

Western Asset Mortgage Defined Opportunity Fund Inc.  
Form N-CSR  
March 01, 2013

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

**FORM N-CSR**

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

Investment Company Act file number 811-22369

Western Asset Mortgage Defined Opportunity Fund Inc.  
(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, NY  
(Address of principal executive offices)

10018  
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

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

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

Date of fiscal year end: December 31

Date of reporting period: December 31, 2012

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ITEM 1. REPORT TO STOCKHOLDERS.

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

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December 31, 2012

**Annual Report**

**Western Asset Mortgage Defined Opportunity Fund Inc.  
(DMO)**

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

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Western Asset Mortgage Defined Opportunity Fund Inc.

**Fund objectives**

The Fund's primary investment objective is to provide current income. As a secondary investment objective, the Fund will seek capital appreciation.

**What's inside**

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**Letter from the chairman**

**Dear Shareholder,**

We are pleased to provide the annual report of Western Asset Mortgage Defined Opportunity Fund Inc. for the twelve-month reporting period ended December 31, 2012. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

Recent regulations adopted by the Commodity Futures Trading Commission (the "CFTC") require operators of registered investment companies, including closed-end funds, to register as commodity pool operators unless the fund limits its investments in commodity interests. Effective December 31, 2012, your Fund's manager has claimed the exclusion from the definition of commodity pool operator. More information about the CFTC rules and their effect on the Fund is included later in this report on page 37.

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](http://www.lmcef.com). Here you can gain immediate access to market and investment information, including:

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

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

January 31, 2013

## Investment commentary

### Economic review

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

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

Meanwhile, the housing market brightened, as sales generally improved and home prices continued to rebound.

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

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

The Federal Reserve Board (Fed) iii took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. As has been the case since December 2008, the Fed kept the federal funds rate iv at a historically low range

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Western Asset Mortgage Defined Opportunity Fund Inc.

**Investment commentary (cont d)**

between zero and 0.25%. In January 2012, the Fed extended the period it expects to keep rates on hold until at least through late 2014. At its June 2012 meeting, the Fed announced that it would continue its program of purchasing longer-term Treasury securities and selling an equal amount of shorter-term Treasury securities (often referred to as Operation Twist ) until the end of 2012. In September, the Fed announced a third round of quantitative easing ( QE3 ), which involves purchasing \$40 billion each month of agency mortgage-backed securities on an open-end basis. In addition, the Fed further extended the duration that it expects to keep the federal funds rate on hold, until at least mid-2015. Finally, at its meeting in December, the Fed announced that it would continue purchasing \$40 billion per month of agency mortgage-backed securities, as well as initially purchasing \$45 billion a month of longer-term Treasuries. The Fed also said that it would keep the federal funds rate on hold ...as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee s 2.0% longer-run goal, and longer-term inflation expectations continue to be well anchored.

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and  
Chief Executive Officer

January 31, 2013

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

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





## Fund overview

### Q. What is the Fund's investment strategy?

A. The Fund's primary investment objective is to provide current income. As a secondary investment objective, the Fund will seek capital appreciation. The Fund seeks to achieve its investment objectives by investing primarily in a diverse portfolio of mortgage-backed securities (MBS), consisting primarily of non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). For most of the period, the Fund invested in MBS directly, and indirectly through a separate investment in a public-private investment fund (PPIF) (the Master Fund) formed in connection with the Legacy Securities Public-Private Investment Program (PPIP) established by the U.S. Department of the Treasury (the Treasury).

Western Asset Management Company (Western Asset), the Master Fund's investment adviser and the Fund's subadviser, advised the Fund that the Master Fund's investment period, which could have extended to November 5, 2012, ended effective July 15, 2012, and that an orderly winding down of the Master Fund would be undertaken, pursuant to an agreement with the Treasury. Western Asset advised the Fund that it would continue to seek to maximize the value of the Master Fund's assets, begin to return capital to investors, manage dispositions prudently and implemented a prudent winding down of the Master Fund. Most proceeds from the Master Fund were invested directly in MBS.

At Western Asset 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 who have day-to-day responsibility for managing the Fund's direct investments in MBS and other permitted investments are Stephen A. Walsh and Paul Jablansky.

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

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

Short-term U.S. Treasury yields fluctuated in 2012, but ended the year where they began. In contrast, 10-year Treasury yields fell from 1.89% to 1.78% during the twelve months ended December 31, 2012. When the period began, two-year Treasury yields were 0.25%. They moved as low as 0.21% on January 17, 2012 and as high as 0.41% on March 20, 2012. Ten-year Treasury



Western Asset Mortgage Defined Opportunity Fund Inc. 2012 Annual Report

**Fund overview (cont d)**

yields were 1.89% at the beginning of the period and peaked at 2.39% on March 19, 2012. On July 25, 2012, ten-year Treasuries closed at an all-time low of 1.43%. Yields then moved higher due to some positive developments in Europe and additional Federal Reserve Board ( Fed )ii actions to stimulate the economy. When the reporting period ended on December 31, 2012, two-year Treasury yields were 0.25% and ten-year Treasury yields were 1.78%. All told, the Barclays U.S. Aggregate Indexiii returned 4.22% for the twelve months ended December 31, 2012.

Agency MBS posted a positive return during the reporting period amid generally solid investor demand. During the twelve months ended December 31, 2012, the overall agency MBS market, as measured by the Barclays U.S. Mortgage Backed Securities Indexiv, returned 2.59%. RMBS generated superior results, with the BofA Merrill Lynch U.S. Floating Rate Home Equity Loan Asset Backed Securities Indexv returning 18.36%. RMBS was supported by improved liquidity given overall robust demand and signs that the housing market was turning the corner. Additionally, technicals were positive, with negative net supply and investors adding to the sector as they looked to generate incremental yield in the low interest rate environment. As was the case in 2011, CMBS generated strong results during the twelve months ended December 31, 2012, with the Barclays CMBS Indexvi returning 9.66%. CMBS also benefited from overall robust demand.

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

**A.** We made several adjustments to the Fund's portfolio during the reporting period. From January 1, 2012 through July 15, 2012, the Fund accessed the RMBS market indirectly through a separate investment in the PPIP. The Fund invested a significant portion of its assets available for investment, alongside the Treasury, in the Master Fund that was organized to invest directly in MBS and other assets eligible for purchase under the PPIP.

As previously discussed, effective July 15, 2012, an orderly winding down of the Master Fund was undertaken, pursuant to an agreement with the Treasury. The Fund continued to access the RMBS market indirectly through the Master Fund from July 15, 2012 through November 2012, albeit to a lesser and lesser extent, given the winding down of the Master Fund. From July 15, 2012 through the end of November, we received cash from the Master Fund investment and those proceeds were used to purchase a variety of fixed-income securities, primarily RMBS. In December 2012, the allocation to the Master Fund was completely wound down.

Looking at the twelve-month reporting period as a whole, within the non-agency MBS sector, we reduced our prime mortgage exposure and increased our allocations to subprime mortgages and option adjustable-rate mortgages ( ARMs ). Elsewhere, we initiated a small position in high-yield corporate bonds and modestly pared our allocation to CMBS.

During the reporting period, we utilized leverage in the Fund. When the reporting period began, the Fund's leverage as a percentage of gross assets was roughly 21%. The Fund's use of leverage declined given the unwinding of its investment in PPIP, and was then somewhat increased as



the reporting period progressed. At the end of the period, approximately 11% of the Fund's gross assets were levered. The use of leverage was beneficial to the Fund's absolute performance during the period.

**Performance review**

For the twelve months ended December 31, 2012, Western Asset Mortgage Defined Opportunity Fund Inc. returned 42.32% based on its net asset value (NAV)<sup>vii</sup> and 40.09% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the BofA Merrill Lynch U.S. Floating Rate Home Equity Loan Asset Backed Securities Index, returned 18.36% for the same period. The Lipper U.S. Mortgage Closed-End Funds Category Average<sup>viii</sup> returned 18.61% 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 \$2.88 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of December 31, 2012. **Past performance is no guarantee of future results.**

**Performance Snapshot as of December 31, 2012**

<b>Price Per Share</b>	<b>12-Month Total Return*</b>
\$23.88 (NAV)	42.32%
\$24.21 (Market Price)	40.09%

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

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

**Total return assumes the reinvestment of all distributions at NAV. Prior to January 1, 2012, total return assumed the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

**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. On an absolute basis, the leading contributors to the Fund's performance during the reporting period were its allocations to subprime, Alt-A and option ARM non-agency RMBS. Other contributors to performance were our allocations to CMBS and high-yield bonds.

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

A. There were no meaningful detractors to the Fund's absolute performance during the reporting period. That being said, the Fund's cash position added minimal value during the period given extremely low interest rates. Had that cash been invested in the marketplace, it may have helped to further enhance the Fund's absolute return over the twelve month period.

**Looking for additional information?**

The Fund is traded under the symbol `DMO` and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol `XDMOX` 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

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Western Asset Mortgage Defined Opportunity Fund Inc. 2012 Annual Report

**Fund overview (cont d)**

can be found on most major financial websites as well as [www.lmcef.com](http://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 Mortgage Defined Opportunity Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Western Asset Management Company

January 22, 2013

**RISKS:** *The Fund's investments are subject to liquidity risk, credit risk, inflation risk and interest rate risk. As interest rates rise, bond prices fall, reducing the value of the Fund's fixed-income holdings. The Fund may invest in lower-rated high-yield bonds which are subject to greater credit risk (risk of default) than higher-rated obligations. Mortgage-backed securities are subject to additional risks, including prepayment risk, which can limit the potential gains in a declining interest rate environment. The Fund may invest in securities backed by subprime or distressed mortgages which involve a higher degree of risk and chance of loss. 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 make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. The Fund is not guaranteed by the U.S. government, the U.S. Treasury or any government agency.*

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

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





- i 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.
- ii The Federal Reserve Board ( Fed ) is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- iii 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.
- iv The Barclays U.S. Mortgage-Backed Securities Index is an unmanaged index composed of agency mortgage-backed pass-through securities, both fixed-rate and hybrid adjustable rate mortgages, issued by the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.
- v The BofA Merrill Lynch U.S. Floating Rate Home Equity Loan Asset Backed Securities Index tracks the performance of U.S. dollar-denominated investment grade floating-rate asset-backed securities collateralized by home equity loans publicly issued in the U.S. domestic market. Qualifying securities must have an investment grade rating, at least one year remaining to final stated maturity, a floating-rate coupon, and an original deal size for the collateral group of at least \$250 million.
- vi The Barclays CMBS Index measures the performance of the commercial mortgage-backed securities market.
- vii Net asset value ( NAV ) is calculated by subtracting total liabilities and outstanding preferred stock (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total investments) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund s market price as determined by supply of and demand for the Fund s shares.
- viii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2012, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 13 funds in the Fund s Lipper category.

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Western Asset Mortgage Defined Opportunity Fund Inc. 2012 Annual Report

**Fund at a glance (unaudited)**

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

The bar graph above represents the composition of the Fund's direct investments and the exposure to these markets that the Fund receives through its investment in the RLJ Western Asset Public/Private Master Fund, LP as of December 31, 2012 and December 31, 2011. This bar graph does not include derivatives. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

**Spread duration (unaudited)**

**Economic Exposure December 31, 2012**

Total Spread Duration

DMO	3.99 years
Benchmark	4.58 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.

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ABS	Asset-Backed Securities
IG	Investment Grade
DMO	Western Asset Mortgage Defined Opportunity Fund Inc.
MBS	Mortgage-Backed Securities
Benchmark	BofA Merrill Lynch U.S. Floating Rate Home Equity Loan Asset-Backed Securities Index

Western Asset Mortgage Defined Opportunity Fund Inc. 2012 Annual Report

**Effective duration (unaudited)**

**Interest Rate Exposure December 31, 2012**

Total Effective Duration

DMO	2.46 years
Benchmark	0.04 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.

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ABS	Asset-Backed Securities
IG	Investment Grade
DMO	Western Asset Mortgage Defined Opportunity Fund Inc.
MBS	Mortgage-Backed Securities
Benchmark	BofA Merrill Lynch U.S. Floating Rate Home Equity Loan Asset-Backed Securities Index

**Schedule of investments**

December 31, 2012

**Western Asset Mortgage Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Commercial Mortgage-Backed Securities</b>				
<b>1.2%</b>				
Bayview Commercial Asset Trust, 2007-1 B1 Federal Home Loan Mortgage Corp. (FHLMC), Multi-Family Structured Pass-Through Certificates, K007 X1, IO	0.880%	3/25/37	\$ 730,302	\$ 32,228(a)(b)
Federal Home Loan Mortgage Corp. (FHLMC), Multi-Family Structured Pass-Through Certificates, K008 X1, IO	1.229%	4/25/20	9,711,466	653,382(b)(c)
Federal Home Loan Mortgage Corp. (FHLMC), Multi-Family Structured Pass-Through Certificates, K009 X1, IO	1.675%	6/25/20	2,442,502	230,380(b)(c)
GS Mortgage Securities Corp., 2010-C1 X, IO	1.506%	8/25/20	7,987,417	661,470(b)(c)
GS Mortgage Securities Corp., IO	1.544%	8/10/43	16,551,615	1,337,668(a)(b)(c)
	2.168%	2/10/21	8,790,441	114,430(a)(b)
<b>Total Commercial Mortgage-Backed Securities (Cost</b>	<b>\$2,691,238)</b>			<b>3,029,558</b>
<b>Residential Mortgage-Backed Securities</b>				
<b>101.8%</b>				
ABFS Mortgage Loan Trust, 2002-3 M1	5.902%	9/15/33	1,406,679	1,067,041
Accredited Mortgage Loan Trust, 2003-3 A1	5.210%	1/25/34	1,725,852	1,648,622
American Home Mortgage Assets, 2005-2 2A1A	2.844%	1/25/36	1,180,557	751,997(b)
American Home Mortgage Investment Trust, 2005-1 6A	2.510%	6/25/45	161,159	152,947(b)(c)
American Home Mortgage Investment Trust, 2005-SD1 1A1	0.660%	9/25/35	445,983	269,284(a)(b)(c)
American Home Mortgage Investment Trust, 2007-2 2A	1.010%	3/25/47	14,026,028	1,705,320(b)
American Home Mortgage Investment Trust, 2007-A 4A	0.660%	7/25/46	596,076	187,150(a)(b)
Argent Securities Inc., 2003-W8 M1	1.260%	12/25/33	1,393,148	1,334,429(b)
Argent Securities Inc., 2006-M2 A2B	0.320%	9/25/36	3,286,643	1,203,549(b)
Argent Securities Inc., 2006-M2 A2C	0.360%	9/25/36	2,906,930	1,070,944(b)
Argent Securities Inc., 2006-M2 A2D	0.450%	9/25/36	767,225	286,428(b)
Argent Securities Inc., 2006-M3 A2D	0.450%	10/25/36	3,416,228	1,260,916(b)
ARM Trust, 2005-05 1A1	2.973%	9/25/35	404,494	303,381(b)(c)
ARM Trust, 2005-07 2A21	2.871%	10/25/35	1,040,000	821,458(b)(c)
ARM Trust, 2005-10 1A21	2.990%	1/25/36	588,976	463,782(b)(c)
ARM Trust, 2005-12 5A1	0.460%	3/25/36	509,882	304,642(b)
Asset-Backed Funding Certificates, 2005-HE1 M2	0.650%	3/25/35	3,114,312	2,266,533(b)

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Banc of America Funding Corp., 2004-B 6A1	2.681%	12/20/34	931,766	606,889(b)
Banc of America Funding Corp., 2004-C 3A1	3.145%	12/20/34	1,297,490	1,157,315(b)(c)
Banc of America Funding Corp., 2006-D 6A1	5.118%	5/20/36	2,298,721	1,809,276(b)(c)
Banc of America Funding Corp., 2006-F 1A1	2.629%	7/20/36	1,121,495	1,051,721(b)(c)
Banc of America Funding Corp., 2006-H 3A1	5.972%	9/20/46	282,567	204,751(b)(c)

See Notes to Financial Statements.

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Western Asset Mortgage Defined Opportunity Fund Inc. 2012 Annual Report

**Schedule of investments (cont d)**

December 31, 2012

**Western Asset Mortgage Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Residential Mortgage-Backed Securities continued</b>				
Banc of America Funding Corp., 2007-A 2A1	0.371%	2/20/47	\$ 483,166	\$ 395,108(b)(c)
Banc of America Funding Corp., 2007-E CA9	6.022%	7/20/47	1,255,477	61,453(b)
Bayview Financial Acquisition Trust, 2005-B M1	0.660%	4/28/39	3,490,000	3,372,457(b)
Bayview Financial Acquisition Trust, 2007-A 2A	0.560%	5/28/37	2,318,857	1,332,427(b)
Bayview Financial Asset Trust, 2007-SR1A M2	1.110%	3/25/37	3,625,349	2,283,970(a)(b)
Bayview Financial Asset Trust, 2007-SR1A M3	1.360%	3/25/37	2,512,412	1,507,447(a)(b)
BCAP LLC Trust, 2010-RR10 2A7	3.650%	12/27/34	5,054,762	3,146,774(a)(b)
Bear Stearns Adjustable Rate Mortgage Trust, 2004-1 23A1	5.362%	4/25/34	243,288	241,351(b)(c)
Bear Stearns Alt-A Trust, 2005-2 2A4	2.911%	4/25/35	270,982	226,595(b)(c)
Bear Stearns Alt-A Trust, 2005-3 4A3	2.677%	4/25/35	540,458	472,910(b)(c)
Bear Stearns Alt-A Trust, 2005-9 25A1	2.857%	11/25/35	653,123	501,909(b)(c)
Bear Stearns Alt-A Trust, 2006-2 23A1	2.953%	3/25/36	2,339,036	1,435,865(b)(c)
Bear Stearns ARM Trust, 2005-1 2A1	2.927%	3/25/35	661,562	592,498(b)(c)
Bear Stearns Asset Backed Securities Trust, 2003-SD2 1A	3.799%	6/25/43	103,350	102,835(b)
Bear Stearns Asset Backed Securities Trust, 2005-CL1 A1	0.710%	9/25/34	212,306	176,790(b)
Chase Mortgage Finance Corp., 2005-A2 1A5	2.808%	1/25/36	3,243,711	2,900,415(b)(c)
Chase Mortgage Finance Corp., 2006-S3 2A1	5.500%	11/25/21	445,070	430,172(c)
Chevy Chase Mortgage Funding Corp., 2004-4A A2	0.500%	10/25/35	1,799,829	1,452,776(a)(b)
Chevy Chase Mortgage Funding Corp., 2005-2A A1	0.390%	5/25/36	2,689,097	2,030,193(a)(b)
Chevy Chase Mortgage Funding Corp., 2006-2A A1	0.340%	4/25/47	348,306	206,903(a)(b)(c)
Citigroup Mortgage Loan Trust Inc., 2005-10 1A1A	3.120%	12/25/35	483,681	309,714(b)
Citigroup Mortgage Loan Trust Inc., 2006-AR5 2A1A	2.964%	7/25/36	870,319	474,778(b)
Citigroup Mortgage Loan Trust Inc., 2007-6 1A1A	2.545%	3/25/37	683,316	365,445(b)(c)
Citigroup Mortgage Loan Trust Inc., 2007-AR8 1A1A	3.021%	8/25/47	686,082	532,330(b)(c)
Countrywide Alternative Loan Trust, 2004-J5 M1	0.810%	8/25/34	4,500,000	3,141,547(b)
Countrywide Alternative Loan Trust, 2005-14 3A1	2.691%	5/25/35	579,970	342,930(b)(c)
Countrywide Alternative Loan Trust, 2005-27 2A1	1.515%	8/25/35	4,028,707	2,796,704(b)
Countrywide Alternative Loan Trust, 2005-27 2A3	1.725%	8/25/35	3,238,687	2,458,814(b)
Countrywide Alternative Loan Trust, 2005-3CB 1A6, IO	6.940%	3/25/35	1,359,608	302,677(b)
Countrywide Alternative Loan Trust, 2005-7CB 1A3, IO	6.390%	4/25/35	3,964,731	683,623(b)
Countrywide Alternative Loan Trust, 2005-J10 1A1	0.710%	10/25/35	402,839	272,429(b)(c)
Countrywide Alternative Loan Trust, 2006-HY10 1A1	5.105%	5/25/36	1,250,296	822,825(b)(c)
Countrywide Alternative Loan Trust, 2006-J8 A5	6.000%	2/25/37	230,928	170,458(c)
Countrywide Alternative Loan Trust, 2007-3T1 2A1	6.000%	3/25/27	1,479,899	1,342,308(c)
Countrywide Asset-Backed Certificates, 2005-13 3AV4	0.550%	4/25/36	814,320	628,248(b)
Countrywide Home Loans, 2004-16 1A3A	0.970%	9/25/34	1,951,521	1,656,052(b)
Countrywide Home Loans, 2005-11 6A1	0.510%	3/25/35	160,888	124,516(b)(c)



See Notes to Financial Statements.

**Western Asset Mortgage Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Residential Mortgage-Backed Securities continued</b>				
Countrywide Home Loans, 2005-18 A7	18.948%	10/25/35	\$ 70,993	\$ 90,119(b)(c)
Countrywide Home Loans, 2005-HYB9 1A1	2.628%	2/20/36	434,752	301,220(b)
Countrywide Home Loans, 2005-R2 1AF2	0.550%	6/25/35	2,135,287	1,456,853(a)(b)
Countrywide Home Loans, 2006-HYB4 3B	4.913%	6/20/36	2,140,045	1,457,600(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2004-23 A	2.518%	11/25/34	468,970	314,439(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-02 2A1	0.530%	3/25/35	186,400	142,352(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-07 2A1	0.520%	3/25/35	432,719	322,298(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-09 1A1	0.510%	5/25/35	231,061	184,319(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-HY10 1A1	3.407%	2/20/36	417,517	294,699(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-HYB6 1A1	2.768%	10/20/35	1,511,280	972,407(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-J2 3A10	48.293%	8/25/35	114,629	251,412(b)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-R1 1AF1	0.570%	3/25/35	1,130,223	935,428(a)(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-R2 2A3	8.000%	6/25/35	227,154	231,524(a)
Countrywide Home Loans Mortgage Pass-Through Trust, 2006-3 2A1	0.460%	3/25/36	833,567	640,240(b)(c)
Credit Suisse First Boston Mortgage Securities Corp., 2005-10 03A3	5.500%	11/25/35	1,032,365	891,909(c)
Credit Suisse Mortgage Capital Certificates, 2006-8 2A1	5.500%	10/25/21	2,064,904	1,952,903(c)
Credit Suisse Mortgage Capital Certificates, 2009-5R 2A3	6.038%	7/26/49	4,000,000	2,145,832(a)(b)(c)
Credit-Based Asset Servicing and Securitization LLC, 2003-RP1 M1	1.760%	3/25/33	2,741,697	2,040,675(a)(b)
Credit-Based Asset Servicing and Securitization LLC, 2004-CB2 M1	0.990%	7/25/33	766,603	643,683(b)
Credit-Based Asset Servicing and Securitization LLC, 2005-CB4 M1	0.630%	8/25/35	2,000,000	1,580,642(b)
Credit-Based Asset Servicing and Securitization LLC, 2007-SP1 A4	6.020%	12/25/37	2,587,000	2,583,228(a)
Deutsche ALT-A Securities Inc. Mortgage Loan Trust, 2005-AR2 3A1	2.858%	10/25/35	2,161,816	1,405,220(b)(c)
Deutsche ALT-A Securities Inc. Mortgage Loan Trust, 2006-AR1 2A1	3.134%	2/25/36	512,143	335,761(b)(c)

See Notes to Financial Statements.

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Western Asset Mortgage Defined Opportunity Fund Inc. 2012 Annual Report

**Schedule of investments (cont d)**

December 31, 2012

**Western Asset Mortgage Defined Opportunity Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Value</b>
<b>Residential Mortgage-Backed Securities continued</b>				
Deutsche ALT-A Securities Inc. Mortgage Loan Trust, 2007-1 2A1	0.310%	8/25/37	\$ 723,789	\$ 542,089(b)(c)
Deutsche Mortgage Securities Inc., 2005-WF1 1A3	5.234%	6/26/35	2,200,000	2,249,116(a)(b)(c)
Downey Savings & Loan Association Mortgage Loan Trust, 2005-AR1 2A1B	0.530%	3/19/45	964,651	353,226(b)
Downey Savings & Loan Association Mortgage Loan Trust, 2005-AR2 2A1A	0.420%	3/19/45	668,031	547,708(b)(c)
DSL A Mortgage Loan Trust, 2005-AR4 2A1B	0.490%	8/19/45	4,667,486	2,176,425(b)
EMC Mortgage Loan Trust, 2002-AA A1	0.680%	5/25/39	233,143	210,636(a)(b)
Federal National Mortgage Association (FNMA), 2012-134, IO	5.940%	12/25/42	7,460,424	2,273,476(b)
First Horizon Alternative Mortgage Securities, 2005-AA6 3A1	2.552%	8/25/35	1,765,048	1,491,140(b)(c)
First Horizon Alternative Mortgage Securities, 2006-FA6 2A1	6.250%	11/25/36	297,988	235,122(c)
First Horizon Alternative Mortgage Securities, 2006-FA8 1A8	0.580%	2/25/37	632,148	389,563(b)(c)
First Horizon Mortgage Pass-Through Trust, 2005-AR4 2A1	2.598%	10/25/35	1,023,762	909,217(b)(c)
Greenpoint Mortgage Funding Trust, 2005-AR4 A1	0.470%	10/25/45	718,940	537,760(b)(c)
Greenpoint Mortgage Funding Trust, 2006-AR3 4A1	0.420%	4/25/36	2,376,882	1,527,634(b)
GreenPoint Mortgage Funding Trust, 2006-AR6 A4				