

WESTERN ASSET INTERMEDIATE MUNI FUND INC.

Form N-CSR

January 28, 2019

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 811-6506

Western Asset Intermediate Muni Fund Inc.

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: November 30

Date of reporting period: November 30, 2018

ITEM 1. REPORT TO STOCKHOLDERS.

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

Annual Report

November 30, 2018

WESTERN ASSET

INTERMEDIATE MUNI FUND INC. (SBI)

Beginning in January 2021, as permitted by regulations adopted by the Securities and Exchange Commission, the Fund intends to no longer mail paper copies of the Fund's shareholder reports like this one, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary (such as a broker-dealer or bank). Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you invest through a financial intermediary and you already elected to receive shareholder reports electronically (e-delivery), you will not be affected by this change and you need not take any action. If you have not already elected e-delivery, you may elect to receive shareholder reports and other communications from the Fund electronically by contacting your financial intermediary.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. That election will apply to all Legg Mason funds held in your account at that financial intermediary. If you are a direct shareholder with the Fund, you can call the Fund at 1-888-888-0151, or write to the Fund by regular mail at P.O. Box 505000, Louisville, KY 40233 or by overnight delivery to Computershare, 462 South 4th Street, Suite 1600, Louisville, KY 40202 to let the Fund know you wish to continue receiving paper copies of your shareholder reports. That election will apply to all Legg Mason Funds held in your account held directly with the fund complex.

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

What's inside	
<u>Letter from the chairman</u>	III
<u>Investment commentary</u>	IV
<u>Fund overview</u>	1
<u>Fund at a glance</u>	5
<u>Spread duration</u>	6
<u>Effective duration</u>	7
<u>Schedule of investments</u>	8
<u>Statement of assets and liabilities</u>	18
<u>Statement of operations</u>	19
<u>Statements of changes in net assets</u>	20
<u>Statement of cash flows</u>	21
<u>Financial highlights</u>	22
<u>Notes to financial statements</u>	24
<u>Report of independent registered public accounting firm</u>	36
<u>Board approval of management and subadvisory agreements</u>	37
<u>Additional information</u>	43
<u>Annual chief executive officer and principal financial officer certifications</u>	49
<u>Other shareholder communications regarding accounting matters</u>	50
<u>Dividend reinvestment plan</u>	51
<u>Important tax information</u>	53

* Certain investors may be subject to the federal alternative minimum tax (AMT), and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

Fund objective

The Fund's investment objective is to provide common shareholders a high level of current income exempt from regular federal income taxes*, consistent with prudent investing.

Under normal market conditions, the Fund will invest at least 80% of its total assets in municipal obligations. In addition, under normal market conditions, the Fund will invest at least 80% of its total assets in debt securities that are, at the time of investment, rated investment grade by a nationally recognized statistical rating organization or, if unrated, of equivalent quality as determined by the investment manager. The Fund also maintains a dollar-weighted average effective maturity of between three and ten years.

Letter from the chairman

Dear Shareholder,

We are pleased to provide the annual report of Western Asset Intermediate Muni Fund Inc. for the twelve-month reporting period ended November 30, 2018. 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

Chairman, President and Chief Executive Officer

December 28, 2018

Investment commentary

Economic review

Economic activity in the U.S. was mixed during the twelve months ended November 30, 2018 (the reporting period). Looking back, the U.S. Department of Commerce reported that fourth quarter 2017 and first quarter 2018 U.S. gross domestic product (GDP) growth was 2.3% and 2.2%, respectively. GDP growth then accelerated to 4.2% during the second quarter of 2018—the strongest reading since the third quarter of 2014. Finally, the U.S. Department of Commerce's final reading for third quarter 2018 GDP growth—released after the reporting period ended—was 3.4%. The deceleration in GDP growth in the third quarter of 2018 reflected a downturn in exports and decelerations in nonresidential fixed investment and personal consumption expenditures. Imports increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. As reported by the U.S. Department of Labor, when the reporting period ended on November 30, 2018, the unemployment rate was 3.7%, versus 4.1% when the period began. November 2018's reading equaled the lowest unemployment rate since 1969. The percentage of longer-term unemployed also declined during the reporting period. In November 2018, 20.8% of Americans looking for a job had been out of work for more than six months, versus 22.9% when the period began.

Looking back, at its meeting that concluded on September 20, 2017, the Federal Reserve Board (the Fed) kept the federal funds rateⁱⁱⁱ on hold, but reiterated its intention to begin reducing its balance sheet, saying, "In October, the Committee will initiate the balance sheet normalization program." At its meeting that ended on December 13, 2017, the Fed raised rates to a range between 1.25% and 1.50%. As widely expected, the Fed again raised rates at its meetings that ended on March 21, 2018 (to a range between 1.50% and 1.75%), June 13, 2018 (to a range between 1.75% and 2.00%) and September 26, 2018 (to a range between 2.00% and 2.25%). Finally, at its meeting that ended on December 19, 2018, after the reporting period ended, the Fed raised rates to a range between 2.25% and 2.50%.

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

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 28, 2018

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 Reserve Board (the 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.
- iii 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.

Western Asset Intermediate Muni Fund Inc. V

Fund overview

Q. What is the Fund's investment strategy?

A. The Fund's investment objective is to provide common shareholders a high level of current income exempt from regular federal income taxes consistent with prudent investing. Under normal market conditions, the Fund invests at least 80% of its total assets in municipal obligations. The Fund also maintains a dollar-weighted average effective maturity of between three and ten years. Under normal market conditions, the Fund will invest at least 80% of its total assets in debt securities that are, at the time of investment, rated investment grade by a nationally recognized statistical rating organization (NRSRO) or, if unrated, of equivalent quality as determined by the investment manager. In addition, up to 20% of the Fund's total assets may be invested in debt securities that are, at the time of investment, rated below investment grade (commonly known as high yield or junk bonds) by an NRSRO or, if unrated, of equivalent quality as determined by the investment manager. The Fund may use a variety of derivative instruments as part of its investment strategy or for hedging and/or risk management purposes.

At Western Asset Management Company, LLC (formerly known as Western Asset Management Company) (Western Asset), the Fund's subadviser, 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, Robert E. Amodeo and David T. Fare.

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

A. Fixed income markets generally posted weak results over the twelve-month reporting period ended November 30, 2018. Spread sectors (non-Treasuries) experienced periods of elevated volatility as they were impacted by a number of factors, including the December 2017 signing of the U.S. tax reform bill, solid economic growth in the U.S., four interest rate hikes by the Federal Reserve Board (the Fed), concerns over a global trade war and geopolitical issues.

Both short- and long-term Treasury yields moved sharply higher during the reporting period. The yield for the two-year Treasury note began the reporting period at 1.78% (equaling the low for the period) and ended the period at 2.80%. The high for the period of 2.98% occurred on November 8, 2018. The yield for the ten-year Treasury began the reporting period at 2.42% and ended the period at 3.01%. The low of 2.33% occurred on December 6, 2017, and the peak of 3.24% took place on November 8, 2018.

The municipal bond market outperformed its taxable bond counterpart during the reporting period. Over that time, the Bloomberg Barclays Municipal Bond Indexⁱⁱ and the Bloomberg Barclays U.S. Aggregate Indexⁱⁱⁱ returned 1.13% and -1.34%, respectively. Both the taxable and tax-free bond markets were negatively impacted by rising interest

Fund overview (cont'd)

rates. However, the tax-free market held up relatively better as fundamentals were solid overall and new supply moderated over the reporting period.

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

A. From a sector positioning perspective, we reduced the Fund's allocation to the Health Care sector and increased its exposure to the Industrial Revenue sector. We also added to the Fund's weighting in municipal securities rated BBB. Meanwhile, toward the end of the reporting period we extended the Fund's duration. The Fund employed the use of U.S. Treasury futures during the reporting period to tactically manage duration. This strategy modestly contributed to performance.

During the reporting period, we utilized leverage in the Fund. This contributed to performance over the Fund's reporting period. We ended the period with leverage from preferred shares as a percentage of gross assets of roughly 26%.

Performance review

For the twelve months ended November 30, 2018, Western Asset Intermediate Muni Fund Inc. returned 0.39% based on its net asset value (NAV) and -7.52% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the Bloomberg Barclays 1-15 Year Municipal Bond Index^{vi}, returned 1.30% for the same period. The Lipper Intermediate Municipal Debt Closed-End Funds Category Average^{vii} returned 0.68% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

Certain investors may be subject to the federal alternative minimum tax, and state and local taxes will apply. Capital gains, if any, are fully taxable. Please consult your personal tax or legal adviser.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.37 per share.* The performance table shows the Fund's twelve-month total return based on its NAV and market price as of November 30, 2018. **Past performance is no guarantee of future results.**

Performance Snapshot as of November 30, 2018

Price Per Share	12-Month Total Return
\$9.75 (NAV)	0.39% **
\$8.29 (Market Price)	-7.52%

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.

* For the tax character of distributions paid during the fiscal year ended November 30, 2018, please refer to page 34 of this report.

** The total return based on NAV reflects the impact of the tender and repurchase by the Fund of a portion of its Auction Rate Cumulative Preferred Stock at 85% of the per share liquidation preference. Absent this transaction, the total return based on NAV would have been 0.19%.

Q. What were the leading contributors to performance?

A. The largest contributor to the Fund's relative performance during the reporting period was its positioning in a number of sectors. Security selection in the Special Tax Obligation sector was beneficial, led by Fund holdings issued by the U.S. Virgin Islands. Security selection in the Industrial Revenue and Power sectors, along with Local General Obligation bond holdings, were also additive for returns.

The Fund's quality biases also contributed to performance. In particular, having an overweight to municipal securities rated A and lower, along with underweights to securities rated AA and AAA, were positive for results, as lower rated issues outperformed their higher rated counterparts over the reporting period.

Q. What were the leading detractors from performance?

A. The largest detractor from the Fund's relative performance during the reporting period was an overweight to the Industrial Revenue sector. Security selection in the Transportation and Health Care sectors were also headwinds for results.

Looking for additional information?

The Fund is traded under the symbol SBI and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XSBIX 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 (click on the name of the Fund).

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 Intermediate Muni 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, LLC

December 18, 2018

***RISKS:** The Fund is a diversified closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objective. The Fund's common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund's share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Diversification does not assure against market loss. The Fund's investments are subject to a number of risks, including interest rate risk, credit risk, leveraging risk and management risk. As interest rates rise, bond prices fall, reducing the value of the fixed-income securities held by the Fund. Lower-rated, higher-yielding bonds, known as junk bonds, are subject to greater liquidity and credit risk, including the risk of default, than higher-rated obligations.*

Fund overview (cont d)

Municipal securities purchased by the Fund may be adversely affected by changes in the financial condition of municipal issuers and insurers, regulatory and political developments, uncertainties and public perceptions, and other factors. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. The Fund may invest in securities of other investment companies. To the extent it does, Fund stock holders will indirectly pay a portion of the operating costs of such companies, in addition to the expenses that the Fund bears directly in connection with its own operation. Investing in securities issued by other investment companies, including exchange-traded funds (ETFs) that invest primarily in municipal securities, involves risks similar to those of investing directly in the securities in which those investment companies invest. Leverage may result in greater volatility of NAV and market price of common shares and increases a shareholder's risk of loss.

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 portfolio composition is subject to change at any time.

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

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

ⁱ The Federal Reserve Board (the 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.

ⁱⁱ The Bloomberg Barclays Municipal Bond Index is a market value weighted index of investment grade municipal bonds with maturities of one year or more.

ⁱⁱⁱ The Bloomberg 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} 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.

^v Net asset value (NAV) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (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.

^{vi} The Bloomberg Barclays 1-15 Year Municipal Bond Index is a market value weighted index of investment grade (Baa3/BBB- or higher) fixed-rate municipal bonds with maturities of one to fifteen years.

^{vii} Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended November 30, 2018, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 7 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 composition of the Fund's investments as of November 30, 2018 and November 30, 2017 and does not include derivatives, such as futures contracts. 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 November 30, 2018

Total Spread Duration

SBI 4.91 years

Benchmark 4.88 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.

Benchmark Bloomberg Barclays 1-15 Year Municipal Bond Index

SBI Western Asset Intermediate Muni Fund Inc.

Effective duration (unaudited)

Interest rate exposure November 30, 2018

Total Effective Duration

SBI 4.89 years

Benchmark 4.93 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.

Benchmark Bloomberg Barclays 1-15 Year Municipal Bond Index
SBI Western Asset Intermediate Muni Fund Inc.

Schedule of investments

November 30, 2018

Western Asset Intermediate Muni Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Municipal Bonds 132.8%				
<i>Alabama 1.2%</i>				
Jefferson County, AL, Sewer Revenue, Subordinated Lien Warrants, Series D	5.000%	10/1/21	\$ 1,500,000	\$ 1,588,980
<i>Arizona 2.2%</i>				
La Paz County IDA, Charter School Solutions Harmony Public Schools Project	5.000%	2/15/38	500,000	527,880
Navajo Nation, Refunding, Series A	5.000%	12/1/25	250,000	271,392 ^(a)
Phoenix, AZ Civic Improvement Corp., Refunding, Junior Lien	5.000%	7/1/27	1,000,000	1,132,030
Pinal County Electric District No. 3, Refunding	4.000%	7/1/23	1,000,000	1,037,490
<i>Total Arizona</i>				<i>2,968,792</i>
<i>California 19.5%</i>				
Alameda Corridor Transportation Authority, Refunding, Second Subordinated Lien, Series B	5.000%	10/1/34	500,000	550,925
Anaheim Public Financing Authority Lease, Refunding, Series A	5.000%	5/1/26	2,000,000	2,286,560
Bay Area Toll Authority, San Francisco Bay Area, (SIFMA Municipal Swap Index Yield + 1.100%)	2.790%	4/1/24	2,000,000	2,050,140 ^{(b)(c)}
California Municipal Finance Authority, Senior Lien, LINXS APM Project	5.000%	12/31/34	350,000	385,588 ^(d)
California PCFA	5.000%	7/1/27	2,000,000	2,110,260 ^{(a)(d)}
California State, Refunding, Bid Group C, GO	5.000%	8/1/33	1,000,000	1,146,640
California Statewide CDA, Provident Group-Pomona Properties	5.600%	1/15/36	555,000	582,550 ^(a)
Golden State Tobacco Securitization Corp., Refunding, Series A-1	5.000%	6/1/34	1,500,000	1,622,430
Long Beach Bond Finance Authority, Refunding, Series A	5.000%	8/1/31	1,855,000	2,020,503
Los Angeles County Public Works Financing Authority, Multiple Capital Projects II	5.000%	8/1/22	1,000,000	1,111,840
Los Angeles Department of Water & Power, Power System Revenue, Series C	5.000%	7/1/37	750,000	859,853
Modesto Irrigation District:				