

WESTERN ASSET PREMIER BOND FUND
Form N-CSR
February 24, 2016

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 10018
(Address of principal executive offices) (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, 2015

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report

December 31, 2015

WESTERN ASSET

PREMIER BOND FUND (WEA)

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

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Fund objective

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

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 (commonly referred to as "junk bonds") 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 may invest in a variety of derivative instruments for investment or risk management purposes. 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. Trust preferred interests and capital securities are considered bonds and not preferred stock for purposes of the foregoing guidelines.

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, 2015. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.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,

Jane Trust, CFA

President and Chief Executive Officer

January 29, 2016

Investment commentary

Economic review

The pace of U.S. economic activity was mixed during the twelve months ended December 31, 2015 (the reporting period). Looking back, the U.S. Department of Commerce reported that first quarter 2015 U.S. gross domestic product (GDP) growth was a tepid 0.6%. Economic activity then accelerated, as second quarter 2015 GDP growth was 3.9%. The upturn was driven by increasing exports, accelerating personal consumption expenditures (PCE), declining imports, expanding state and local government spending, and rising nonresidential fixed investment. Third quarter 2015 GDP growth then moderated to 2.0%. Decelerating growth was primarily due to a downturn in private inventory investment and decelerations in exports, PCE, nonresidential fixed investment, state and local government spending, and residential fixed investment. Finally, the U.S. Department of Commerce's initial estimate for fourth quarter 2015 GDP growth released after the reporting period ended was 0.7%. Slower growth was attributed to a deceleration in PCE and downturns in nonresidential fixed investment, exports and state and local government spending.

The U.S. labor market significantly improved and was a tailwind for the economy during the reporting period. When the period began, unemployment was 5.7%, as reported by the U.S. Department of Labor. By December 2015, unemployment was 5.0%, equaling its lowest level since April 2008.

After an extended period of maintaining the federal funds rate¹ at a historically low range between zero and 0.25%, the Federal Reserve Board (the Fed) finally increased the rate at its meeting on December 16, 2015. This marked the first rate hike since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. In its official statement after the December 2015 meeting, the Fed said,

The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. During its meeting that concluded on January 27, 2016 after the reporting period ended the Fed said it is, closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook. Given the economic outlook, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation.

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

Sincerely,

Jane Trust, CFA

President and Chief Executive Officer

January 29, 2016

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 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.

- ⁱⁱⁱ The Federal Reserve Board (Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

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 assetsⁱ 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 (commonly referred to as "junk" bonds) 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 may invest in a variety of derivative instruments for investment or risk management purposes. The Fund expects that the average effective durationⁱⁱ of its portfolio will range between 3.5 and seven years, although this target duration may change from time to time. Trust preferred interests and capital securities are considered bonds and not preferred stock for purposes of the foregoing guidelines.

At Western Asset Management Company (Western Asset), the Fund's investment 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 S. Kenneth Leech, Michael C. Buchanan and Christopher F. Kilpatrick.

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

A. The spread sectors (non-Treasuries) generated mixed results versus equal-durationⁱⁱⁱ Treasuries over the twelve months ended December 31, 2015. High-yield and investment grade corporate bonds were among the weakest performers during the reporting period. The fixed income market was volatile at times given fluctuating global economic data, uncertainties regarding future Federal Reserve Board (Fed's) monetary policy and a number of geopolitical issues. In mid-December 2015, the Fed raised interest rates for the first time in nearly a decade.

Regarding the global credit markets for the one year period ended December 31, 2015, we began the period with energy oversupply concerns and weak commodity prices. Against this backdrop, spread sectors were widening to better reflect concerns about slowing global growth. The winds shifted during the first half of 2015 and energy prices, high-yield, investment grade and emerging markets stabilized and then rallied. During the summer of 2015, we experienced another shift to heightened volatility, falling commodity prices, fears over global growth, reduced liquidity and uncertainty surrounding Fed interest rate policy. October 2015 was met with strong demand for credit as

Fund overview (cont d)

investors seemed energized by more compelling valuations. However, as the period ended, sentiment shifted once again as volatility increased, technicals deteriorated and several dedicated credit funds gated redemptions or announced liquidation strategies.

Both short- and long-term Treasury yields moved higher during the twelve months ended December 31, 2015. Two-year Treasury yields rose from 0.67% at the beginning of the period to 1.06% at the end of the period. Their peak of 1.09% occurred on December 29, 2015, and they were as low as 0.44% on January 15, 2015. Ten-year Treasury yields were 2.17% at the beginning of the period and ended the period at 2.27%. Their peak of 2.50% was on June 10, 2015 and their low of 1.68% occurred at the end of January and early February 2015.

All told, the Barclays U.S. Aggregate Index^v returned 0.55% for the twelve months ended December 31, 2015. Comparatively, riskier fixed-income securities, including high-yield bonds and emerging market debt, produced mixed results. Over the fiscal year, the Barclays U.S. High Yield 2% Issuer Cap Index^x declined 4.43%. During this period, as measured by this Index, lower-quality CCC-rated bonds significantly underperformed higher-quality BB-rated securities, as they returned -12.11% and -1.00%, respectively. In contrast, the emerging market debt asset class, as measured by the JPMorgan Emerging Markets Bond Index Global (EMBI Global^{vi}) gained 1.23% over the same period.

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

A. A number of adjustments were made to the Fund during the reporting period. We increased the Fund's allocation to investment grade corporate bonds and, to a lesser extent, its high-yield corporate bond exposure. In contrast, we reduced the Fund's allocations to non-agency mortgage-backed securities (MBS), asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS), as valuations shifted. These securities outperformed, while corporate bond spreads widened during the reporting period. In addition, we reinvested the principal proceeds from prepayments in MBS primarily into investment grade corporate bonds.

The Fund utilized leverage during the reporting period. We ended the period with leverage as a percentage of gross assets marginally higher at roughly 27%, versus 23% at the beginning of the year. Leverage detracted from results given the negative total return of the assets of the Fund in 2015.

We utilized Treasury futures to manage yield curve^{viii} positioning and the duration of the portfolio. We increased the duration of the portfolio during the reporting period, as it became apparent that low developed market sovereign yields were making U.S. government bonds appear relatively attractive. In addition, we felt rates would continue to rally during periods of heightened volatility. We ended the period with a net duration of 6.7 years. Treasury futures had a small negative impact on performance during the period. Currency forwards were used to hedge the Fund's non-U.S. dollar exposure. These hedges were beneficial to performance, as the U.S. dollar strengthened versus the euro as the market priced in additional European quantitative easing. All told, derivatives had a marginal positive contribution to performance in 2015.

Performance review

For the twelve months ended December 31, 2015, Western Asset Premier Bond Fund returned -4.78% based on its net asset value (NAV^x) and -5.12% 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^x and the Barclays U.S. Credit Index^{xi}, returned -4.47% and -0.77%, respectively, for the same period. The Lipper Corporate BBB-Rated Debt Closed-End Funds Category Average^{xii} returned -1.87% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$1.08 per share*. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of December 31, 2015. **Past performance is no guarantee of future results.**

Performance Snapshot as of December 31, 2015

| | |
|------------------------|----------------------------|
| Price Per Share | 12-Month Total Return** |
| \$13.08 (NAV) | -4.78% |
| \$12.16 (Market Price) | -5.12% |

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. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

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 allocations to structured products and non-agency MBS. These issuers outperformed most emerging markets, U.S. investment grade and the high-yield corporate credit markets. In particular, our exposure to highly seasoned manufactured housing bonds and our relatively lower risk prime fixed rate exposure benefited performance.

A number of the portfolio's investment grade corporate bonds were also positive for results during the period. Examples of holdings that contributed to performance were our positions in Barclays PLC, Royal Bank of Scotland and Verizon Communications. Global money center banks Barclays and Royal Bank of Scotland performed well as investor sentiment, overall, improved due to continued balance sheet and capital ratio improvement, as well as strengthening fundamental results. Consistent positive fundamental performance at U.S. wireless provider Verizon Communications continued. In addition, Verizon Communications closed on an asset sale and thus improved its balance sheet, which was seen as favorable by fixed income investors.

*For the tax character of distributions paid during the fiscal year ended December 31, 2015, please refer to page 48 of this report.

Fund overview (cont d)

A number of the portfolio's high-yield corporate bonds were also positive for results. An example of a strong holding was International Lease Finance Corp (ILFC). Global aircraft leasing firm ILFC was purchased by a competitor, AerCap, prior to the reporting period. We felt the combined entity was well positioned and proceeded to post strong fundamental results and de-levered faster than the market anticipated.

Within our emerging market allocation, the Fund's exposure to Vimplecom Communications was beneficial for performance. The company is a large publicly traded multinational telecommunications provider. It operates in several countries that experienced reduced volatility last year, such as Russia, the Ukraine and Italy. Additionally, Vimplecom Communications improved its balance sheet by spinning out and merging its Italian operations with another carrier.

Q. What were the leading detractors from performance?

A. The overall U.S. high-yield corporate bond market performed poorly relative to other spread sectors in 2015. Against this backdrop, a number of the Fund's individual high-yield corporate bond holdings were drags on performance, including our positions in Hercules Offshore, Magnum Hunter and Halcon Resources Corp. These energy-related companies were also hurt by falling oil prices and two (Hercules Offshore and Magnum Hunter) were forced to restructure their balance sheets during the reporting period. We obtained equity in the newly deleveraged entity Hercules Offshore Inc. in exchange for our debt, and will, in the near future, obtain equity in Magnum Hunter. We believe that, for the longer-term, these positions are attractive opportunities.

Emerging markets posted mixed results in 2015 and a number of the Fund's individual holdings were drags on performance. These including our sovereign debt positions in Brazil and Mexico (Nota Do Tesouro Nacional and Mexican Bonos) and our exposures in large government controlled energy issuers, such as Columbia's Ecopetrol SA and Brazil's Petrobras Global Finance. Our emerging market exposure was pressured by global growth concerns, including uncertainty surrounding the Chinese economy, a stronger U.S. dollar and weaker commodity prices. We sold our underperforming Brazilian sovereign debt exposure during the fourth quarter of 2015, which looks like an attractive exit point as we write this after the reporting period ended.

Elsewhere, the Fund's position in investment grade issuer Freeport-McMoRan, Inc. detracted from results. This global natural resource company is the world's leader in copper production. It was negatively impacted by falling copper prices and some of the previously mentioned global growth concerns. The company has taken steps to improve its balance sheet, including eliminating its equity dividend and adjusting its capital expenditure budgets lower. Additionally, Freeport-McMoRan is pursuing alternative funding sources, including potential asset sales.

This has been a challenging environment for many investors. We believe increased market volatility will ultimately be beneficial for long-term shareholders, as we look to add income and capital appreciation opportunities to the Fund.

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 19, 2016

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 (commonly referred to as "junk 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 if it invested 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, 2015 and are subject to change and may not be representative of the portfolio managers' current or future investments. Please refer to pages 10 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, 2015 were: Financials (32.2%), Asset-Backed Securities (13.9%), Energy (13.8%), Telecommunication Services (13.6%) and Consumer Discretionary (13.3%). 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.

Fund overview (cont d)

- i Total managed assets equals the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage).
- ii Effective duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Please note, duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. Funds that employ leverage calculate effective duration based off of net assets.
- iii 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.
- iv The Federal Reserve Board (Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- v 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.
- vi 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.
- vii The JPMorgan Emerging Markets Bond Index Global (EMBI Global) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds and local market instruments.
- viii The yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.
- ix 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 net assets) 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.
- x 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 144A securities are also included.
- xi 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).

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^{xii} 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, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 8 funds in the Fund's Lipper category.

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, 2015 and December 31, 2014 and does not include derivatives such as futures contracts and forward foreign currency contracts. The Fund's portfolio is actively managed. As a result, the composition of its portfolio holdings and sectors is subject to change at any time.

Spread duration (unaudited)

Economic exposure December 31, 2015

Total Spread Duration

WEA 5.40 years
 Benchmark 6.80 years

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, 2015

Total Effective Duration

WEA 4.86 years
Benchmark 6.90 years

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, 2015

Western Asset Premier Bond Fund

| | Rate | Maturity Date | Face Amount | Value |
|---|---------|---------------|---------------|-------------------|
| Security | | | | |
| Corporate Bonds & Notes 99.8% | | | | |
| Consumer Discretionary 13.0% | | | | |
| <i>Automobiles</i> 2.6% | | | | |
| Daimler Finance NA LLC, Notes | 8.500% | 1/18/31 | 1,000,000 | \$ 1,450,496 (a) |
| Ford Motor Credit Co., LLC, Senior Notes | 8.000% | 12/15/16 | 680,000 | 718,842 (a) |
| General Motors Co., Senior Notes | 6.250% | 10/2/43 | 1,750,000 | 1,848,938 (a) |
| <i>Total Automobiles</i> | | | | 4,018,276 |
| <i>Hotels, Restaurants & Leisure</i> 1.1% | | | | |
| CCM Merger Inc., Senior Notes | 9.125% | 5/1/19 | 570,000 | 594,938 (b) |
| Greektown Holdings LLC/Greektown Mothership Corp., Senior Secured Notes | 8.875% | 3/15/19 | 420,000 | 424,200 (a)(b) |
| Landry's Holdings II Inc., Senior Notes | 10.250% | 1/1/18 | 720,000 | 718,200 (b) |
| <i>Total Hotels, Restaurants & Leisure</i> | | | | 1,737,338 |
| <i>Household Durables</i> 0.7% | | | | |
| Shea Homes LP/Shea Homes Funding Corp., Senior Notes | 6.125% | 4/1/25 | 580,000 | 595,950 (b) |
| William Lyon Homes Inc., Senior Notes | 8.500% | 11/15/20 | 390,000 | 412,425 (a) |
| <i>Total Household Durables</i> | | | | 1,008,375 |
| <i>Media</i> 7.8% | | | | |
| 21st Century Fox America Inc., Senior Debentures | 8.875% | 4/26/23 | 400,000 | 523,237 (a) |
| CCO Safari II LLC, Senior Secured Notes | 4.908% | 7/23/25 | 1,000,000 | 999,027 (b) |
| CCO Safari II LLC, Senior Secured Notes | 6.384% | 10/23/35 | 420,000 | 424,339 (b) |
| CCO Safari II LLC, Senior Secured Notes | 6.484% | 10/23/45 | 2,130,000 | 2,133,491 (b) |
| Comcast Corp., Notes | 7.050% | 3/15/33 | 1,000,000 | 1,290,203 (a) |
| CSC Holdings LLC, Senior Notes | 6.750% | 11/15/21 | 1,000,000 | 982,500 (a) |
| DISH DBS Corp., Senior Notes | 7.875% | 9/1/19 | 385,000 | 418,687 (a) |
| iHeartCommunications Inc., Senior Notes | 14.000% | 2/1/21 | 520,000 | 141,700 (c) |
| New Cotai LLC/New Cotai Capital Corp., Senior Secured Notes | 10.625% | 5/1/19 | 402,917 | 302,188 (b)(c) |
| Time Warner Cable Inc., Debentures | 7.300% | 7/1/38 | 720,000 | 780,594 (a) |
| Time Warner Cable Inc., Senior Notes | 5.850% | 5/1/17 | 500,000 | 523,062 (a) |
| Time Warner Inc., Senior Debentures | 7.700% | 5/1/32 | 980,000 | 1,223,199 (a) |
| Tribune Media Co., Senior Notes | 5.875% | 7/15/22 | 260,000 | 260,000 (b) |
| UPC Holding BV, Junior Secured Subordinated Notes | 6.375% | 9/15/22 | 1,820,000 EUR | 2,100,118 (a)(b) |
| <i>Total Media</i> | | | | 12,102,345 |
| <i>Specialty Retail</i> 0.8% | | | | |
| Hot Topic Inc., Senior Secured Notes | 9.250% | 6/15/21 | 270,000 | 238,950 (a)(b) |
| L Brands Inc., Debentures | 6.950% | 3/1/33 | 180,000 | 179,100 |
| L Brands Inc., Senior Notes | 6.875% | 11/1/35 | 450,000 | 462,375 (a)(b) |
| Sally Holdings LLC/Sally Capital Inc., Senior Notes | 5.625% | 12/1/25 | 420,000 | 424,200 (a) |
| <i>Total Specialty Retail</i> | | | | 1,304,625 |
| Total Consumer Discretionary | | | | 20,170,959 |

See Notes to Financial Statements.

Western Asset Premier Bond Fund

| | Rate | Maturity Date | Face Amount | Value |
|--|--------|---------------|-------------|------------------------------|
| Security | | | | |
| Consumer Staples 4.6% | | | | |
| <i>Food & Staples Retailing 2.3%</i> | | | | |
| CVS Pass-Through Trust, Secured Bonds | 5.789% | 1/10/26 | 421,872 | \$ 455,560 ^{(a)(b)} |
| CVS Pass-Through Trust, Secured Notes | 5.880% | 1/10/28 | 434,603 | 466,655 ^(a) |
| CVS Pass-Through Trust, Secured Notes | 6.036% | 12/10/28 | 434,956 | 477,664 ^(a) |
| CVS Pass-Through Trust, Secured Notes | 6.943% | 1/10/30 | 422,195 | 482,714 ^(a) |
| CVS Pass-Through Trust, Secured Notes | 7.507% | 1/10/32 | 415,516 | 489,862 ^{(a)(b)} |
| Kroger Co., Senior Notes | 6.400% | 8/15/17 | 1,090,000 | 1,170,463 ^(a) |
| <i>Total Food & Staples Retailing</i> | | | | <i>3,542,918</i> |
| <i>Food Products 1.8%</i> | | | | |
| Ahold Lease USA Inc., Pass-Through Certificates | 8.620% | 1/2/25 | 686,921 | 841,533 ^(a) |
| WM Wrigley Jr. Co., Senior Notes | 2.000% | 10/20/17 | 2,000,000 | 2,003,240 ^{(a)(b)} |
| <i>Total Food Products</i> | | | | <i>2,844,773</i> |
| <i>Household Products 0.3%</i> | | | | |
| Central Garden & Pet Co., Senior Notes | 6.125% | 11/15/23 | 250,000 | 252,500 ^(a) |
| Kronos Acquisition Holdings Inc., Senior Notes | 9.000% | 8/15/23 | 130,000 | 111,150 ^(b) |
| <i>Total Household Products</i> | | | | <i>363,650</i> |
| <i>Tobacco 0.2%</i> | | | | |
| Reynolds American Inc., Senior Notes | 5.850% | 8/15/45 | 310,000 | 344,640 ^(a) |
| Total Consumer Staples | | | | 7,095,981 |
| Energy 13.4% | | | | |
| <i>Energy Equipment & Services 0.9%</i> | | | | |
| CGG, Senior Notes | 6.500% | 6/1/21 | 750,000 | 333,750 |
| Transocean Inc., Senior Notes | 5.800% | 12/15/16 | 1,000,000 | 970,000 ^(a) |
| <i>Total Energy Equipment & Services</i> | | | | <i>1,303,750</i> |
| <i>Oil, Gas & Consumable Fuels 12.5%</i> | | | | |
| Anadarko Finance Co., Senior Notes | 7.500% | 5/1/31 | 570,000 | 605,705 ^(a) |
| Anadarko Petroleum Corp., Senior Notes | 4.500% | 7/15/44 | 1,000,000 | 765,582 ^(a) |
| Apache Corp., Senior Notes | 4.250% | 1/15/44 | 250,000 | 195,713 ^(a) |
| Arch Coal Inc., Senior Notes | 7.000% | 6/15/19 | 1,080,000 | 8,100 ^(d) |
| Berry Petroleum Co., Senior Notes | 6.375% | 9/15/22 | 130,000 | 31,525 |
| Burlington Resources Finance Co., Senior Notes | 7.400% | 12/1/31 | 450,000 | 535,962 ^(a) |
| Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Notes | 6.500% | 4/15/21 | 500,000 | 435,000 ^(a) |
| Chesapeake Energy Corp., Senior Notes | 6.875% | 11/15/20 | 270,000 | 76,950 ^(a) |
| Chesapeake Energy Corp., Senior Notes | 5.375% | 6/15/21 | 320,000 | 86,400 ^(a) |
| Continental Resources Inc., Senior Notes | 4.500% | 4/15/23 | 1,000,000 | 718,459 ^(a) |
| Continental Resources Inc., Senior Notes | 4.900% | 6/1/44 | 500,000 | 301,488 ^(a) |
| Devon Energy Corp., Debentures | 7.950% | 4/15/32 | 310,000 | 320,340 ^(a) |

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 |
|--|---------|---------------|-------------|-----------------------------|
| <i>Oil, Gas & Consumable Fuels continued</i> | | | | |
| Ecopetrol SA, Senior Notes | 5.875% | 9/18/23 | 55,000 | \$ 50,600 ^(a) |
| Ecopetrol SA, Senior Notes | 5.875% | 5/28/45 | 2,510,000 | 1,782,100 |
| Enterprise Products Operating LLC, Senior Notes | 4.050% | 2/15/22 | 880,000 | 860,765 |
| Enterprise Products Operating LLC, Senior Notes | 5.100% | 2/15/45 | 1,000,000 | 837,638 ^(a) |
| Freeport-McMoran Oil & Gas LLC/FCX Oil & Gas Inc., Senior Notes | 6.500% | 11/15/20 | 1,079,000 | 695,955 ^(a) |
| Halcon Resources Corp., Secured Notes | 8.625% | 2/1/20 | 100,000 | 69,000 ^(b) |
| Halcon Resources Corp., Senior Notes | 9.750% | 7/15/20 | 670,000 | 194,300 |
| Hess Corp., Notes | 7.875% | 10/1/29 | 350,000 | 382,319 ^(a) |
| Kinder Morgan Inc., Medium-Term Notes | 7.800% | 8/1/31 | 190,000 | 178,272 ^(a) |
| Kinder Morgan Inc., Senior Bonds | 5.550% | 6/1/45 | 1,500,000 | 1,170,945 ^(a) |
| Lonestar Resources America Inc., Senior Notes | 8.750% | 4/15/19 | 180,000 | 108,000 ^(b) |
| Magnum Hunter Resources Corp., Senior Notes | 9.750% | 5/15/20 | 960,000 | 249,600 ^{*(d)(e)} |
| MEG Energy Corp., Senior Notes | 7.000% | 3/31/24 | 840,000 | 596,400 ^{(a)(b)} |
| Natural Resource Partners LP/Natural Resource Partners Finance Corp., Senior Notes | 9.125% | 10/1/18 | 370,000 | 240,500 ^(a) |
| Newfield Exploration Co., Senior Notes | 5.625% | 7/1/24 | 2,500,000 | 2,131,250 ^(a) |
| Noble Energy Inc., Senior Notes | 5.250% | 11/15/43 | 1,000,000 | 806,717 ^(a) |
| Oasis Petroleum Inc., Senior Notes | 6.500% | 11/1/21 | 770,000 | 510,125 |
| Oasis Petroleum Inc., Senior Notes | 6.875% | 1/15/23 | 120,000 | 74,400 |
| Petrobras Global Finance BV, Senior Notes | 6.750% | 1/27/41 | 920,000 | 588,800 |
| Petroleos Mexicanos, Senior Notes | 4.250% | 1/15/25 | 1,500,000 | 1,312,500 ^(b) |
| Reliance Holdings USA Inc., Senior Notes | 5.400% | 2/14/22 | 1,000,000 | 1,081,445 ^{(a)(b)} |
| Reliance Holdings USA Inc., Senior Notes | 5.400% | 2/14/22 | 250,000 | 270,361 ^(f) |
| RSP Permian Inc., Senior Notes | 6.625% | 10/1/22 | 410,000 | 377,200 ^(b) |
| Sanchez Energy Corp., Senior Notes | 7.750% | 6/15/21 | 380,000 | 231,800 ^(a) |
| Williams Cos. Inc., Debentures | 7.500% | 1/15/31 | 413,000 | 285,733 ^(a) |
| Williams Cos. Inc., Senior Notes | 8.750% | 3/15/32 | 39,000 | 29,393 ^(a) |
| WPX Energy Inc., Senior Notes | 7.500% | 8/1/20 | 40,000 | 32,400 |
| WPX Energy Inc., Senior Notes | 8.250% | 8/1/23 | 330,000 | 264,000 |
| <i>Total Oil, Gas & Consumable Fuels</i> | | | | <i>19,493,742</i> |
| Total Energy | | | | 20,797,492 |
| Financials 29.0% | | | | |
| <i>Banks 17.4%</i> | | | | |
| Bank of America Corp., Senior Notes | 3.750% | 7/12/16 | 500,000 | 506,269 ^(a) |
| Bank of America Corp., Senior Notes | 5.000% | 5/13/21 | 1,100,000 | 1,201,805 ^(a) |
| Bank of America Corp., Subordinated Notes | 4.250% | 10/22/26 | 700,000 | 692,884 ^(a) |
| Barclays Bank PLC, Subordinated Notes | 10.179% | 6/12/21 | 610,000 | 790,192 ^{(a)(b)} |

See Notes to Financial Statements.

Western Asset Premier Bond Fund

| Security | Rate | Maturity Date | Face Amount | Value |
|---|--------|---------------|-------------|---------------------|
| <i>Banks continued</i> | | | | |
| Barclays Bank PLC, Subordinated Notes | 7.625% | 11/21/22 | 2,500,000 | \$ 2,846,875 |
| BNP Paribas SA, Junior Subordinated Notes | 7.375% | 8/19/25 | 1,280,000 | 1,313,600 (b)(g)(h) |
| BPCE SA, Subordinated Notes | 5.150% | 7/21/24 | 1,000,000 | 1,008,404 (b) |
| Capital One N.A., Senior Notes | 1.500% | 3/22/18 | 1,810,000 | 1,779,979 (a) |
| Citigroup Inc., Subordinated Notes | 3.500% | 5/15/23 | 500,000 | 491,608 (a) |
| Citigroup Inc., Subordinated Notes | 5.500% | 9/13/25 | 200,000 | 217,099 (a) |
| Citigroup Inc., Subordinated Notes | 6.625% | 6/15/32 | 1,000,000 | 1,180,134 (a) |
| Credit Agricole SA, Junior Subordinated Notes | 7.875% | 1/23/24 | 750,000 | 766,875 (b)(g)(h) |
| Credit Agricole SA, Subordinated Notes | 4.375% | 3/17/25 | 350,000 | 338,604 (b) |
| HBOS PLC, Subordinated Notes | 6.750% | 5/21/18 | 700,000 | 763,458 (a)(b) |
| HSBC Holdings PLC, Junior Subordinated Bonds | 6.375% | 9/17/24 | 1,480,000 | 1,461,500 (g)(h) |
| Intesa Sanpaolo SpA, Senior Notes | 3.875% | 1/16/18 | 1,000,000 | 1,025,412 |
| Intesa Sanpaolo SpA, Subordinated Bonds | 5.017% | 6/26/24 | 910,000 | 895,303 (b) |
| JPMorgan Chase & Co., Subordinated Notes | 4.950% | 6/1/45 | 1,500,000 | 1,499,712 (a) |
| Lloyds Banking Group PLC, Subordinated Notes | 4.500% | 11/4/24 | 1,000,000 | 1,015,127 |
| Royal Bank of Scotland Group PLC, Subordinated Notes | 6.100% | 6/10/23 | 1,470,000 | 1,579,433 |
| Royal Bank of Scotland Group PLC, Subordinated Notes | 6.000% | 12/19/23 | 150,000 | 161,552 |
| Royal Bank of Scotland Group PLC, Subordinated Notes | 5.125% | 5/28/24 | 2,830,000 | 2,867,229 |
| Royal Bank of Scotland NV, Subordinated Bonds | 7.750% | 5/15/23 | 140,000 | 161,249 (a) |
| Santander UK PLC, Subordinated Notes | 5.000% | 11/7/23 | 510,000 | 530,885 (b) |
| Standard Chartered PLC, Subordinated Notes | 5.700% | 3/26/44 | 2,000,000 | 2,001,614 (b) |
| <i>Total Banks</i> | | | | <i>27,096,802</i> |
| <i>Capital Markets 5.0%</i> | | | | |
| Credit Suisse Group Funding Guernsey Ltd., Senior Notes | 4.875% | 5/15/45 | 1,500,000 | 1,479,129 (b) |
| Deutsche Bank AG, Subordinated Notes | 4.296% | 5/24/28 | 2,000,000 | 1,825,462 (a)(g) |
| Goldman Sachs Group Inc., Senior Notes | 6.150% | 4/1/18 | 1,000,000 | 1,085,916 (a) |
| Goldman Sachs Group Inc., Senior Notes | 5.250% | 7/27/21 | 800,000 | 884,496 (a) |
| Goldman Sachs Group Inc., Subordinated Notes | 6.750% | 10/1/37 | 1,000,000 | 1,168,936 (a) |
| Goldman Sachs Group Inc., Subordinated Notes | 5.150% | 5/22/45 | 450,000 | 437,124 (a) |
| Pershing Square Holdings Ltd., Senior Notes | 5.500% | 7/15/22 | 1,000,000 | 932,006 (b) |
| <i>Total Capital Markets</i> | | | | <i>7,813,069</i> |
| <i>Consumer Finance 1.5%</i> | | | | |
| Ally Financial Inc., Senior Notes | 8.000% | 3/15/20 | 282,000 | 321,480 (a) |
| Capital One Financial Corp., Subordinated Notes | 6.150% | 9/1/16 | 500,000 | 515,192 (a) |
| Navient Corp., Senior Notes | 6.125% | 3/25/24 | 680,000 | 554,200 (a) |
| Synchrony Financial, Senior Notes | 4.250% | 8/15/24 | 1,000,000 | 986,462 |
| <i>Total Consumer Finance</i> | | | | <i>2,377,334</i> |

See Notes to Financial Statements.

Schedule of investments (cont d)

December 31, 2015

Western Asset Premier Bond Fund

| Security | Rate | Maturity Date | Face Amount | Value |
|---|---------|---------------|-------------|-------------------|
| <i>Security</i> | | | | |
| <i>Diversified Financial Services 3.1%</i> | | | | |
| Argos Merger Sub Inc., Senior Notes | 7.125% | 3/15/23 | 890,000 | \$ 882,435 (a)(b) |
| GE Capital International Funding Co., Senior Notes | 2.342% | 11/15/20 | 373,000 | 369,889 (b) |
| General Electric Capital Corp., Subordinated Debentures | 6.375% | 11/15/67 | 500,000 | 522,150 (a)(g) |
| General Electric Capital Corp., Subordinated Notes | 5.300% | 2/11/21 | 129,000 | 145,463 (a) |
| International Lease Finance Corp., Senior Notes | 8.750% | 3/15/17 | 1,380,000 | 1,469,700 (a) |
| International Lease Finance Corp., Senior Notes | 5.875% | 8/15/22 | 500,000 | 532,500 (a) |
| International Lease Finance Corp., Senior Secured Notes | 7.125% | 9/1/18 | 400,000 | 438,500 (a)(b) |
| ZFS Finance USA Trust II, Bonds | 6.450% | 12/15/65 | 500,000 | 505,250 (a)(b)(g) |
| <i>Total Diversified Financial Services</i> | | | | <i>4,865,887</i> |
| <i>Insurance 0.8%</i> | | | | |
| Genworth Holdings Inc., Senior Notes | 4.900% | 8/15/23 | 330,000 | 219,450 (a) |
| Liberty Mutual Group Inc., Junior Subordinated Bonds | 7.800% | 3/15/37 | 200,000 | 228,000 (a)(b) |
| Metlife Inc., Junior Subordinated Notes | 10.750% | 8/1/39 | 500,000 | 783,125 (a) |
| <i>Total Insurance</i> | | | | <i>1,230,575</i> |
| <i>Real Estate Investment Trusts (REITs) 0.2%</i> | | | | |
| Communications Sales & Leasing Inc., Senior Secured Notes | 6.000% | 4/15/23 | 300,000 | 283,500 (b) |
| <i>Real Estate Management & Development 0.5%</i> | | | | |
| Howard Hughes Corp., Senior Notes | 6.875% | 10/1/21 | 690,000 | 703,800 (a)(b) |
| <i>Thrifts & Mortgage Finance 0.5%</i> | | | | |
| Quicken Loans Inc., Senior Notes | 5.750% | 5/1/25 | 860,000 | 819,150 (a)(b) |
| Total Financials | | | | 45,190,117 |
| <i>Health Care 5.5%</i> | | | | |
| <i>Biotechnology 0.5%</i> | | | | |
| AMAG Pharmaceuticals Inc., Senior Notes | 7.875% | 9/1/23 | 280,000 | 246,400 (b) |
| Celgene Corp., Senior Notes | 5.000% | 8/15/45 | 470,000 | 471,827 |
| <i>Total Biotechnology</i> | | | | <i>718,227</i> |
| <i>Health Care Equipment & Supplies 1.0%</i> | | | | |
| ConvaTec Finance International SA, Senior Notes | 8.250% | 1/15/19 | 340,000 | 316,200 (b)(c) |
| DJO Finco Inc./DJO Finance LLC/DJO Finance Corp., Secured Notes | 8.125% | 6/15/21 | 1,040,000 | 923,000 (b) |
| Greatbatch Ltd., Senior Notes | 9.125% | 11/1/23 | 330,000 | 326,700 (b) |
| <i>Total Health Care Equipment & Supplies</i> | | | | <i>1,565,900</i> |
| <i>Health Care Providers & Services 1.6%</i> | | | | |
| HCA Inc., Debentures | 7.500% | 11/15/95 | 475,000 | 451,250 (a) |
| HCA Inc., Notes | 7.690% | 6/15/25 | 90,000 | 96,975 (a) |
| IASIS Healthcare LLC/IASIS Capital Corp., Senior Notes | 8.375% | 5/15/19 | 230,000 | 211,600 |
| Tenet Healthcare Corp., Senior Notes | 8.125% | 4/1/22 | 570,000 | 568,575 |
| Tenet Healthcare Corp., Senior Notes | 6.750% | 6/15/23 | 870,000 | 806,925 |

See Notes to Financial Statements.

Western Asset Premier Bond Fund

| Security | Rate | Maturity Date | Face Amount | Value |
|--|--------|---------------|-------------|------------------|
| <i>Health Care Providers & Services continued</i> | | | | |
| UnitedHealth Group Inc., Senior Notes | 4.750% | 7/15/45 | 340,000 | \$ 358,119 (a) |
| <i>Total Health Care Providers & Services</i> | | | | 2,493,444 |
| <i>Pharmaceuticals 2.4%</i> | | | | |
| Actavis Funding SCS, Senior Notes | 4.550% | 3/15/35 | 270,000 | 262,401 (a) |
| Actavis Funding SCS, Senior Notes | 4.750% | 3/15/45 | 1,080,000 | 1,053,049 (a) |
| JLL/Delta Dutch Pledgeco BV, Senior Notes | 8.750% | 5/1/20 | 760,000 | 733,400 (b)(c) |
| Mallinckrodt International Finance SA, Senior Notes | 5.750% | 8/1/22 | 420,000 | 403,200 (b) |
| Valeant Pharmaceuticals International Inc., Senior Notes | 6.375% | 10/15/20 | 210,000 | 202,650 (b) |
| Valeant Pharmaceuticals International Inc., Senior Notes | 7.500% | 7/15/21 | 550,000 | 548,625 (b) |
| Valeant Pharmaceuticals International Inc., Senior Notes | 7.250% | 7/15/22 | 480,000 | 469,200 (b) |
| Valeant Pharmaceuticals International, Inc., Senior Notes | 5.375% | 3/15/20 | 160,000 | 150,400 (b) |
| <i>Total Pharmaceuticals</i> | | | | 3,822,925 |
| Total Health Care | | | | 8,600,496 |
| <i>Industrials 9.9%</i> | | | | |
| <i>Aerospace & Defense 0.8%</i> | | | | |
| Aerojet Rocketdyne Holdings Inc., Secured Notes | 7.125% | 3/15/21 | 250,000 | 260,000 (a) |
| Boeing Co., Notes | 6.125% | 2/15/33 | 600,000 | 755,769 (a) |
| Bombardier Inc., Senior Notes | 7.500% | 3/15/18 | 230,000 | 224,250 (b) |
| Bombardier Inc., Senior Notes | 4.750% | 4/15/19 | 50,000 | 41,125 (b) |
| <i>Total Aerospace & Defense</i> | | | | 1,281,144 |
| <i>Air Freight & Logistics 0.6%</i> | | | | |
| XPO Logistics Inc., Senior Notes | 6.500% | 6/15/22 | 960,000 | 888,000 (b) |
| <i>Airlines 5.7%</i> | | | | |
| Air 2 US, Notes | 8.027% | 10/1/19 | 845,907 | 905,121 (a)(b) |
| America West Airlines Inc., Pass-Through Certificates, Ambac Assurance Corp. | 8.057% | 7/2/20 | 1,194,287 | 1,340,588 (a) |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 6.900% | 1/2/18 | 333,547 | 342,720 (a) |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 6.820% | 5/1/18 | 423,470 | 444,643 (a) |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 6.545% | 2/2/19 | 759,466 | 807,844 (a) |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 8.048% | 11/1/20 | 319,403 | 357,731 (a) |
| Continental Airlines Inc., Pass-Through Certificates, Senior Secured Notes | 6.703% | 6/15/21 | 351,589 | 365,652 (a) |
| Delta Air Lines Inc., Pass-Through Certificates, Secured Notes | 8.021% | 8/10/22 | 109,749 | 123,193 (a) |
| Northwest Airlines Corp., Pass-Through Certificates | 7.575% | 3/1/19 | 313,917 | 342,170 |
| US Airways, Pass-Through Certificates, Senior Secured Bonds | 6.850% | 1/30/18 | 1,982,480 | 2,101,429 (a) |

See Notes to Financial Statements.

Schedule of investments (cont d)

December 31, 2015

Western Asset Premier Bond Fund

| | Rate | Maturity Date | Face Amount | Value |
|---|---------|---------------|-------------|-------------------|
| Security | | | | |
| <i>Airlines continued</i> | | | | |
| US Airways, Pass-Through Certificates, Senior Secured Bonds | 7.125% | 10/22/23 | 1,508,797 | \$ 1,735,116 (a) |
| <i>Total Airlines</i> | | | | 8,866,207 |
| <i>Commercial Services & Supplies 0.1%</i> | | | | |
| Garda World Security Corp., Senior Notes | 7.250% | 11/15/21 | 220,000 | 189,200 (b) |
| <i>Construction & Engineering 0.6%</i> | | | | |
| Ausdrill Finance Pty Ltd., Senior Notes | 6.875% | 11/1/19 | 270,000 | 191,700 (a)(b) |
| Michael Baker International LLC/CDL Acquisition Co. Inc., Senior Secured Notes | 8.250% | 10/15/18 | 610,000 | 549,000 (a)(b) |
| Modular Space Corp., Secured Notes | 10.250% | 1/31/19 | 360,000 | 144,000 (a)(b) |
| Odebrecht Offshore Drilling Finance Ltd., Senior Secured Notes | 6.625% | 10/1/22 | 183,780 | 40,432 (b) |
| <i>Total Construction & Engineering</i> | | | | 925,132 |
| <i>Electrical Equipment 0.2%</i> | | | | |
| International Wire Group Holdings Inc., Senior Secured Notes | 8.500% | 10/15/17 | 340,000 | 347,650 (a)(b) |
| <i>Machinery 0.4%</i> | | | | |
| SPL Logistics Escrow LLC/SPL Logistics Finance Corp., Senior Secured Notes | 8.875% | 8/1/20 | 710,000 | 692,250 (a)(b) |
| <i>Marine 0.3%</i> | | | | |
| Navios Maritime Acquisition Corp./Navios Acquisition Finance U.S. Inc., Senior Secured Notes | 8.125% | 11/15/21 | 470,000 | 410,075 (a)(b) |
| <i>Professional Services 0.6%</i> | | | | |
| IHS Inc., Senior Notes | 5.000% | 11/1/22 | 1,000,000 | 1,012,500 (a) |
| <i>Road & Rail 0.2%</i> | | | | |
| Florida East Coast Holdings Corp., Senior Notes | 9.750% | 5/1/20 | 100,000 | 68,000 (b) |
| Florida East Coast Holdings Corp., Senior Secured Notes | 6.750% | 5/1/19 | 240,000 | 219,600 (b) |
| <i>Total Road & Rail</i> | | | | 287,600 |
| <i>Trading Companies & Distributors 0.4%</i> | | | | |
| H&E Equipment Services Inc., Senior Notes | 7.000% | 9/1/22 | 590,000 | 578,200 (a) |
| Total Industrials | | | | 15,477,958 |
| <i>Information Technology 3.8%</i> | | | | |
| <i>Communications Equipment 1.8%</i> | | | | |
| Harris Corp., Senior Notes | 5.054% | 4/27/45 | 1,500,000 | 1,468,750 (a) |
| QUALCOMM Inc., Senior Subordinated Notes | 4.800% | 5/20/45 | 1,500,000 | 1,332,764 (a) |
| <i>Total Communications Equipment</i> | | | | 2,801,514 |
| <i>Electronic Equipment, Instruments & Components 0.2%</i> | | | | |
| Interface Security Systems Holdings Inc./Interface Security Systems LLC, Senior Secured Notes | 9.250% | 1/15/18 | 340,000 | 333,200 (a) |
| <i>IT Services 1.4%</i> | | | | |
| Compiler Finance Subordinated Inc., Senior Notes | 7.000% | 5/1/21 | 465,000 | 195,300 (b) |

See Notes to Financial Statements.

Western Asset Premier Bond Fund

| Security | Rate | Maturity Date | Face Amount | Value |
|--|---------|---------------|-------------|---------------------------|
| <i>IT Services continued</i> | | | | |
| First Data Corp., Senior Notes | 7.000% | 12/1/23 | 550,000 | \$ 550,000 ^(b) |
| First Data Corp., Senior Secured Notes | 6.750% | 11/1/20 | 98,000 | 102,778 ^{(a)(b)} |
| First Data Corp., Senior Secured Notes | 5.000% | 1/15/24 | 760,000 | 756,200 ^(b) |
| HP Enterprise Services LLC, Notes | 7.450% | 10/15/29 | 500,000 | 579,900 ^(a) |
| Total IT Services | | | | 2,184,178 |
| <i>Technology Hardware, Storage & Peripherals 0.4%</i> | | | | |
| Seagate HDD Cayman, Senior Bonds | 4.750% | 1/1/25 | 750,000 | 624,527 ^(a) |
| Total Information Technology | | | | 5,943,419 |
| <i>Materials 3.8%</i> | | | | |
| <i>Chemicals 0.3%</i> | | | | |
| Braskem Finance Ltd., Senior Notes | 5.375% | 5/2/22 | 230,000 | 190,900 ^(b) |
| HIG BBC Intermediate Holdings LLC/HIG BBC Holdings Corp., Senior Notes | 10.500% | 9/15/18 | 250,000 | 236,250 ^{(b)(c)} |
| Total Chemicals | | | | 427,150 |
| <i>Containers & Packaging 0.8%</i> | | | | |
| Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., Senior Notes | 9.125% | 10/15/20 | 415,000 | 425,375 ^(b) |
| Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc., Senior Notes | 7.000% | 11/15/20 | 213,529 | 209,793 ^(b) |
| Coveris Holdings SA, Senior Notes | 7.875% | 11/1/19 | 590,000 | 514,775 ^(b) |
| Pactiv LLC, Senior Notes | 7.950% | 12/15/25 | 50,000 | 46,500 |
| Total Containers & Packaging | | | | 1,196,443 |
| <i>Metals & Mining 2.3%</i> | | | | |
| ArcelorMittal, Senior Notes | 6.500% | 3/1/21 | 160,000 | 128,782 |
| ArcelorMittal, Senior Notes | 8.000% | 10/15/39 | 430,000 | 293,475 |
| Barmenco Finance Pty Ltd., Senior Notes | 9.000% | 6/1/18 | 400,000 | 316,000 ^{(a)(b)} |
| Barrick Gold Corp., Senior Notes | 6.950% | 4/1/19 | 130,000 | 133,003 |
| BHP Billiton Finance USA Ltd., Subordinated Notes | 6.750% | 10/19/75 | 800,000 | 772,000 ^{(b)(g)} |
| FMG Resources (August 2006) Pty Ltd., Senior Secured Notes | 9.750% | 3/1/22 | 1,060,000 | 969,900 ^(b) |
| Freeport-McMoRan Inc., Senior Notes | 2.375% | 3/15/18 | 900,000 | 702,000 |
| Joseph T. Ryerson & Son Inc., Senior Notes | 11.250% | 10/15/18 | 414,000 | 308,430 |
| Prince Mineral Holding Corp., Senior Secured Notes | 11.500% | 12/15/19 | 50,000 | 36,000 ^(b) |
| Total Metals & Mining | | | | 3,659,590 |
| <i>Paper & Forest Products 0.4%</i> | | | | |
| Weyerhaeuser Co., Debentures | 7.375% | 3/15/32 | 560,000 | 666,390 ^(a) |
| Total Materials | | | | 5,949,573 |
| <i>Telecommunication Services 13.6%</i> | | | | |
| <i>Diversified Telecommunication Services 10.5%</i> | | | | |
| AT&T Inc., Senior Notes | 5.350% | 9/1/40 | 170,000 | 167,912 ^(a) |

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 |
|---|---------|---------------|-------------|------------------------|
| <i>Diversified Telecommunication Services continued</i> | | | | |
| CCOH Safari LLC, Senior Notes | 5.750% | 2/15/26 | 890,000 | \$ 892,225 (a)(b) |
| Cincinnati Bell Telephone Co., LLC, Senior Debentures | 6.300% | 12/1/28 | 25,000 | 22,625 (a) |
| Frontier Communications Corp., Senior Notes | 10.500% | 9/15/22 | 430,000 | 428,387 (b) |
| Frontier Communications Corp., Senior Notes | 11.000% | 9/15/25 | 530,000 | 524,700 (b) |
| Intelsat Luxembourg SA, Senior Bonds | 7.750% | 6/1/21 | 470,000 | 219,725 |
| Level 3 Financing Inc., Senior Notes | 6.125% | 1/15/21 | 530,000 | 548,550 (a) |
| Oi Brasil Holdings Cooperatief U.A., Senior Notes | 5.750% | 2/10/22 | 400,000 | 182,000 (b) |
| Orange SA, Notes | 9.000% | 3/1/31 | 600,000 | 846,859 (a) |
| Qwest Corp., Senior Notes | 6.750% | 12/1/21 | 2,000,000 | 2,095,000 (a) |
| Telecom Italia SpA, Senior Notes | 5.303% | 5/30/24 | 2,750,000 | 2,715,625 (b) |
| Telefonica Emisiones SAU, Senior Notes | 5.134% | 4/27/20 | 2,000,000 | 2,183,710 (a) |
| Verizon Communications Inc., Senior Notes | 5.150% | 9/15/23 | 4,330,000 | 4,760,081 (a) |
| Windstream Services LLC, Senior Notes | 7.750% | 10/15/20 | 110,000 | 92,675 |
| Windstream Services LLC, Senior Notes | 7.750% | 10/1/21 | 90,000 | 70,819 |
| Windstream Services LLC, Senior Notes | 6.375% | 8/1/23 | 930,000 | 669,600 (a) |
| <i>Total Diversified Telecommunication Services</i> | | | | <i>16,420,493</i> |
| <i>Wireless Telecommunication Services 3.1%</i> | | | | |
| Altice Financing SA, Senior Secured Notes | 6.625% | 2/15/23 | 400,000 | 395,000 (a)(b) |
| Neptune Finco Corp., Senior Notes | 10.125% | 1/15/23 | 200,000 | 208,500 (b) |
| Neptune Finco Corp., Senior Notes | 6.625% | 10/15/25 | 610,000 | 634,400 (a)(b) |
| Neptune Finco Corp., Senior Notes | 10.875% | 10/15/25 | 240,000 | 251,400 (b) |
| Sprint Capital Corp., Senior Notes | 6.875% | 11/15/28 | 750,000 | 523,125 |
| Sprint Communications Inc., Senior Notes | 9.000% | 11/15/18 | 500,000 | 526,250 (a)(b) |
| Sprint Corp., Senior Notes | 7.875% | 9/15/23 | 1,000,000 | 751,000 |
| T-Mobile USA Inc., Senior Notes | 6.500% | 1/15/26 | 970,000 | 979,205 (a) |
| VimpelCom Holdings BV, Senior Notes | 5.950% | 2/13/23 | 570,000 | 525,398 (a)(b) |
| <i>Total Wireless Telecommunication Services</i> | | | | <i>4,794,278</i> |
| Total Telecommunication Services | | | | 21,214,771 |
| <i>Utilities 3.2%</i> | | | | |
| <i>Electric Utilities 2.8%</i> | | | | |
| Centrais Eletricas Brasileiras SA, Senior Notes | 5.750% | 10/27/21 | 210,000 | 165,375 (b) |
| Electricite de France SA, Junior Subordinated Notes | 5.625% | 1/22/24 | 1,500,000 | 1,426,500 (a)(b)(g)(h) |
| FirstEnergy Corp., Notes | 7.375% | 11/15/31 | 1,770,000 | 2,155,830 (a) |
| Southern Co., Senior Notes | 1.950% | 9/1/16 | 150,000 | 150,625 (a) |
| State Grid Overseas Investment 2014 Ltd., Senior Notes | 4.125% | 5/7/24 | 500,000 | 523,672 (f) |
| <i>Total Electric Utilities</i> | | | | <i>4,422,002</i> |
| <i>Gas Utilities 0.0%</i> | | | | |
| Southern Natural Gas Co., LLC, Senior Notes | 8.000% | 3/1/32 | 20,000 | 19,639 (a) |

See Notes to Financial Statements.

Western Asset Premier Bond Fund

| Security | Rate | Maturity Date | Face Amount | Value |
|--|--------|---------------|-------------|--------------------|
| <i>Independent Power and Renewable Electricity Producers 0.4%</i> | | | | |
| AES Corp., Senior Notes | 8.000% | 6/1/20 | 100,000 | \$ 110,000 (a) |
| Calpine Corp., Senior Secured Notes | 7.875% | 1/15/23 | 403,000 | 429,195 (a)(b) |
| <i>Total Independent Power and Renewable Electricity Producers</i> | | | | <i>539,195</i> |
| Total Utilities | | | | 4,980,836 |
| Total Corporate Bonds & Notes (Cost \$159,968,738) | | | | 155,421,602 |
| <i>Asset-Backed Securities 13.9%</i> | | | | |
| AAA Trust, 2005-1A 1A3B | 0.643% | 2/27/35 | 463,689 | 424,276 (b)(g) |
| ABFS Mortgage Loan Trust, 2002-3 M1 | 5.902% | 9/15/33 | 910,101 | 716,954 |
| ACE Securities Corp., 2005-WF1 M1 | 0.851% | 5/25/35 | 450,688 | 447,794 (g) |
| Ameriquest Mortgage Securities Inc., 2004-R9 M1 | 1.352% | 10/25/34 | 8,197 | 8,184 (g) |
| Argent Securities Inc., 2003-W3 M1 | 1.547% | 9/25/33 | 32,125 | 31,151 (g) |
| Associates Manufactured Housing Pass-Through Certificates, 1997-CLB2 | 8.900% | 6/15/28 | 1,991,778 | 1,892,189 |
| Bank of America Manufactured Housing Contract Trust, 1997-2M | 6.900% | 4/10/28 | 29,318 | 30,064 (g) |
| Bayview Financial Asset Trust, 2007-SR1A M1 | 1.222% | 3/25/37 | 872,987 | 746,404 (b)(g) |
| Bayview Financial Asset Trust, 2007-SR1A M3 | 1.572% | 3/25/37 | 331,133 | 264,244 (b)(g) |
| Bayview Financial Asset Trust, 2007-SR1A M4 | 1.922% | 3/25/37 | 90,309 | 68,436 (b)(g) |
| Bear Stearns Asset-Backed Securities Trust, 2006-SD3 1P0, STRIPS, PO | 0.000% | 8/25/36 | 471,860 | 289,653 |
| Centex Home Equity Loan Trust, 2003-B AF4 | 3.735% | 2/25/32 | 349,152 | 350,727 |
| Conseco Financial Corp., 1993-1 B | 8.450% | 4/15/18 | 13,984 | 5,675 |
| Contimortgage Home Equity Trust, 1997-4 B1F | 7.330% | 10/15/28 | 148,326 | 149,774 |
| Countrywide Asset-Backed Certificates, 2004-3 3A3 | 1.182% | 8/25/34 | 135,516 | 132,963 (g) |
| Countrywide Asset-Backed Certificates, 2006-3 3A1 | 0.542% | 6/25/36 | 12,158 | 12,122 (g) |
| Countrywide Asset-Backed Certificates, 2007-13 2A1 | 1.322% | 10/25/47 | 831,176 | 740,543 (g) |
| Countrywide Asset-Backed Certificates, 2007-SEA2 1A1 | 1.422% | 8/25/47 | 35,172 | 32,552 (b)(g) |
| Credit Suisse First Boston Mortgage Securities Corp., 2004-CF2 2A1 | 0.691% | 5/25/44 | 11,666 | 11,546 (b)(g) |
| Credit-Based Asset Servicing and Securitization LLC, 2005-RP1 M1 | 1.042% | 1/25/35 | 40,277 | 40,109 (b)(g) |
| Education Funding Capital Trust, 2004-1 B1 | 1.846% | 6/15/43 | 1,200,000 | 1,089,611 (a)(g) |
| EMC Mortgage Loan Trust, 2003-B A1 | 0.747% | 11/25/41 | 14,053 | 13,332 (b)(g) |
| Firstfed Corp. Manufactured Housing Contract, 1996-1 B | 8.060% | 10/15/22 | 268,918 | 102,350 (b) |
| GMAC Mortgage Corp. Loan Trust, 2004-VF1 A1 | 0.971% | 2/25/31 | 63,619 | 62,604 (b)(g) |
| Green Tree Home Improvement Loan Trust, 1996-D HIB2 | 8.000% | 9/15/27 | 12,432 | 12,432 |
| Greenpoint Manufactured Housing, 1999-2 A2 | 2.930% | 3/18/29 | 425,000 | 375,596 (g) |
| Greenpoint Manufactured Housing, 1999-3 2A2 | 3.554% | 6/19/29 | 125,000 | 108,750 (g) |
| Greenpoint Manufactured Housing, 1999-4 A2 | 3.696% | 2/20/30 | 125,000 | 108,750 (g) |

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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 |
|--|--------|---------------|-------------|-----------------------------|
| Asset-Backed Securities continued | | | | |
| Greenpoint Manufactured Housing, 1999-5 A5 | 7.820% | 12/15/29 | 23,919 | \$ 23,894 ^(g) |
| Greenpoint Manufactured Housing, 2001-2 IA2 | 3.793% | 2/20/32 | 275,000 | 252,654 ^(g) |
| Greenpoint Manufactured Housing, 2001-2 IIA2 | 3.697% | 3/13/32 | 475,000 | 430,809 ^(g) |
| GSAA Home Equity Trust, 2004-8 A3A | 0.961% | 9/25/34 | 111,455 | 109,817 ^(g) |
| GSAA Home Equity Trust, 2006-19 A3A | 0.461% | 12/25/36 | 571,872 | 329,100 ^(g) |
| GSAMP Trust, 2003-SEA2 A1 | 4.422% | 7/25/33 | 1,149,633 | 1,131,673 |
| GSRPM Mortgage Loan Trust, 2006-1 A1 | 0.722% | 3/25/35 | 68,093 | 66,866 ^{(b)(g)} |
| GSRPM Mortgage Loan Trust, 2006-2 A2 | 0.521% | 9/25/36 | 95,157 | 90,798 ^{(b)(g)} |
| Indymac Manufactured Housing Contract, 1997-1 A5 | 6.970% | 2/25/28 | 101,094 | 102,918 |
| Lehman XS Trust, 2007-1 WF1 | 4.821% | 1/25/37 | 557,597 | 375,647 ^(g) |
| Morgan Stanley Capital Inc., 2003-NC9 M | 1.547% | 9/25/33 | 953,142 | 850,035 ^(g) |
| Morgan Stanley Capital Inc., 2003-SD1 A1 | 1.221% | 3/25/33 | 14,509 | 13,736 ^(g) |
| Morgan Stanley Capital Inc., 2004-HE7 M1 | 1.322% | 8/25/34 | 1,539,471 | 1,408,511 ^{(a)(g)} |
| New Century Home Equity Loan Trust, 2004-2 A2 | 1.162% | 8/25/34 | 475,320 | 435,546 ^(g) |
| New Century Home Equity Loan Trust, 2004-3 M1 | 1.352% | 11/25/34 | 1,480,740 | 1,308,959 ^(g) |
| Oakwood Mortgage Investors Inc., 2002-B A3 | 6.060% | 6/15/32 | 148,911 | 153,610 ^(g) |
| Option One Mortgage Loan Trust, 2003-2 A2 | 0.821% | 4/25/33 | 272,251 | 252,331 ^(g) |
| Origen Manufactured Housing Contract Trust, 2006-A A2 | 2.105% | 10/15/37 | 1,782,202 | 1,582,136 ^(g) |
| Origen Manufactured Housing Contract Trust, 2007-A A2 | 2.291% | 4/15/37 | 2,003,829 | 1,796,852 ^(g) |
| Park Place Securities Inc., 2004-WCW1 M2 | 1.241% | 9/25/34 | 492,778 | 489,687 ^(g) |
| Park Place Securities Inc., 2004-WHQ2 M2 | 1.166% | 2/25/35 | 279,053 | 278,287 ^(g) |
| RAAC Series, 2007-RP1 M1 | 0.771% | 5/25/46 | 210,000 | 159,891 ^{(b)(g)} |
| Renaissance Home Equity Loan Trust, 2004-2 AF4 | 5.392% | 7/25/34 | 181,815 | 183,101 |
| Renaissance Home Equity Loan Trust, 2005-3 AV3 | 0.601% | 11/25/35 | 498,109 | 440,459 ^(g) |
| Residential Asset Mortgage Products Inc., 2004-RZ1 AII | 0.902% | 3/25/34 | 178,779 | 178,733 ^(g) |
| Residential Asset Securities Corp., 2002-KS2 A16 | 6.228% | 4/25/32 | 99,552 | 101,160 ^(g) |
| Residential Asset Securities Corp., 2003-KS8 A16 | 4.830% | 10/25/33 | 75,158 | 74,631 ^(g) |
| Settlement Fee Finance LLC, 2004-1A A | 9.100% | 7/25/34 | 382,018 | 402,800 ^(b) |
| Structured Asset Securities Corp., 2006-GEL3 A2 | 0.652% | 7/25/36 | 342,591 | 340,989 ^{(b)(g)} |
| <i>Total Asset-Backed Securities (Cost \$18,534,400)</i> | | | | <i>21,634,415</i> |
| Collateralized Mortgage Obligations 8.6% | | | | |
| American Home Mortgage Investment Trust, 2007-A 4A | 1.097% | 7/25/46 | 589,187 | 210,250 ^{(b)(g)} |
| Banc of America Funding Corp., 2004-B 6A1 | 2.192% | 12/20/34 | 249,056 | 173,834 ^(g) |
| BCAP LLC Trust, 2009-RR12 2A2 | 0.550% | 3/26/35 | 1,843,779 | 1,175,450 ^{(b)(g)} |
| Bear Stearns Alt-A Trust, 2004-03 A1 | 1.062% | 4/25/34 | 289,722 | 281,703 ^(g) |
| Bear Stearns Alt-A Trust, 2005-10 21A1 | 2.571% | 1/25/36 | 712,325 | 585,247 ^(g) |
| Bear Stearns Asset-Backed Securities Trust, 2002-AC1 B4 | 7.000% | 1/25/32 | 346,910 | 3 ^(b) |
| BlackRock Capital Finance LP, 1997-R2 B5 | 4.778% | 12/25/35 | 3,024 | 23 ^(b) |

See Notes to Financial Statements.

Western Asset Premier Bond Fund

| Security | Rate | Maturity Date | Face Amount | Value |
|--|--------|---------------|-------------|---------------------|
| Collateralized Mortgage Obligations continued | | | | |
| Chevy Chase Mortgage Funding Corp., 2004-4A A1 | 0.652% | 10/25/35 | 1,176,674 | \$ 1,084,456 (b)(g) |
| Countrywide Home Loans, 2004-R2 1AF1 | 0.842% | 11/25/34 | 192,323 | 168,197 (b)(g) |
| Countrywide Home Loans, 2005-7 1A1 | 0.962% | 3/25/35 | 867,520 | 808,264 (g) |
| Countrywide Home Loans, 2006-HYB4 3B | 2.686% | 6/20/36 | 681,682 | 581,462 (g) |
| Credit Suisse Mortgage Capital Certificates, 2009-16R 4A1 | 2.518% | 3/26/35 | 212,599 | 206,726 (b)(g) |
| Greenpoint Mortgage Funding Trust, 2005-AR5 3A2 | 0.491% | 11/25/46 | 183,495 | 837,836 (g) |
| GSMPS Mortgage Loan Trust, 2001-2 A | 7.500% | 6/19/32 | 978,537 | 1,003,543 (b)(g) |
| HarborView Mortgage Loan Trust, 2004-08 3A2 | 1.202% | 11/19/34 | 99,842 | 76,503 (g) |
| HarborView Mortgage Loan Trust, 2004-10 4A | 2.699% | 1/19/35 | 194,715 | 192,913 (g) |
| Impac CMB Trust, 2004-9 1A1 | 0.981% | 1/25/35 | 34,071 | 31,087 (g) |
| Impac CMB Trust, 2005-2 2A2 | 1.021% | 4/25/35 | 85,524 | 78,033 (g) |
| Impac CMB Trust, 2A-10 | 1.062% | 3/25/35 | 243,397 | 204,731 (g) |
| Indymac Manufactured Housing Contract, A2-2 | 6.170% | 8/25/29 | 61,909 | 62,714 |
| JPMorgan Alternative Loan Trust, 2006-S1 3A4 | 6.180% | 3/25/36 | 896,419 | 637,143 (g) |
| JPMorgan Mortgage Trust, 2007-A2 4A2 | 4.813% | 4/25/37 | 175,450 | 156,839 (g) |
| LB-UBS Commercial Mortgage Trust, 2001-C3 X, IO, STRIPS | 0.507% | 6/15/36 | 238,925 | 641 (b)(e)(g) |
| Merit Securities Corp., 11PA 3A1 | 1.042% | 4/28/27 | 90,753 | 82,289 (b)(g) |
| Merit Securities Corp., 11PA B3 | 2.672% | 9/28/32 | 686,268 | 635,066 (b)(g) |
| Metropolitan Asset Funding Inc., 1998-BI B1 | 8.000% | 11/20/24 | 417,861 | 378,980 (g) |
| Nomura Asset Acceptance Corp., 2004-AR4 1A1 | 2.658% | 12/25/34 | 51,460 | 51,504 (g) |
| Prime Mortgage Trust, 2005-2 2XB, STRIPS, IO | 1.743% | 10/25/32 | 2,245,948 | 107,032 (g) |
| Prime Mortgage Trust, 2005-5 1X, STRIPS, IO | 0.981% | 7/25/34 | 4,643,009 | 193,354 (g) |
| Prime Mortgage Trust, 2005-5 1XB, STRIPS, IO | 1.156% | 7/25/34 | 367,499 | 9,672 (g) |
| Regal Trust IV, 1999-1 A | 2.139% | 9/29/31 | 26,351 | 24,241 (b)(g) |
| Residential Asset Mortgage Products Inc., 2005-SL2 AP0, STRIPS, PO | 0.000% | 2/25/32 | 18,640 | 18,182 |
| Sequoia Mortgage Trust, 2003-2 A2 | 1.198% | 6/20/33 | 21,710 | 21,152 (g) |
| Sequoia Mortgage Trust, 2004-10 A1A | 1.022% | 11/20/34 | 17,864 | 17,080 (g) |
| Sequoia Mortgage Trust, 2004-11 A1 | 1.002% | 12/20/34 | 26,718 | 25,920 (g) |
| Sequoia Mortgage Trust, 2004-12 A1 | 0.942% | 1/20/35 | 217,260 | 206,254 (g) |
| Structured Asset Securities Corp., 1998-RF2 A | 6.214% | 7/15/27 | 213,469 | 210,707 (b)(g) |
| Structured Asset Securities Corp., 2002-9 A2 | 0.821% | 10/25/27 | 416,056 | 406,571 (g) |
| Structured Asset Securities Corp., 2003-9A 2A2 | 2.384% | 3/25/33 | 130,163 | 129,676 (g) |
| Structured Asset Securities Corp., 2004-NP1 A | 1.222% | 9/25/33 | 74,358 | 73,093 (b)(g) |
| Thornburg Mortgage Securities Trust, 2004-03 A | 0.961% | 9/25/44 | 347,829 | 321,144 (g) |
| Washington Mutual Alternative Mortgage Pass-Through Certificates, 2006-7 A2A | 4.530% | 9/25/36 | 1,020,329 | 572,272 |
| Washington Mutual Inc., Mortgage Pass-Through Certificates, 2004-AR06 A | 0.641% | 5/25/44 | 375,559 | 355,568 (g) |

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Western Asset Premier Bond Fund

| Security | Rate | Maturity Date | Face Amount | Value |
|---|---------|---------------|-------------|----------------------------------|
| Collateralized Mortgage Obligations continued | | | | |
| Washington Mutual Inc., Mortgage Pass-Through Certificates, 2004-AR12 A2A | 0.611% | 10/25/44 | 288,847 | \$ 279,697 ^(g) |
| Washington Mutual Inc., Mortgage Pass-Through Certificates, 2005-AR8 2A1A | 0.511% | 7/25/45 | 263,344 | 247,449 ^(g) |
| Washington Mutual Inc., Mortgage Pass-Through Certificates, 2006-AR5 3A | 1.197% | 7/25/46 | 697,193 | 439,984 ^(g) |
| Washington Mutual Inc., MSC Pass-Through Certificates, 2004-RA1 2A | 7.000% | 3/25/34 | 14,446 | 15,244 |
| Total Collateralized Mortgage Obligations (Cost \$11,011,069) | | | | 13,379,729 |
| Mortgage-Backed Securities 0.1% | | | | |
| <i>FNMA 0.1%</i> | | | | |
| Federal National Mortgage Association (FNMA), Whole Loan (Cost \$190,450) | 6.500% | 8/25/44 | 187,395 | 206,921 |
| Senior Loans 1.5% | | | | |
| Consumer Discretionary 0.3% | | | | |
| <i>Hotels, Restaurants & Leisure 0.3%</i> | | | | |
| Equinox Holdings Inc., Second Lien Term Loan | 9.750% | 7/31/20 | 430,000 | 433,583 ^{(i)(j)} |
| Consumer Staples 0.1% | | | | |
| <i>Food Products 0.1%</i> | | | | |
| AdvancePierre Foods Inc., Second Lien Term Loan | 9.500% | 10/10/17 | 180,000 | 176,400 ^{(i)(j)} |
| Energy 0.4% | | | | |
| <i>Energy Equipment & Services 0.3%</i> | | | | |
| Hercules Offshore LLC, Exit Term Loan | 10.500% | 5/6/20 | 710,000 | 489,900 ^{(i)(j)} |
| <i>Oil, Gas & Consumable Fuels 0.1%</i> | | | | |
| Magnum Hunter Resources Inc., DIP Term Loan | 9.000% | 9/15/16 | 70,000 | 70,000 ^{(i)(j)} |
| Total Energy | | | | 559,900 |
| Health Care 0.3% | | | | |
| <i>Health Care Providers & Services 0.3%</i> | | | | |
| Radnet Management Inc., Second Lien Term Loan | 8.000% | 3/25/21 | 440,000 | 415,800 ^{(i)(j)} |
| Industrials 0.2% | | | | |
| Kronos Inc., Second Lien Term Loan | 9.750% | 4/30/20 | 329,741 | 326,719 ^{(i)(j)} |
| Utilities 0.2% | | | | |
| <i>Electric Utilities 0.2%</i> | | | | |
| Panda Temple Power LLC, 2015 Term Loan B | 7.250% | 3/4/22 | 426,775 | 341,420 ^{(i)(j)} |
| Total Senior Loans (Cost \$2,544,977) | | | | 2,253,822 |
| Sovereign Bonds 4.6% | | | | |
| <i>Argentina 0.2%</i> | | | | |
| Republic of Argentina, Senior Bonds | 7.000% | 4/17/17 | 290,000 | 293,325 |

See Notes to Financial Statements.

Western Asset Premier Bond Fund

| | Rate | Maturity Date | Face Amount | Value |
|---|---------|---------------|----------------|------------------------|
| Security | | | | |
| <i>Mexico 2.9%</i> | | | | |
| United Mexican States, Senior Bonds | 8.000% | 6/11/20 | 11,147,000 MXN | \$ 711,768 |
| United Mexican States, Senior Bonds | 6.500% | 6/9/22 | 60,296,400 MXN | 3,599,973 |
| United Mexican States, Senior Bonds | 10.000% | 12/5/24 | 2,750,000 MXN | 200,866 |
| <i>Total Mexico</i> | | | | <i>4,512,607</i> |
| <i>Poland 1.5%</i> | | | | |
| Republic of Poland, Bonds | 4.000% | 10/25/23 | 8,440,000 PLN | 2,329,114 |
| Total Sovereign Bonds (Cost \$9,314,016) | | | | 7,135,046 |
| U.S. Government & Agency Obligations 1.9% | | | | |
| <i>U.S. Government Obligations 1.9%</i> | | | | |
| U.S. Treasury Notes (Cost \$2,997,829) | 0.875% | 11/30/17 | 3,000,000 | 2,991,327 |
| | | | Shares | |
| Common Stocks 1.0% | | | | |
| Energy 0.0% | | | | |
| <i>Energy Equipment & Services 0.0%</i> | | | | |
| Hercules Offshore Inc. | | | 16,942 | 36,764 * |
| Financials 0.9% | | | | |
| <i>Banks 0.9%</i> | | | | |
| Citigroup Inc. | | | 25,131 | 1,300,529 |
| Health Care 0.1% | | | | |
| <i>Health Care Providers & Services 0.1%</i> | | | | |
| Physiotherapy Associates Holdings Inc. | | | 1,900 | 157,700 *(e)(k) |
| Industrials 0.0% | | | | |
| <i>Marine 0.0%</i> | | | | |
| DeepOcean Group Holding AS | | | 8,860 | 41,368 *(e)(k) |
| Total Common Stocks (Cost \$1,936,148) | | | | 1,536,361 |
| Preferred Stocks 2.3% | | | | |
| Financials 2.3% | | | | |
| <i>Consumer Finance 1.0%</i> | | | | |
| GMAC Capital Trust I | 8.125% | | 62,722 | <i>1,590,630 (g)</i> |
| <i>Diversified Financial Services 1.3%</i> | | | | |
| Citigroup Capital XIII | 6.692% | | 75,725 | <i>1,968,093 (g)</i> |
| Corporate-Backed Trust Certificates, Series 2001-8, Class A-1 | 7.375% | | 33,900 | <i>3 *(d)</i> |
| <i>Total Diversified Financial Services</i> | | | | <i>1,968,096</i> |

See Notes to Financial Statements.

Schedule of investments (cont d)

December 31, 2015

Western Asset Premier Bond Fund

| Security | Rate | Shares | Value |
|--|--------|---------------|------------------------|
| <i>Thriffs & Mortgage Finance</i> 0.0% | | | |
| Federal Home Loan Mortgage Corp. (FHLMC) | 0.000% | 100 | \$ 401 ^{*(g)} |
| Federal Home Loan Mortgage Corp. (FHLMC) | 5.000% | 200 | 850 * |
| <i>Total Thriffs & Mortgage Finance</i> | | | 1,251 |
| Total Preferred Stocks (Cost \$3,682,190) | | | 3,559,977 |
| Total Investments before Short-Term Investments (Cost \$210,179,817) | | | 208,119,200 |
| | | Maturity Date | Face Amount |
| Short-Term Investments 0.7% | | | |
| <i>Repurchase Agreements</i> 0.1% | | | |
| Bank of America repurchase agreement dated 12/31/15; Proceeds at maturity \$100,003; (Fully collateralized by U.S. government obligations, 1.375% due 2/29/20; Market value \$102,058) (Cost \$100,000) | 0.280% | 1/4/16 | 100,000 |
| | | | 100,000 |
| | | Shares | |
| <i>Money Market Funds</i> 0.6% | | | |
| State Street Institutional U.S. Government Money Market Fund, Premier Class (Cost \$1,054,981) | 0.073% | 1,054,981 | 1,054,981 |
| Total Short-Term Investments (Cost \$1,154,981) | | | 1,154,981 |
| Total Investments 134.4% (Cost \$211,334,798#) | | | 209,274,181 |
| Liabilities in Excess of Other Assets (34.4%) | | | (53,574,990) |
| Total Net Assets 100.0% | | | \$ 155,699,191 |

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

* Non-income producing security.

(a) All or a portion of this security is pledged as collateral pursuant to the loan agreement (See Note 6).

(b) 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.

(c) Payment-in-kind security for which the issuer has the option at each interest payment date of making interest payments in cash or additional debt securities.

(d) The coupon payment on these securities is currently in default as of December 31, 2015.

(e) Illiquid security (unaudited).

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- (f) Security is exempt from registration under Regulation S of the Securities Act of 1933. Regulation S applies to securities offerings that are made outside of the United States and do not involve direct selling efforts in the United States. This security has been deemed liquid pursuant to guidelines approved by the Board of Trustees, unless otherwise noted.
- (g) Variable rate security. Interest rate disclosed is as of the most recent information available.
- (h) Security has no maturity date. The date shown represents the next call date.
- (i) Interest rates disclosed represent the effective rates on senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.

[See Notes to Financial Statements.](#)

Western Asset Premier Bond Fund

(i) Senior loans may be considered restricted in that the Fund ordinarily is contractually obligated to receive approval from the agent bank and/or borrower prior to the disposition of a senior loan.

(k) Security is valued in good faith in accordance with procedures approved by the Board of Trustees (See Note 1).

Aggregate cost for federal income tax purposes is \$211,438,905.

Abbreviations used in this schedule:

| | |
|--------|--|
| DIP | Debtor-in-Possession |
| EUR | Euro |
| IO | Interest Only |
| MXN | Mexican Peso |
| PLN | Polish Zloty |
| PO | Principal Only |
| STRIPS | Separate Trading of Registered Interest and Principal Securities |

See Notes to Financial Statements.

Statement of assets and liabilities

December 31, 2015

Assets:

| | |
|---|--------------------|
| Investments, at value (Cost \$211,334,798) | \$ 209,274,181 |
| Foreign currency, at value (Cost \$329,903) | 309,741 |
| Cash | 4,111 |
| Interest receivable | 2,634,922 |
| Receivable for insurance proceeds (Note 9) | 1,633,988 |
| Deposits with brokers for open futures contracts | 221,519 |
| Receivable for securities sold | 81,075 |
| Unrealized appreciation on forward foreign currency contracts | 3,136 |
| Principal paydown receivable | 2,536 |
| Prepaid expenses | 5,720 |
| Other assets | 7,743 |
| Total Assets | 214,178,672 |

Liabilities:

| | |
|---|-----------------------|
| Loan payable (Note 6) | 58,000,000 |
| Investment management fee payable | 100,921 |
| Interest payable | 48,175 |
| Payable to broker variation margin on open futures contracts | 20,953 |
| Trustees fees payable | 981 |
| Unrealized depreciation on forward foreign currency contracts | 346 |
| Accrued expenses | 308,105 |
| Total Liabilities | 58,479,481 |
| Total Net Assets | \$ 155,699,191 |

Net Assets:

| | |
|--|-----------------------|
| Common shares, no par value, unlimited number of shares authorized, 11,899,563 shares issued and outstanding | 167,904,689 |
| Undistributed net investment income | 4,044,560 |
| Accumulated net realized loss on investments, futures contracts and foreign currency transactions | (14,763,857) |
| Net unrealized depreciation on investments, futures contracts and foreign currencies | (1,486,201) |
| Total Net Assets | \$ 155,699,191 |

| | |
|---------------------------|-------------------|
| Shares Outstanding | 11,899,563 |
| Net Asset Value | \$13.08 |

See Notes to Financial Statements.

Statement of operations

For the Year Ended December 31, 2015

| | |
|--|-----------------------|
| Investment Income: | |
| Interest | \$ 13,986,636 |
| Dividends | 282,679 |
| <i>Total Investment Income</i> | <i>14,269,315</i> |
| Expenses: | |
| Investment management fee (Note 2) | 1,250,017 |
| Interest expense (Note 6) | 599,223 |
| Excise tax (Note 1) | 207,418 |
| Legal fees | 116,019 |
| Audit and tax fees | 55,137 |
| Transfer agent fees | 40,204 |
| Shareholder reports | 37,094 |
| Trustees fees | 23,202 |
| Stock exchange listing fees | 21,219 |
| Rating agency fees | 15,415 |
| Commitment fees (Note 6) | 14,975 |
| Custody fees | 9,294 |
| Fund accounting fees | 5,537 |
| Insurance | 3,936 |
| Miscellaneous expenses | 30,200 |
| <i>Total Expenses</i> | <i>2,428,890</i> |
| Net Investment Income | 11,840,425 |
| Realized and Unrealized Gain (Loss) on Investments, Futures Contracts and Foreign Currency Transactions (Notes 1, 3 and 4): | |
| Net Realized Gain (Loss) From: | |
| Investment transactions | (4,755,731) |
| Futures contracts | (281,017) |
| Foreign currency transactions | 219,617 |
| <i>Net Realized Loss</i> | <i>(4,817,131)</i> |
| Change in Net Unrealized Appreciation (Depreciation) From: | |
| Investments and investment in other assets | (15,086,142) |
| Futures contracts | 261,884 |
| Foreign currencies | (70,994) |
| <i>Change in Net Unrealized Appreciation (Depreciation)</i> | <i>(14,895,252)</i> |
| Net Loss on Investments, Futures Contracts and Foreign Currency Transactions | (19,712,383) |
| Decrease in Net Assets From Operations | \$ (7,871,958) |

See Notes to Financial Statements.

Statements of changes in net assets

| For the Years Ended December 31, | 2015 | 2014 |
|--|----------------------------|----------------------------|
| Operations: | | |
| Net investment income | \$ 11,840,425 | \$ 12,375,779 |
| Net realized gain (loss) | (4,817,131) | 416,019 |
| Change in net unrealized appreciation (depreciation) | (14,895,252) | (1,868,118) |
| Distributions paid to auction rate preferred stockholders from net investment income | | (51,720) |
| <i>Increase (Decrease) in Net Assets From Operations</i> | <i>(7,871,958)</i> | <i>10,871,960</i> |
| Distributions to Shareholders From (Note 1): | | |
| Net investment income | (12,851,348) | (12,848,714) |
| <i>Decrease in Net Assets From Distributions to Shareholders</i> | <i>(12,851,348)</i> | <i>(12,848,714)</i> |
| Fund Share Transactions: | | |
| Net increase from tender and repurchase of Auction Rate Preferred Shares (Note 5) | | 2,147,250 |
| Reinvestment of distributions (1,934 and 2,039 shares issued, respectively) | 28,778 | 31,278 |
| <i>Increase in Net Assets From Fund Share Transactions</i> | <i>28,778</i> | <i>2,178,528</i> |
| <i>Increase (Decrease) in Net Assets</i> | <i>(20,694,528)</i> | <i>201,774</i> |
| Net Assets: | | |
| Beginning of year | 176,393,719 | 176,191,945 |
| End of year* | \$ 155,699,191 | \$ 176,393,719 |
| *Includes undistributed net investment income of: | \$4,044,560 | \$6,409,161 |

See Notes to Financial Statements.

Statement of cash flows

For the Year Ended December 31, 2015

Increase (Decrease) in Cash:

Cash Provided (Used) by Operating Activities:

| | |
|--|------------------|
| Net decrease in net assets resulting from operations | \$ (7,871,958) |
| Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided (used) by operating activities: | |
| Purchases of portfolio securities | (86,064,644) |
| Sales of portfolio securities | 78,825,719 |
| Net purchases, sales and maturities of short-term investments | 4,779,087 |
| Payment-in-kind | (36,625) |
| Net amortization of premium (accretion of discount) | (546,689) |
| Decrease in receivable for securities sold | 4,157,705 |
| Increase in interest receivable | (119,381) |
| Decrease in prepaid expenses | 33,911 |
| Decrease in principal paydown receivable | 57,762 |
| Decrease in receivable for insurance proceeds | 80,947 |
| Decrease in other assets | 7,743 |
| Decrease in deposits with brokers for open futures contracts | 1,995 |
| Decrease in payable for securities purchased | (5,638,522) |
| Decrease in investment management fee payable | (6,760) |
| Decrease in Trustees fees payable | (749) |
| Increase in interest payable | 4,920 |
| Decrease in accrued expenses | (9,191) |
| Decrease in payable to broker variation margin on open futures contracts | (8,578) |
| Net realized loss on investments | 4,755,731 |
| Change in net unrealized appreciation (depreciation) of investments and forward foreign currency transactions | 15,156,530 |
| <i>Net Cash Provided by Operating Activities*</i> | <i>7,558,953</i> |

Cash Flows From Financing Activities:

| | |
|--|--------------------|
| Distributions paid on common stock | (12,822,570) |
| Increase in loan payable | 5,000,000 |
| <i>Net Cash Used in Financing Activities</i> | <i>(7,822,570)</i> |

Net Decrease in Cash

| | |
|---------------------------|------------|
| Cash at Beginning of Year | 577,469 |
| Cash at End of Year | \$ 313,852 |

Non-Cash Financing Activities:

| | |
|---|-----------|
| Proceeds from reinvestment of distributions | \$ 28,778 |
|---|-----------|

* Included in operating expenses is cash of \$610,570 paid for interest and commitment fees on borrowings.

See Notes to Financial Statements.

Financial highlights

| For a share of capital stock outstanding throughout each year ended December 31: | | | | | |
|---|-------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2015 ¹ | 2014 ¹ | 2013 ¹ | 2012 ¹ | 2011 ¹ |
| Net asset value, beginning of year | \$ 14.83 | \$ 14.81 | \$ 14.84 | \$ 13.05 | \$ 13.96 |
| Income (loss) from operations: | | | | | |
| Net investment income | 1.00 | 1.04 | 1.15 | 1.16 | 1.32 |
| Net realized and unrealized gain (loss) | (1.67) | (0.12) | (0.03) | 1.96 | (0.73) |
| Distributions paid to Auction Rate Preferred Stockholders from net investment income | | (0.00) ² | (0.01) | (0.01) | (0.01) |
| Total income (loss) from operations | (0.67) | 0.92 | 1.11 | 3.11 | 0.58 |
| Less distributions from: | | | | | |
| Net investment income | (1.08) | (1.08) | (1.14) | (1.32) | (1.49) |
| Total distributions | (1.08) | (1.08) | (1.14) | (1.32) | (1.49) |
| Net increase from tender and repurchase of Auction Rate Preferred Shares | | 0.18 | | | |
| Net asset value, end of year | \$13.08 | \$14.83 | \$14.81 | \$14.84 | \$13.05 |
| Market price, end of year | \$12.16 | \$13.89 | \$14.53 | \$15.54 | \$15.95 |
| Total return, based on NAV^{3,4} | (4.78)% | 7.53%⁵ | 7.71% | 24.90% | 4.12% |
| Total return, based on Market Price⁶ | (5.12)% | 2.88% | 0.97% | 6.16% | 24.87% |
| Net assets, end of year (000s) | \$155,699 | \$176,394 | \$176,192 | \$176,214 | \$154,406 |
| Ratios to average net assets:⁷ | | | | | |
| Gross expenses | 1.43% | 1.47% | 1.20% | 1.19% | 1.30% |
| Net expenses | 1.43 | 1.47 | 1.20 | 1.19 | 1.30 |
| Net investment income | 6.97 | 6.85 | 7.68 | 8.33 | 9.45 |
| Portfolio turnover rate | 36% | 32% | 36% | 36% | 18% |
| Supplemental data: | | | | | |
| Auction Rate Preferred Stock at Liquidation Value, End of Year (000s) | | | \$72,000 | \$72,000 | \$72,000 |
| Asset Coverage Ratio for Auction Rate Preferred Stock ⁸ | | | 345% | 345% | 314% |
| Asset Coverage, per \$25,000 Liquidation Value per Share of Auction Rate Preferred Stock ⁸ | | | \$86,178 ⁹ | \$86,186 ⁹ | \$78,613 ⁹ |
| Loan Outstanding, End of Year (000s) | \$58,000 | \$53,000 | | | |
| Asset Coverage Ratio for Loan Outstanding ¹⁰ | 368% | 433% | | | |
| Asset Coverage, per \$1,000 Principal Amount of Loan Outstanding ¹⁰ | \$3,684 | \$4,328 ⁹ | | | |
| Weighted Average Loan (000s) | \$57,230 | \$53,000 ¹¹ | | | |
| Weighted Average Interest Rate on Loan | 1.05% | 1.00% ¹¹ | | | |

See Notes to Financial Statements.

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

² Amount represents less than \$0.005 per share.

³ 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 performance is no guarantee of future results.

⁴ The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results.

⁵ The total return based on NAV reflects the impact of the tender and repurchase by the Fund of a portion of its Auction Rate Preferred Shares at 97% of the per share liquidation preference. Absent this transaction, the total return based on NAV would have been 6.22%.

⁶ 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.

⁷ Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to auction rate cumulative preferred stockholders.

⁸ Represents value of net assets plus the auction rate preferred stock at the end of the period divided by the auction rate preferred stock outstanding at the end of the period.

⁹ Added to conform to current period presentation.

¹⁰ Represents value of net assets plus the loan outstanding at the end of the period divided by the loan outstanding at the end of the period.

¹¹ Weighted average based on the number of days that the Fund had a loan outstanding.

[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. Investments in open-end funds are valued at the closing net asset value per share of each fund on the day of valuation. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. 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 Atlantic Fund Valuation

Committee (formerly, 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:

| Description | ASSETS | | | Total |
|--|----------------------------|---|--|-----------------------|
| | Quoted Prices (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Long-term investments : | | | | |
| Corporate bonds & notes: | | | | |
| Industrials | | \$ 12,931,886 | \$ 2,546,072 | \$ 15,477,958 |
| Other corporate bonds & notes | | 139,943,644 | | 139,943,644 |
| Asset-backed securities | | 19,100,450 | 2,533,965 | 21,634,415 |
| Collateralized mortgage obligations | | 13,379,729 | | 13,379,729 |
| Mortgage-backed securities | | 206,921 | | 206,921 |
| Senior loans: | | | | |
| Consumer staples | | | 176,400 | 176,400 |
| Energy | | | 559,900 | 559,900 |
| Utilities | | | 341,420 | 341,420 |
| Other senior loans | | 1,176,102 | | 1,176,102 |
| Sovereign bonds | | 7,135,046 | | 7,135,046 |
| U.S. government & agency obligations | | 2,991,327 | | 2,991,327 |
| Common stocks: | | | | |
| Health care | | | 157,700 | 157,700 |
| Industrials | | | 41,368 | 41,368 |
| Other common stocks | \$ 1,337,293 | | | 1,337,293 |
| Preferred stocks | 3,559,977 | | | 3,559,977 |
| Total long-term investments | \$ 4,897,270 | \$ 196,865,105 | \$ 6,356,825 | \$ 208,119,200 |
| Short-term investments : | | | | |
| Repurchase agreements | | \$ 100,000 | | \$ 100,000 |
| Money market funds | \$ 1,054,981 | | | 1,054,981 |
| Total short-term investments | \$ 1,054,981 | \$ 100,000 | | \$ 1,154,981 |
| Total investments | \$ 5,952,251 | \$ 196,965,105 | \$ 6,356,825 | \$ 209,274,181 |
| Receivable for insurance proceeds | | \$ 1,633,988 | | \$ 1,633,988 |
| Other assets | | | \$ 7,743 | \$ 7,743 |
| Other financial instruments: | | | | |
| Forward foreign currency contracts | | 3,136 | | 3,136 |
| Futures contracts | \$ 116,113 | | | 116,113 |
| Total other financial instruments | \$ 116,113 | \$ 3,136 | | \$ 119,249 |
| Total | \$ 6,068,364 | \$ 198,602,229 | \$ 6,364,568 | \$ 211,035,161 |

See Schedule of Investments for additional detailed categorizations.

| Description | LIABILITIES | | | Total |
|------------------------------------|----------------------------|--|--|---------------|
| | Quoted Prices (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Other financial instruments: | | | | |
| Forward foreign currency contracts | | \$ 346 | | \$ 346 |
| Futures contracts | \$ 105 | | | 105 |
| Total | \$ 105 | \$ 346 | | \$ 451 |

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

| Investments In Securities | Corporate <u>Bonds & Notes</u> | | |
|---|---------------------------------------|--------------------------------|---|
| | Industrials | Asset- Backed Securities | Collateralized Mortgage Obligations |
| Balance as of December 31, 2014 | | \$ 3,004,145 | \$ 2,083 |
| Accrued premiums/discounts | | 57,387 | 470 |
| Realized gain (loss) ¹ | | (34,687) | (59,172) |
| Change in unrealized appreciation (depreciation) ² | | (45,045) | 56,642 |
| Purchases | | | |
| Sales | | | |
| Transfers into Level 3 ³ | \$ 2,546,072 | 641,776 | |
| Transfers out of Level 3 ⁴ | | (1,089,611) | (23) |
| Balance as of December 31, 2015 | \$ 2,546,072 | \$ 2,533,965 | |
| Net change in unrealized appreciation (depreciation) for investments in securities still held at December 31, 2015 ² | | \$ (45,045) | |

| Investments in Securities (cont d) | Senior Loans | | |
|---|---------------------|-------------------|-------------------|
| | Consumer Staples | Energy | Utilities |
| Balance as of December 31, 2014 | | \$ 578 | \$ 733 |
| Accrued premiums/discounts | | | 61 |
| Realized gain (loss) ¹ | | (199,378) | (77,549) |
| Change in unrealized appreciation (depreciation) ² | | 758,700 | 421,400 |
| Purchases | | | (3,225) |
| Sales | | | |
| Transfers into Level 3 ³ | \$ 176,400 | | |
| Transfers out of Level 3 | | | |
| Balance as of December 31, 2015 | \$ 176,400 | \$ 559,900 | \$ 341,420 |
| Net change in unrealized appreciation (depreciation) for investments in securities still held at December 31, 2015 ² | | \$ (199,378) | \$ (77,549) |

Notes to financial statements (cont'd)

| | Common Stocks | | | Total |
|---|-------------------|------------------|-----------------|---------------------|
| | Health Care | Industrials | Other Assets | |
| Investments in Securities (cont'd) | | | | |
| Balance as of December 31, 2014 | \$ 157,700 | \$ 216,969 | \$ 15,486 | \$ 3,396,383 |
| Accrued premiums/discounts | | | | 59,168 |
| Realized gain (loss) ¹ | | | | (93,798) |
| Change in unrealized appreciation (depreciation) ² | | (175,601) | (7,743) | (448,674) |
| Purchases | | | | 1,180,100 |
| Sales | | | | (3,225) |
| Transfers into Level 3 ³ | | | | 3,364,248 |
| Transfers out of Level 3 ⁴ | | | | (1,089,634) |
| Balance as of December 31, 2015 | \$ 157,700 | \$ 41,368 | \$ 7,743 | \$ 6,364,568 |
| Net change in unrealized appreciation (depreciation) for investments in securities still held at December 31, 2015 ² | | \$ (175,601) | \$ (7,743) | \$ (505,316) |

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

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 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) Futures contracts. The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(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 IOs 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

Notes to financial statements (cont d)

than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in IO s.

(f) Forward foreign currency contracts. The Fund enters into a forward foreign currency contract to hedge exposure of bond positions or in an attempt to increase the Fund's return. 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.

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

(h) 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 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.

(i) 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.

(j) 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 adviser 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 adviser. 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

Notes to financial statements (cont d)

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.

Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearinghouse for exchange traded derivatives while collateral terms are contract specific for over-the-counter traded derivatives. Cash collateral that has been pledged to cover obligations of the Fund under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities. Securities pledged as collateral, if any, for the same purpose are noted in the Schedule of Investments.

Absent an event of default by the counterparty or a termination of the agreement, the terms of the master agreements do not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the Fund and the applicable counterparty. The enforceability of the right to offset may vary by jurisdiction.

As of December 31, 2015, the Fund held forward foreign currency contracts with credit related contingent features which had a liability position of \$346. 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.

(k) 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. Paydown gains and losses on mortgage- and asset-backed securities are recorded as adjustments to interest income. 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.

(l) 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.

(m) 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.

(n) Net asset value. The net asset value (NAV) of the Fund's common stock is determined no less frequently than the close of business on the Fund's last business day of each week (generally Friday) and on the last business day of the month. It is determined by

dividing the value of the net assets available to common stock by the total number of shares of common stock outstanding.

(o) Cash flow information. The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

(p) 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 \$233,418 of Federal excise taxes attributable to calendar year 2014. The Fund anticipates being subject to an excise tax for calendar year 2015 of approximately \$211,000.

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, 2015, 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.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

(q) 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) | \$ 207,418 | | \$ (207,418) |
| (b) | (1,561,096) | \$ 1,561,096 | |

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

(b) Reclassifications are due to foreign currency transactions treated as ordinary income for tax purposes and losses from mortgage backed securities treated as capital losses for tax purposes.

Notes to financial statements (cont'd)

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. 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.

During periods in which the Fund utilizes financial leverage, the fees which are payable to the investment manager as a percentage of the Fund's assets will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund's assets, including those investments purchased with leverage.

All officers and one Trustee of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

3. Investments

During the year ended December 31, 2015, 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 | \$ 82,069,058 | \$ 3,995,586 |
| Sales | 75,774,201 | 3,051,518 |

At December 31, 2015, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

| | |
|------------------------------------|-----------------------|
| Gross unrealized appreciation | \$ 13,182,980 |
| Gross unrealized depreciation | (15,347,704) |
| Net unrealized depreciation | \$ (2,164,724) |

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At December 31, 2015, the Fund had the following open futures contracts:

| | Number of Contracts | Expiration Date | Basis Value | Market Value | Unrealized Appreciation (Depreciation) |
|--|------------------------|--------------------|----------------|-----------------|--|
| Contracts to Buy: | | | | | |
| U.S. Treasury Ultra Long-Term Bonds | 15 | 3/16 | \$ 2,363,877 | \$ 2,380,313 | \$ 16,436 |
| Contracts to Sell: | | | | | |
| U.S. Treasury 5-Year Notes | 117 | 3/16 | 13,925,362 | 13,843,477 | 81,885 |
| U.S. Treasury 10-Year Notes | 64 | 3/16 | 8,075,792 | 8,058,000 | 17,792 |
| U.S. Treasury Long-Term Bonds | 1 | 3/16 | 153,645 | 153,750 | (105) |
| | | | | | 99,572 |
| Net unrealized appreciation on open futures contracts | | | | | \$ 116,008 |

At December 31, 2015, the Fund had the following open forward foreign currency contracts:

| Currency Purchased | Currency Sold | Counterparty | Settlement Date | Unrealized Appreciation (Depreciation) |
|-----------------------|------------------|---------------|--------------------|--|
| EUR 50,000 | USD 54,740 | Citibank N.A. | 2/16/16 | \$ (346) |
| USD 1,961,316 | EUR 1,800,000 | Citibank N.A. | 2/16/16 | 3,136 |
| Total | | | | \$ 2,790 |

Abbreviations used in this table:

EUR Euro
USD United States Dollar

4. Derivative instruments 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, 2015.

| ASSET DERIVATIVES¹ | | | |
|--|-----------------------|--------------------------|-------------------|
| | Interest Rate Risk | Foreign Exchange Risk | Total |
| Futures contracts ² | \$ 116,113 | | \$ 116,113 |
| Forward foreign currency contracts | | \$ 3,136 | 3,136 |
| Total | \$ 116,113 | \$ 3,136 | \$ 119,249 |
| LIABILITY DERIVATIVES¹ | | | |
| | Interest Rate Risk | Foreign Exchange Risk | Total |
| Futures contracts ² | \$ 105 | | \$ 105 |
| Forward foreign currency contracts | | \$ 346 | 346 |
| Total | \$ 105 | \$ 346 | \$ 451 |

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).

² Includes cumulative appreciation (depreciation) of futures contracts as reported in the footnotes. Only variation margin is reported within the receivables and/or payables on the Statement of Assets and Liabilities.

Notes to financial statements (cont'd)

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, 2015. 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

| | Interest Rate Risk | Foreign Exchange Risk | Total |
|---|-----------------------|--------------------------|------------------|
| Futures contracts | \$ (281,017) | | \$ (281,017) |
| Forward foreign currency contracts ¹ | | \$ 301,423 | 301,423 |
| Total | \$ (281,017) | \$ 301,423 | \$ 20,406 |

¹ Net realized gain (loss) from forward foreign currency contracts is reported in net realized gain (loss) from foreign currency transactions in the Statement of Operations.

CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) ON DERIVATIVES RECOGNIZED

| | Interest Rate Risk | Foreign Exchange Risk | Total |
|---|-----------------------|--------------------------|-------------------|
| Futures contracts | \$ 261,884 | | \$ 261,884 |
| Forward foreign currency contracts ¹ | | \$ (70,388) | (70,388) |
| Total | \$ 261,884 | \$ (70,388) | \$ 191,496 |

¹ The change in unrealized appreciation (depreciation) from forward foreign currency contracts is reported in the change in net unrealized appreciation (depreciation) from foreign currencies in the Statement of Operations.

During the year ended December 31, 2015, the volume of derivative activity for the Fund was as follows:

| | Average Market Value |
|--|-------------------------|
| Futures contracts (to buy) | \$ 735,325 |
| Futures contracts (to sell) | 11,097,666 |
| Forward foreign currency contracts (to buy) | 160,535 |
| Forward foreign currency contracts (to sell) | 2,154,550 |

The following table presents by financial instrument, the Fund's derivative assets net of the related collateral received by the Fund at December 31, 2015:

| | Gross Amount of Derivative Assets in the Statement of Assets and Liabilities ¹ | Collateral Received | Net Amount |
|------------------------------------|--|------------------------|---------------|
| Forward foreign currency contracts | \$ 3,136 | | \$ 3,136 |

¹ Absent an event of default or early termination, derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

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The following table presents by financial instrument, the Fund's derivative liabilities net of the related collateral pledged by the Fund at December 31, 2015:

| | Gross Amount of Derivative Liabilities in the Statement of Assets and Liabilities ¹ | Collateral Pledged ^{2,3} | Net Amount |
|------------------------------------|--|--------------------------------------|---------------|
| Futures contracts ⁴ | \$ 20,953 | \$ (20,953) | |
| Forward foreign currency contracts | 346 | | \$ 346 |
| Total | \$ 21,299 | \$ (20,953) | \$ 346 |

¹ Absent an event of default or early termination, derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities.

² Gross amounts are not offset in the Statement of Assets and Liabilities.

³ In some instances, the actual collateral received and/or pledged may be more than the amount shown here due to overcollateralization.

⁴ Amount represents the current day's variation margin as reported in the Statement of Assets and Liabilities. It differs from the cumulative appreciation (depreciation) presented in the previous table.

5. Auction rate preferred shares

For part of the year ended December 31, 2014, up to 2,880 shares of Auction Rate Preferred Shares (ARPS) were authorized and outstanding. As described below, all of the Fund's outstanding ARPS were purchased or redeemed by the Fund in 2014. When they were outstanding, the ARPS had rights as set forth in the Fund's Agreement and Declaration of Trust, as amended, and its Bylaws, as amended (the Bylaws), or as otherwise determined by the Trustees. The 2,880 ARPS consisted of two series, 1,440 shares of Series M and 1,440 shares of Series W. The Preferred Shares had a liquidation value of \$25,000 per share, plus any accumulated but unpaid dividends whether or not earned or declared.

Dividends on the Series M and Series W ARPS were cumulative and were 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 all failed during the year ended December 31, 2014; consequently, the dividend rate paid on the ARPS was the maximum rate as defined in the prospectus. Since mid-February 2008, holders of ARPS issued by the Fund had been impacted by the lack of liquidity, which had similarly affected ARPS holders in many of the nation's closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Fund had 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 affected the liquidity for ARPS, they did not constitute a default or automatically alter the credit quality of the ARPS, and ARPS holders continued to receive dividends at the defined maximum rate. The maximum rate was calculated at 200% of the reference rates, which was 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 0.060% to 0.262% between January 1, 2014 to September 30, 2014.

The ARPS were 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.

Notes to financial statements (cont d)

The Fund was subject to certain restrictions relating to the ARPS. The Fund could 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 ARPS would have been less than 200%. The ARPS were 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 were not satisfied.

The ARPS shareholders were entitled to one vote per share and generally voted with the common shareholders but voted separately as a class to elect two trustees and on certain matters affecting the rights of the ARPS. The issuance of ARPS posed certain risks to holders of common stock, including, among others, the possibility of greater market price volatility, and in certain market conditions, it was possible for the yield to holders of common stock to be adversely affected. The Fund was required to maintain certain asset coverages with respect to the ARPS. If the Fund failed to maintain these coverages and did not cure any such failure within the required time period, the Fund would have been required to redeem a requisite number of shares of the ARPS in order to meet the applicable requirement. The ARPS were otherwise not redeemable by holders of the shares. Additionally, failure to meet the foregoing asset coverage requirements would have restricted the Fund's ability to pay dividends to common shareholders.

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

On June 5, 2014, the Fund announced that it had commenced an issuer tender offer for up to 100% of its outstanding ARPS at a price equal to 97% of the liquidation preference of \$25,000 per share, plus any unpaid dividends accrued through July 3, 2014, the expiration date of the tender offer.

The Fund's tender offer was conditioned upon the Fund closing on a secured credit facility and certain other conditions as set forth in the Fund's offer to purchase. The Fund replaced leverage associated with the tendered ARPS to the extent it has borrowed under the secured credit facility.

On July 10, 2014, the Fund announced the final results for its issuer tender offer and all shares that were validly tendered and not withdrawn during the offering period were accepted for payment. The Fund accepted for payment 2,863 ARPS, which represented approximately 99% of its outstanding ARPS. The difference between the liquidation preference of the ARPS and the actual purchase price of the tendered ARPS was recognized by the Fund in the Statement of Changes in Net Assets as an increase in net assets applicable to common shares resulting from the tender and repurchase of the ARPS by the Fund.

On August 14, 2014, the Board of Trustees approved the redemption of the remaining Series M ARPS and Series W ARPS, at the liquidation preference of \$25,000 per share, plus any accumulated but unpaid dividends, on September 26, 2014 and September 30, 2014, respectively.

6. Loan

The Fund has a revolving credit agreement with State Street Bank and Trust Company that allows the Fund to borrow up to an aggregate amount of \$72,000,000 and renews daily for a 270-day term unless notice to the contrary is given to the Fund. The Fund pays a commitment fee at an annual rate of 0.10%, on the unutilized portion of the loan. The interest on the loan is calculated at a variable rate based on the higher of the overnight federal funds rate or the overnight LIBOR rate, plus any applicable margin. To the extent of the borrowing outstanding, the Fund is required to maintain collateral in a special custody account at the Fund's custodian on the behalf of State Street Bank and Trust Company. The Fund's credit agreement contains customary covenants that, among other things, may limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the credit agreement may be subject to early termination under certain conditions and may contain other provisions that could limit the Fund's ability to utilize borrowing under the agreement. For the year ended December 31, 2015, the Fund incurred a commitment fee in the amount of \$14,975. Interest expense related to this loan for the year ended December 31, 2015 was \$599,223. For the year ended December 31, 2015, the Fund had an average daily loan balance outstanding of \$57,230,137 and the weighted average interest rate was 1.05%. At December 31, 2015, the Fund had \$58,000,000 of borrowings outstanding.

7. Distributions subsequent to December 31, 2015

The following distributions have been declared by the Fund's Board of Trustees and are payable subsequent to the period end of this report:

| Record Date | Payable Date | Amount |
|-------------|--------------|-----------|
| 1/22/2016 | 1/29/2016 | \$ 0.0900 |
| 2/19/2016 | 2/26/2016 | \$ 0.0900 |

8. Stock repurchase program

On November 20, 2015, the Fund announced that the Fund's Board of Trustees (the Board) had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts. During the period ended December 31, 2015, the Fund did not repurchase any shares.

Notes to financial statements (cont d)

9. Other

GreenPoint Mortgage Pass Through Certificates (GreenPoint) was a mortgage-backed security previously held by the Fund. GreenPoint was insured through a policy issued by AMBAC Assurance Corporation to cover certain interest shortfalls and realized losses. In August 2013, the final paydown was received from GreenPoint resulting in a loss to the Fund. A receivable for \$1,633,988 has been recorded representing the estimated insurance proceeds to be paid.

10. Income tax information and distributions to shareholders

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

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Distributions paid to common shareholders from: | | |
| Ordinary income | \$ 12,851,348 | \$ 12,848,714 |
| Distributions paid to preferred shareholders from: | | |
| Ordinary income | | 51,720 |
| Total distributions paid | \$ 12,851,348 | \$ 12,900,434 |

As of December 31, 2015, the components of accumulated earnings (losses) on a tax basis were as follows:

| | |
|---|------------------------|
| Undistributed ordinary income - net | \$ 4,238,788 |
| Deferred capital losses* | (2,964,382) |
| Capital loss carryforward** | (11,644,915) |
| Other book/tax temporary differences ^(a) | (244,681) |
| Unrealized appreciation (depreciation) ^(b) | (1,590,308) |
| Total accumulated earnings (losses) - net | \$ (12,205,498) |

* These capital losses have been deferred in the current year as either short-term or long-term losses. The losses will be deemed to occur on the first day of the next taxable year in the same character as they were originally deferred and will be available to offset future taxable capital gains. These losses must be utilized before any of the Fund's capital loss carryforward may be utilized.

** As of December 31, 2015, the Fund had the following net capital loss carryforward remaining:

| Year of Expiration | Amount |
|--------------------|-----------------|
| 12/31/2017 | \$ (11,644,915) |

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

^(a) Other book/tax temporary differences are attributable to the realization for tax purposes of unrealized gains (losses) on certain futures and foreign currency contracts, 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.

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

Report of independent registered public accounting firm

To the Board of Trustees and Shareholders

of the 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, of changes in net assets, and of cash flows and the financial highlights present fairly, in all material respects, the financial position of the Western Asset Premier Bond Fund (the Fund) at December 31, 2015, the results of its operations, the changes in its net assets, its cash flows 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, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland

February 19, 2016

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. Subadvisers, and together with Western Asset, the Advisers) with respect to the Fund at meetings held on September 24, 2015 and October 20 and 27, 2015. At a meeting held on November 17, 2015, 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. Subadvisers, 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. Subadvisers. 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. Subadvisers because Western Asset pays the Non-U.S. Subadvisers 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 Broadridge and counsel to the Independent Trustees; and reviewed performance and expense information for a peer group of comparable funds selected and prepared by Broadridge 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 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 inve