Jablansky has served Head of Structured Product for the Advisers since 2011. Formerly, Mr. Jablansky was Managing Director for RBS Securities (2010-2011), Co-Founder and Chief Investment Officer for 400 Capital Management, LLC (2009-2010) and Head of Structured Portfolios Group and Global Head of Principal Finance for Banc of America Securities.

The Fund is managed by a team of portfolio managers, sector specialists and other investment professionals. Messrs. Walsh, Buchanan, Jablansky and Kilpatrick serve as co-team leaders responsible for day-to-day strategic oversight of the Fund's investments and for supervising the day-to-day operations of the various sector specialist teams dedicated to the specific asset classes in which the Fund invests.

Other Accounts

As of December 31, 2012, in addition to the Fund, the portfolio manager(s) were responsible for the day-to-day management of certain other accounts, as follows:

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Type of Account	Number of Accounts Managed	Total Assets Managed (\$)	Number of Accounts Managed for which Advisory Fee is Performance-Based	Assets Managed for which Advisory Fee is Performance-Based(\$)
Stephen A. Walsh:				
Registered Investment Companies	98	191,436,442,848	0	0
Other pooled investment vehicles	229	99,190,004,600	5	813,278,845
Other accounts	718	171,016,293,229	67	16,449,710,556
Michael C. Buchanan:				
Registered Investment Companies	42	32,796,723,856	0	0
Other pooled investment vehicles	45	26,379,099,816	3	512,992,499
Other accounts	197	49,025,308,387	22	7,132,134,390
Paul Jablansky:				
Registered Investment Companies	3	1,179,310,729	0	0
Other pooled investment vehicles	9	4,510,202,945	2	300,286,346
Other accounts	21	2,392,769,552	0	0
Christopher F. Kilpatrick:				
Registered Investment Companies	9	3,552,702,542	0	0
Other pooled investment vehicles	0	0	0	0
Other accounts	0	0	0	0

Note: With respect to Mr. Walsh, the numbers above reflect the overall number of portfolios managed by the Advisers. Mr. Walsh is involved in the management of all the Advisers' portfolios, but he is not solely responsible for particular portfolios. The Advisers' investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. The individuals that have been identified are responsible for overseeing implementation of the Advisers' overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.

Potential Conflicts of Interest as of December 31, 2012

Potential conflicts of interest may arise in connection with the management of multiple accounts (including accounts managed in a personal capacity). These could include potential conflicts of interest related to the knowledge and timing of the Fund's trades, investment opportunities and broker selection. Portfolio managers may be privy to the size, timing and possible market impact of the Fund's trades.

It is possible that an investment opportunity may be suitable for both the Fund and other accounts managed by a portfolio manager, but may not be available in sufficient quantities for both the Fund and the other accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by the Fund and another account. A conflict may arise where the portfolio manager may have an incentive to treat an account preferentially as compared to the Fund because the account pays a performance-based fee or the portfolio manager, the Advisers or an affiliate has an interest in the account. The Advisers have adopted procedures for allocation of portfolio

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transactions and investment opportunities across multiple client accounts on a fair and equitable basis over time. All eligible accounts that can participate in a trade share the same price on a pro-rata allocation basis in an attempt to mitigate any conflict of interest. Trades are allocated among similarly managed accounts to maintain consistency of portfolio strategy, taking into account cash availability, investment restrictions and guidelines, and portfolio composition versus strategy.

With respect to securities transactions for the Fund, the Adviser determines which broker or dealer to use to execute each order, consistent with their duty to seek best execution of the transaction. However, with respect to certain other accounts (such as pooled investment vehicles that are not registered investment companies and other accounts managed for organizations and individuals), the Advisers may be limited by the client with respect to the selection of brokers or dealers or may be instructed to direct trades through a particular broker or dealer. In these cases, trades for the Fund in a particular security may be placed separately from, rather than aggregated with, such other accounts. Having separate transactions with respect to a security may temporarily affect the market price of the security or the execution of the transaction, or both, to the possible detriment of the Fund or the other account(s) involved. Additionally, the management of multiple accounts may result in a portfolio manager devoting unequal time and attention to the management of the Fund and/or other account.

It is theoretically possible that portfolio managers could use information to the advantage of other accounts they manage and to the possible detriment of the Fund. For example, a portfolio manager could short sell a security for an account immediately prior to the Fund's sale of that security. To address this conflict, the Advisers have adopted procedures for reviewing and comparing selected trades of alternative investment accounts (which may make directional trades such as short sells) with long-only accounts (which includes the Fund) for timing and pattern related issues. Trading decisions for alternative investment and long-only accounts may not be identical even though the same portfolio manager may manage both types of accounts. Whether an Adviser allocates a particular investment opportunity to only alternative investment accounts or to alternative investment and long-only accounts will depend on the investment strategy being implemented. If, under the circumstances, an investment opportunity is appropriate for both its alternative investment and long-only accounts, then it will be allocated to both on a pro-rata basis.

A portfolio manager may also face other potential conflicts of interest in managing the Fund, and the description above is not a complete description of every conflict of interest that could be deemed to exist in managing both the Fund and the other accounts listed above.

Compensation of Portfolio Managers as of December 31, 2012

With respect to the compensation of the portfolio managers, the Advisers' compensation system assigns each employee a total compensation target and a respective cap, which are derived from annual market surveys that benchmark each role with their job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results.

Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the Advisers, and are determined by the professional's job function and performance as measured by a formal review process. All bonuses are completely discretionary. One of the principal factors considered is a portfolio manager's investment performance versus appropriate peer groups and benchmarks. Because portfolio managers are generally responsible for multiple accounts (including the Fund) with similar investment strategies, they are compensated on the performance of the aggregate group of similar accounts, rather than a specific account. A smaller portion of a bonus payment is derived from factors that include client service, business development, length of service to the Advisers, management or supervisory

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responsibilities, contributions to developing business strategy and overall contributions to the Advisers' business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason, Inc. stock options and long-term incentives that vest over a set period of time past the award date.

Portfolio Manager Ownership of Fund Securities

The following table provides the dollar range of securities beneficially owned by each portfolio manager as of December 31, 2012:

Portfolio Manager	Dollar Range of Fund Securities Beneficially Owned(\$)
Stephen A. Walsh	None
Michael C. Buchanan	None
Paul Jablansky	None
Christopher F. Kilpatrick	None

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Trustees that have been implemented since the Registrant last provided disclosure in response to the requirements of this Item 10.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 12.

EXHIBITS.

(a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CER

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

Western Asset Premier Bond Fund

By: **/s/ R. Jay Gerken**
(R. Jay Gerken)
President
Western Asset Premier Bond Fund

Date: March 1, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: **/s/ R. Jay Gerken**
(R. Jay Gerken)
President
Western Asset Premier Bond Fund

Date: March 1, 2013

By: **/s/ Richard F. Sennett**
(Richard F. Sennett)
Principal Financial Officer
Western Asset Premier Bond Fund

Date: March 1, 2013
