Western Asset Mortgage Defined Opportunity Fund Inc.
Form N-CSR
February 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22369

Western Asset Mortgage Defined Opportunity 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: December 31

Date of reporting period: December 31, 2011

ITEM 1. REPORT TO STOCKHOLDERS.

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

December 31, 2011

Annual Report

Western Asset Mortgage Defined Opportunity Fund Inc.
(DMO)

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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

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, 2011. Please read on for a detailed look at prevailing economic and market conditions during the Fund s reporting period and to learn how those conditions have affected Fund performance.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, www.leggmason.com/cef. 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 27, 2012

Investment commentary

Economic review

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

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

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

The Federal Reserve Board (Fed)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 rateiv at a historically low range between zero and 0.25%. In addition, in August 2011, the Fed declared its intention to keep the federal funds rate steady until mid-2013. Then, in September 2011, the Fed announced its intention to purchase $400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012 (often referred to as

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Western Asset Mortgage Defined Opportunity Fund Inc.

Investment commentary (cont d)

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

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

January 27, 2012

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

i Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

ii The Institute for Supply Management s PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.

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

iv The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

Fund overview

Q. What is the Fund s investment strategy?

A. The Fund s investment objective is to provide current income. 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). The Fund invests in MBS directly, and indirectly through a separate investment in a public-private investment fund (PPIF) formed in connection with the Legacy Securities Public-Private Investment Program (PPIP) established by the U.S. Department of the Treasury.

At 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 managers, research analysts and an in-house economist. Under this team approach, management of client fixed-income portfolios will reflect a consensus of interdisciplinary views within the Western Asset organization. The portfolio managers who have day-to-day responsibility for managing the Fund s direct investments in MBS and other permitted investments are Stephen A. Walsh and Ronald D. Mass. Effective May 1, 2011, S. Kenneth Leech no longer serves as a portfolio manager for this Fund. While Mr. Leech continues to help shape Western Asset s overall investment strategy, his day-to-day role is becoming more concentrated on global portfolios. To reflect this global focus, he will continue to serve as a portfolio manager of the global funds, but not of the non-global funds.

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

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

Both short- and long-term Treasury yields fluctuated but, overall, moved lower during the reporting period. When the period began, two- and ten-year Treasury yields were 0.61% and 3.30%, respectively. Yields initially moved higher given expectations for stronger growth in 2011 and the potential for rising inflation. Two- and ten-year Treasury yields peaked at 0.87% and 3.75%, respectively, in February 2011. Yields then declined

Fund overview (cont d)

during much of the next seven months due to disappointing economic data and several flights to quality. Two-year Treasuries hit their low for the reporting period of 0.16% on September 19, 2011. Ten-year Treasuries reached their reporting period trough of 1.72% on September 22, 2011. Yields then moved higher in October as investor risk appetite increased. Two-year Treasury yields were then relatively stable during the last two months of the year, whereas ten-year Treasury yields declined in November and December. When the reporting period ended on December 31, 2011, two-year Treasury yields were 0.25% and ten-year Treasury yields were 1.89%. All told, the Barclays Capital U.S. Aggregate Index[ii] returned 7.84% for the twelve months ended December 31, 2011.

Agency MBS posted solid results during the reporting period, as they were supported by generally robust investor demand. In addition, this relatively high quality sector held up fairly well during periods of heightened investor risk aversion. During the twelve months ended December 31, 2011, the overall agency MBS market, as measured by the Barclays Capital U.S. Mortgage-Backed Securities Index[iii], returned 6.23%. In contrast, RMBS performed poorly, with the BofA Merrill Lynch U.S. Floating Rate Home Equity Loan Asset Backed Securities Index[iv] returning -6.95%. RMBS generated weak results as liquidity was often challenged by tepid investor demand amid continued concerns about the housing market. Additionally, new supply flooded the market in the second quarter of 2011, as the Federal Reserve Bank of New York took actions to sell its $15.7 billion stake in Maiden Lane II LLC, a portfolio of RMBS in the open market rather than sell them back to AIG, its original owner. Toward the end of the reporting period, there were fears that European financial institutions may need to sell their RMBS holdings as they deleverage their balance sheets and shed non-core assets. Elsewhere, despite periods of volatility, CMBS generated strong results during the reporting period, with the Barclays Capital CMBS Index[v] returning 6.47%. CMBS benefited from overall solid demand as investors looked to generate incremental yield in the low interest environment.

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

A. We did not make any significant adjustments to the Fund s portfolio during the reporting period, as we continued to primarily invest in RMBS. Overall, we were comfortable with our RMBS holdings, which emphasized direct investments to RMBS via Alt-A[vi] mortgages and prime RMBS that were senior on the capital structure. To a lesser extent, the portfolio also held subprime mortgages and option adjustable-rate mortgages (ARMs). The Fund also accessed the RMBS market indirectly through a separate investment in the PPIF, which invests substantially all of its assets available for investment, alongside the Treasury Department, in a master fund that has been organized to invest directly in MBS and other assets eligible for purchase under the PPIP. Finally, the Fund maintained a small allocation to CMBS.

During the reporting period, we utilized leverage in the Fund. This detracted from results given the poor performance of the Fund s RMBS holdings. We ended the period with leverage (excluding the leverage in the PPIP) as a percentage of gross assets of roughly 21%.

Performance review

For the twelve months ended December 31, 2011, Western Asset Mortgage Defined Opportunity Fund Inc. returned -5.07% based on its net asset value (NAV)vii and -0.35% 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 -6.95% for the same period. The Lipper U.S. Mortgage Closed-End Funds Category Averageviii returned 2.96% 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 $1.92 per share. The performance table shows the Fund s twelve-month total return based on its NAV and market price as of December 31, 2011. **Past performance is no guarantee of future results.**

Performance Snapshot as of December 31, 2011

Price Per Share	**12-Month Total Return***
$19.01 (NAV)	-5.07%
$19.61 (Market Price)	-0.35%

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 returns assume 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 contributor to the Fund s performance during the reporting period was its allocation to bonds with high current cash flows. Examples include inverse floating interest-only RMBS, which benefited from low interest rates and slow prepayment speeds, and high coupon fixed-rate RMBS.

Q. What were the leading detractors from performance?

A. The largest detractor from the Fund s absolute performance during the reporting period was its exposure to RMBS. While fundamentals in the residential housing market did not significantly deteriorate during the fiscal year, RMBS generated weak results given periods of extreme investor risk aversion, challenging supply/demand technicals, poor liquidity and the threat of forced selling from European financial institutions. The largest negative contributions came from our floating-rate subprime mortgages and our allocation to the PPIP. The PPIP investment is leveraged more than the assets within the Fund; therefore, the leverage magnified the negative performance of non-agency MBS.

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 can be found on most major financial websites as well as www.leggmason.com/cef.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from

Fund overview (cont d)

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 17, 2012

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

iii The Barclays Capital 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.

iv 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.

v The Barclays Capital CMBS Index measures the performance of the commercial mortgage-backed securities market.

vi Alternative A-Paper (Alt-A) is a classification of mortgages where the risk profile falls between prime and subprime. The borrowers behind these mortgages will typically have clean credit histories, but the mortgage itself will generally have some issues that increase its risk profile.

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, 2011, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 10 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 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, 2011 and December 31, 2010. 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, 2011

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

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

Effective duration (unaudited)

Interest Rate Exposure December 31, 2011

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

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

Schedule of investments

December 31, 2011

Western Asset Mortgage Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Commercial Mortgage-Backed Securities 2.1%				
Air 2 US, Notes	8.027%	10/1/19	$ 231,885	$ 213,334(a)
Bayview Commercial Asset Trust, 2004-3 A1	0.664%	1/25/35	797,009	600,782(a)(b)
Bayview Commercial Asset Trust, 2007-1 B1	0.964%	3/25/37	1,270,122	101,610(a)(b)
CVS Corp., Pass-Through Trust	9.350%	1/10/23	480,000	508,632(a)
Extended Stay America Trust, 2010-ESHA XB1, IO	1.165%	1/5/16	41,000,000	463,382(a)(b)
Federal Home Loan Mortgage Corp. (FHLMC), K007 X1, IO	1.410%	4/25/20	9,846,283	695,428(b)
Federal Home Loan Mortgage Corp. (FHLMC), K008 X1, IO	1.840%	6/25/20	2,472,207	244,626(b)
Federal Home Loan Mortgage Corp. (FHLMC), K009 X1, IO	1.682%	8/25/20	8,089,650	699,791(b)
GS Mortgage Securities Corp., 2010-C1 X, IO	1.567%	8/10/43	16,848,302	1,444,186(a)(b)(c)
GS Mortgage Securities Corp., IO	2.168%	2/10/21	8,790,441	303,407(a)(b)
Total Commercial Mortgage-Backed Securities (Cost $5,232,433)				**5,275,178**
Residential Mortgage-Backed Securities 61.0%				
ABFS Mortgage Loan Trust, 2002-3 M1	5.902%	9/15/33	1,498,750	1,048,112
Accredited Mortgage Loan Trust, 2003-3 A1	5.210%	1/25/34	1,899,743	1,527,965
American Home Mortgage Assets, 2005-2 2A1A	3.291%	1/25/36	1,250,166	539,096(b)
American Home Mortgage Investment Trust, 2005-1 6A	2.719%	6/25/45	177,543	124,923(b)
American Home Mortgage Investment Trust, 2005-SD1 1A1	0.744%	9/25/35	539,924	272,424(a)(b)
American Home Mortgage Investment Trust, 2007-2 2A	1.094%	3/25/47	14,423,706	1,607,234(b)
American Home Mortgage Investment Trust, 2007-A 4A	0.744%	7/25/46	621,289	180,969(a)(b)
ARM Trust, 2005-05 1A1	2.675%	9/25/35	449,822	277,181(b)
ARM Trust, 2005-07 2A21	2.708%	10/25/35	1,040,000	618,131(b)
ARM Trust, 2005-10 1A21	2.750%	1/25/36	644,282	419,143(b)
ARM Trust, 2005-12 5A1	0.544%	3/25/36	548,559	238,624(b)
ARM Trust, 2007-1 1A1	2.910%	3/25/37	807,127	374,165(b)
Banc of America Funding Corp., 2004-B 6A1	3.070%	12/20/34	1,085,882	475,493(b)
Banc of America Funding Corp., 2004-C 3A1	2.845%	12/20/34	1,429,479	1,003,867(b)(c)
Banc of America Funding Corp., 2006-5 4A5	6.000%	9/25/36	3,600,000	3,548,939(c)
Banc of America Funding Corp., 2006-D 6A1	5.339%	5/20/36	2,528,044	1,541,027(b)(c)

Banc of America Funding Corp., 2006-F 1A1	2.756%	7/20/36	1,335,068	974,387(b)
Banc of America Funding Corp., 2006-H 3A1	5.984%	9/20/46	340,012	244,367(b)
Banc of America Funding Corp., 2007-A 2A1	0.415%	2/20/47	572,627	354,277(b)
Banc of America Funding Corp., 2007-E CA9	5.480%	7/20/47	4,608,206	986,988(b)
Bayview Financial Acquisition Trust, 2005-B M1	0.744%	4/28/39	3,490,000	2,546,396(b)(c)
Bayview Financial Acquisition Trust, 2007-A 2A	0.644%	5/28/37	2,622,918	1,078,393(b)(c)

See Notes to Financial Statements.

Western Asset Mortgage Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Bayview Financial Asset Trust, 2007-SR1A M2	1.194%	3/25/37	$4,091,421	$2,250,282(a)(b)(c)
Bayview Financial Asset Trust, 2007-SR1A M3	1.444%	3/25/37	2,835,406	1,304,287(a)(b)
Bear Stearns Adjustable Rate Mortgage Trust, 2004-1 23A1	5.476%	4/25/34	423,098	399,455(b)(c)
Bear Stearns Alt-A Trust, 2005-2 2A4	2.684%	4/25/35	290,994	208,715(b)
Bear Stearns Alt-A Trust, 2005-3 4A3	2.474%	3/25/35	607,352	414,799(b)
Bear Stearns Alt-A Trust, 2005-4 24A1	5.007%	5/25/35	767,711	598,543(b)
Bear Stearns Alt-A Trust, 2005-9 25A1	5.344%	11/25/35	714,975	479,047(b)
Bear Stearns Alt-A Trust, 2006-2 23A1	2.772%	3/25/36	2,676,325	1,284,389(b)(c)
Bear Stearns ARM Trust, 2005-1 2A1	2.731%	3/25/35	757,322	586,390(b)
Bear Stearns ARM Trust, 2005-6 1A1	2.732%	8/25/35	237,017	130,447(b)
Bear Stearns Asset Backed Securities Trust, 2003-SD2 1A	3.868%	6/25/43	108,546	98,306(b)(c)
Bear Stearns Asset Backed Securities Trust, 2005-CL1 A1	0.794%	9/25/34	249,287	185,889(b)
Chase Mortgage Finance Corp., 2005-A2 1A5	2.728%	1/25/36	3,730,400	2,598,933(b)(c)
Chase Mortgage Finance Corp., 2006-S3 2A1	5.500%	11/25/21	807,018	748,428
Chevy Chase Mortgage Funding Corp., 2006-2A A1	0.424%	4/25/47	382,450	207,472(a)(b)
Citibank N.A., 1987-B 1	9.000%	1/25/17	99,010	100,874
Citigroup Mortgage Loan Trust Inc., 2005-10 1A1A	2.871%	12/25/35	549,038	236,090(b)
Citigroup Mortgage Loan Trust Inc., 2006-AR5 2A1A	2.666%	7/25/36	1,039,725	446,010(b)
Citigroup Mortgage Loan Trust Inc., 2007-6 1A1A	2.319%	5/25/37	763,356	356,379(b)
Citigroup Mortgage Loan Trust Inc., 2007-AR8 1A1A	5.246%	8/25/47	782,570	498,613(b)
Countrywide Alternative Loan Trust, 2005-14 3A1	2.955%	5/25/35	689,061	340,671(b)
Countrywide Alternative Loan Trust, 2005-3CB 1A6, IO	6.856%	3/25/35	1,688,226	248,208(b)
Countrywide Alternative Loan Trust, 2005-7CB 1A3, IO	6.306%	4/25/35	5,091,955	675,293(b)
Countrywide Alternative Loan Trust, 2005-J08 2A1	5.000%	6/25/20	322,835	313,075
Countrywide Alternative Loan Trust, 2005-J10 1A1	0.794%	10/25/35	486,192	309,768(b)
Countrywide Alternative Loan Trust, 2006-HY10 1A1	5.228%	5/25/36	1,437,683	720,889(b)
Countrywide Alternative Loan Trust, 2006-J8 A5	6.000%	2/25/37	268,788	163,886
Countrywide Alternative Loan Trust, 2007-3T1 2A1	6.000%	3/25/27	1,991,296	1,592,788(c)
Countrywide Home Loans, 2005-11 6A1	0.594%	3/25/35	165,380	93,785(b)
Countrywide Home Loans, 2005-18 A7	18.718%	10/25/35	94,295	104,871(b)
Countrywide Home Loans, 2006-HYB4 3B	5.221%	6/20/36	2,493,769	1,245,610(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2004-23 A	2.530%	11/25/34	518,085	258,058(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-02 2A1	0.614%	3/25/35	212,960	120,691(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-07 2A1	0.604%	3/25/35	521,508	293,145(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-09 1A1	0.594%	5/25/35	273,018	157,845(b)

See Notes to Financial Statements.

Schedule of investments (cont d)

December 31, 2011

Western Asset Mortgage Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-HY10 1A1	3.256%	2/20/36	$ 469,150	$ 256,767(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-HYB6 1A1	2.441%	10/20/35	1,625,722	913,317(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-J2 3A10	47.370%	8/25/35	137,512	316,064(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-R1 1AF1	0.654%	3/25/35	1,276,431	993,336(a)(b)
Countrywide Home Loans Mortgage Pass-Through Trust, 2005-R2 2A3	8.000%	6/25/35	262,332	266,754(a)(c)
Countrywide Home Loans Mortgage Pass-Through Trust, 2006-3 2A1	0.544%	3/25/36	956,792	532,137(b)
Credit Suisse First Boston Mortgage Securities Corp., 2005-10 03A3	5.500%	11/25/35	1,186,956	865,777
Credit Suisse First Boston Mortgage Securities Corp., 2005-10 12A1	5.250%	11/25/20	394,966	377,493
Credit Suisse Mortgage Capital Certificates, 2006-8 2A1	5.500%	10/25/21	2,790,550	2,253,510(c)
Credit Suisse Mortgage Capital Certificates, 2009-5R 2A3	6.029%	7/26/49	4,000,000	2,757,740(a)(b)(c)
Credit-Based Asset Servicing & Securitization LLC, 2004-CB2 M1	1.074%	7/25/33	777,640	554,502(b)
Deutsche ALT-A Securities Inc. Mortgage Loan Trust, 2005-AR2 3A1	2.574%	10/25/35	2,256,938	1,077,342(b)
Deutsche ALT-A Securities Inc. Mortgage Loan Trust, 2006-AR1 2A1	2.869%	2/25/36	571,593	302,833(b)
Deutsche ALT-A Securities Inc. Mortgage Loan Trust, 2007-1 2A1	0.394%	8/25/37	842,512	490,330(b)
Deutsche Mortgage Securities Inc., 2005-WF1 1A3	5.243%	6/26/35	2,200,000	2,049,715(a)(b)(c)
Downey Savings & Loan Association Mortgage Loan Trust, 2005-AR2 2A1A	0.495%	3/19/45	750,504	467,213(b)
First Horizon Alternative Mortgage Securities, 2005-AA6 3A1	2.275%	8/25/35	1,878,490	1,279,806(b)(c)
First Horizon Alternative Mortgage Securities, 2006-FA6 2A1	6.250%	11/25/36	340,329	235,462
First Horizon Alternative Mortgage Securities, 2006-FA8 1A8	0.664%	2/25/37	736,620	380,122(b)
First Horizon Mortgage Pass-Through Trust, 2005-AR4 2A1	2.638%	10/25/35	1,091,984	793,825(b)
Greenpoint Mortgage Funding Trust, 2005-AR4 A1	0.554%	10/25/45	827,168	468,652(b)
Greenpoint Mortgage Funding Trust, 2006-AR3 4A1	0.504%	4/25/36	1,803,202	821,870(b)
Greenpoint Mortgage Funding Trust, 2006-AR5 A1A	0.374%	10/25/46	58,599	55,745(b)
GSMPS Mortgage Loan Trust, 2004-4 2A1	3.720%	6/25/34	390,527	355,076(a)(b)(c)
GSMPS Mortgage Loan Trust, 2005-LT1 A1	0.524%	2/25/35	415,396	334,393(a)(b)(c)

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Western Asset Mortgage Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
GSMPS Mortgage Loan Trust, 2005-RP1 1A3	8.000%	1/25/35	$ 225,160	$ 232,315(a)(c)
GSMPS Mortgage Loan Trust, 2005-RP1 1A4	8.500%	1/25/35	165,179	173,884(a)
GSMPS Mortgage Loan Trust, 2005-RP1 1AF	0.644%	1/25/35	329,547	254,616(a)(b)
GSMPS Mortgage Loan Trust, 2006-RP1 1A2	7.500%	1/25/36	861,068	863,607(a)
GSMPS Mortgage Loan Trust, 2006-RP1 1A3	8.000%	1/25/36	164,115	168,106(a)
GSR Mortgage Loan Trust, 2005-3F 1A15	22.722%	3/25/35	183,274	208,671(b)
GSR Mortgage Loan Trust, 2005-AR3 3A1	2.730%	5/25/35	475,555	321,577(b)
GSR Mortgage Loan Trust, 2005-AR4 2A1	2.678%	7/25/35	703,425	486,207(b)
GSR Mortgage Loan Trust, 2005-AR5 1A1	2.836%	10/25/35	340,307	231,886(b)
GSR Mortgage Loan Trust, 2006-09F 5A2, IO	6.256%	10/25/36	1,724,249	279,737(b)
GSR Mortgage Loan Trust, 2006-10F 4A2, IO	6.356%	1/25/37	2,617,545	456,741(b)
Harborview Mortgage Loan Trust, 2006-02	2.766%	2/25/36	93,539	60,159(b)
Harborview Mortgage Loan Trust, 2006-3 3A	5.535%	6/19/36	1,999,946	1,093,011(b)
HSI Asset Loan Obligation Trust, 2007-AR1 4A1	5.163%	1/25/37	670,488	402,241(b)
IMPAC Secured Assets Corp., 2006-1 1A2B	0.494%	5/25/36	252,491	121,606(b)
IMPAC Secured Assets Corp., 2007-1 A2	0.454%	3/25/37	1,200,000	603,497(b)
Indymac Inda Mortgage Loan Trust, 2005-AR2 1A1	2.527%	1/25/36	253,007	187,154(b)
Indymac Inda Mortgage Loan Trust, 2007-AR7 1A1	5.737%	11/25/37	55,178	39,704(b)
Indymac Index Mortgage Loan Trust, 2004-AR13 1A1	2.634%	1/25/35	195,243	133,284(b)
Indymac Index Mortgage Loan Trust, 2005-AR15 A2	4.915%	9/25/35	228,526	160,654(b)
Indymac Index Mortgage Loan Trust, 2006-AR04 A1A	0.504%	5/25/46	608,692	329,246(b)
Indymac Index Mortgage Loan Trust, 2006-AR07 3A1	2.826%	5/25/36	897,443	465,812(b)
Indymac Index Mortgage Loan Trust, 2006-AR07 5A1	4.789%	3/25/36	816,788	363,933(b)
Indymac Index Mortgage Loan Trust, 2006-AR09 3A3	5.112%	6/25/36	1,309,435	1,041,350(b)(c)
Indymac Index Mortgage Loan Trust, 2006-AR11 1A1	2.709%	6/25/36	792,739	382,116(b)
Indymac Index Mortgage Loan Trust, 2006-AR25 4A3	2.850%	9/25/36	2,863,699	784,559(b)
Indymac Index Mortgage Loan Trust, 2007-AR05 2A1	4.783%	5/25/37	3,941,840	1,957,592(b)(c)
Indymac Index Mortgage Loan Trust, 2007-AR15 2A1	5.027%	8/25/37	544,463	316,232(b)
Jefferies & Co., 2009-R3 2A2	2.802%	11/26/34	4,040,045	2,292,726(a)(b)
Jefferies & Co., 2009-R6 6A2	2.721%	10/26/35	2,981,788	1,982,889(a)(b)
JP Morgan Mortgage Trust, 2005-A6 3A3	2.773%	9/25/35	1,100,000	679,239(b)
JPMorgan Alternative Loan Trust, 2006-A4 A7	6.300%	9/25/36	1,150,000	378,300(b)
JPMorgan Alternative Loan Trust, 2006-S1 3A4	6.180%	3/25/36	1,500,000	635,825(b)
JPMorgan Alternative Loan Trust, 2007-A1 3A1	5.876%	3/25/37	1,087,359	560,406(b)
JPMorgan Mortgage Trust, 2005-S3 1A1	6.500%	1/25/36	1,929,113	1,842,919(c)
JPMorgan Mortgage Trust, 2006-S2 2A1	5.000%	7/25/36	227,740	209,793
JPMorgan Mortgage Trust, 2006-S2 2A2	5.875%	7/25/36	329,855	309,315
JPMorgan Mortgage Trust, 2007-S2 3A2	6.000%	6/25/37	397,537	351,747
JPMorgan Mortgage Trust, 2007-S2 3A3	6.500%	6/25/37	119,631	106,597
JPMorgan Mortgage Trust, 2007-S3 2A3	6.000%	8/25/22	141,712	135,173

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Security	Rate	Maturity Date	Face Amount	Value
Lehman Mortgage Trust, 2006-3 2A1	0.654%	7/25/36	$ 6,247,425	$2,446,382(b)(c)
Lehman Mortgage Trust, 2006-3 2A2, IO	6.846%	7/25/36	7,054,288	1,507,854(b)
Lehman XS Trust, 2005-9N 1A1	0.564%	2/25/36	2,138,296	1,107,057(b)
Lehman XS Trust, 2006-14N 3A2	0.414%	8/25/36	500,077	221,486(b)
Lehman XS Trust, 2006-19 A4	0.464%	12/25/36	2,066,253	879,160(b)
MASTR Adjustable Rate Mortgages Trust, 2004-12 5A1	3.241%	10/25/34	283,020	221,436(b)
MASTR Adjustable Rate Mortgages Trust, 2004-13 3A7	2.718%	11/21/34	600,000	551,436(b)(c)
MASTR Adjustable Rate Mortgages Trust, 2004-15 1A1	3.324%	12/25/34	140,539	103,329(b)
MASTR Adjustable Rate Mortgages Trust, 2005-7 2A1	2.416%	9/25/35	184,196	119,903(b)
MASTR Adjustable Rate Mortgages Trust, 2006-2 4A1	4.877%	2/25/36	248,035	220,381(b)
MASTR Adjustable Rate Mortgages Trust, 2006-OA1 1A1	0.504%	4/25/46	561,856	264,321(b)
MASTR Alternative Loans Trust, 2006-2 2A4, IO	6.856%	3/25/36	2,523,248	640,451(b)
MASTR Reperforming Loan Trust, 2005-2 1A3	7.500%	5/25/35	24,188	23,801(a)
MASTR Reperforming Loan Trust, 2006-2 1A1	5.324%	5/25/36	2,756,495	2,469,591(a)(b)(c)
Merrill Lynch Mortgage Investors Trust, 2005-A2 A5	2.625%	2/25/35	650,000	503,415(b)
Merrill Lynch Mortgage Investors Trust, 2006-A1 2A1	5.667%	3/25/36	157,816	90,361(b)
Morgan Stanley Mortgage Loan Trust, 2004-6AR 2A2	2.771%	8/25/34	922,113	688,963(b)
Morgan Stanley Mortgage Loan Trust, 2005-5AR 4A1	5.301%	9/25/35	84,425	55,276(b)
Morgan Stanley Mortgage Loan Trust, 2006-1AR 1A1	0.574%	2/25/36	2,300,079	1,211,638(b)
Morgan Stanley Mortgage Loan Trust, 2006-1AR 1AX, IO	3.762%	2/25/36	20,921,162	1,927,111(b)(c)
Morgan Stanley Mortgage Loan Trust, 2006-3AR 1A3	0.554%	3/25/36	788,012	433,620(b)
Morgan Stanley Mortgage Loan Trust, 2006-8AR 1A2	0.364%	6/25/36	456,312	188,573(b)
Morgan Stanley Mortgage Loan Trust, 2007-15AR 4A1	5.226%	11/25/37	2,706,157	1,587,366(b)(c)
Nomura Asset Acceptance Corp., 2004-R1 A1	6.500%	3/25/34	219,776	223,825(a)(c)
Prime Mortgage Trust, 2006-DR1 2A1	5.500%	5/25/35	1,714,693	1,485,411(a)(c)
RAAC Series, 2006-RP3 A	0.564%	5/25/36	1,197,371	720,953(a)(b)
RAAC Series, 2007-RP2 A	0.644%	2/25/46	582,809	336,950(a)(b)
RAAC Series, 2007-RP3 A	0.637%	10/25/46	1,772,563	897,917(a)(b)
RAAC Series, 2007-SP3 A1	1.494%	9/25/47	854,010	653,601(b)

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Western Asset Mortgage Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
Renaissance Home Equity Loan Trust, 2002-3 A	1.054%	12/25/32	$1,629,564	$1,102,774(b)(c)
Renaissance Home Equity Loan Trust, 2006-2 AV3	0.534%	8/25/36	800,000	360,605(b)
Residential Accredit Loans Inc., 2006-QA1 A11	3.380%	1/25/36	1,200,403	585,886(b)
Residential Accredit Loans Inc., 2006-QA1 A31	6.164%	1/25/36	3,363,533	1,909,912(b)(c)
Residential Accredit Loans Inc., 2006-QA4 A	0.474%	5/25/36	779,657	389,339(b)
Residential Accredit Loans Inc., 2007-QA2 A1	0.424%	2/25/37	888,157	439,821(b)
Residential Asset Mortgage Products Inc., 2004-SL3 A4	8.500%	12/25/31	163,161	169,326
Residential Asset Mortgage Products Inc., 2005-SL2 A5	8.000%	10/25/31	436,157	456,922
Residential Asset Securitization Trust, 2005-A05 A1	0.594%	5/25/35	771,821	604,082(b)
Residential Asset Securitization Trust, 2005-A05 A2, IO	4.906%	5/25/35	2,546,008	232,075(b)
Residential Asset Securitization Trust, 2005-A13 1A3	0.764%	10/25/35	393,578	247,810(b)
Residential Asset Securitization Trust, 2005-A13 1A4, IO	4.736%	10/25/35	393,578	46,146(b)
Residential Asset Securitization Trust, 2006-A1 1A6	0.794%	4/25/36	2,800,861	1,368,999(b)(c)
Residential Asset Securitization Trust, 2006-A1 1A7, IO	5.206%	4/25/36	2,800,860	468,499(b)
Residential Asset Securitization Trust, 2007-A2 1A1	6.000%	4/25/37	792,798	568,949
Residential Funding Mortgage Securities I, 2006-SA2 4A1	5.900%	8/25/36	1,157,534	995,360(b)(c)
Residential Funding Securities LLC, 2003-RP2 A1	0.744%	6/25/33	69,115	63,824(a)(b)
Structured Adjustable Rate Mortgage Loan Trust, 2007-1 2A3	5.406%	2/25/37	1,799,808	819,040(b)
Structured ARM Loan Trust, 2004-07 A3	0.784%	6/25/34	270,750	204,132(b)
Structured ARM Loan Trust, 2004-16 1A2	2.590%	11/25/34	919,891	653,833(b)
Structured ARM Loan Trust, 2004-18 1A2	2.660%	12/25/34	967,519	673,175(b)
Structured ARM Loan Trust, 2005-01 1A1	2.570%	2/25/35	1,983,783	1,347,151(b)(c)
Structured ARM Loan Trust, 2005-04 1A1	2.531%	3/25/35	403,664	251,194(b)
Structured ARM Loan Trust, 2005-04 3A1	2.510%	3/25/35	162,329	130,439(b)
Structured ARM Loan Trust, 2005-04 5A	5.201%	3/25/35	828,967	701,411(b)
Structured ARM Loan Trust, 2005-07 1A3	2.509%	4/25/35	212,371	146,498(b)
Structured ARM Loan Trust, 2005-12 3A1	2.503%	6/25/35	254,161	187,411(b)
Structured ARM Loan Trust, 2005-15 1A1	2.504%	7/25/35	537,153	338,106(b)
Structured ARM Loan Trust, 2005-22 1A4	2.472%	12/25/35	2,177,926	748,413(b)
Structured ARM Loan Trust, 2006-1 5A2	2.656%	2/25/36	550,000	336,337(b)
Structured ARM Loan Trust, 2006-4 4A1	5.433%	5/25/36	831,379	585,700(b)
Structured ARM Loan Trust, 2006-8 3A5	5.146%	9/25/36	2,470,000	1,382,217(b)
Structured ARM Loan Trust, 2007-5 2A2	5.169%	6/25/37	1,300,000	498,343(b)
Structured ARM Loan Trust, 2007-7 1A1	0.594%	8/25/37	2,666,794	1,427,184(b)(c)

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Security	Rate	Maturity Date	Face Amount	Value
Structured Asset Investment Loan Trust, 2003-BC10 A4	1.257%	10/25/33	$ 860,000	$ 687,035(b)(c)
Structured Asset Mortgage Investments Inc., 2006-AR5 4A1	0.514%	5/25/46	906,652	303,069(b)
Structured Asset Securities Corp., 1999-RF1 A	7.194%	10/15/28	1,280,797	1,245,265(a)(b)
Structured Asset Securities Corp., 2003-37A 3A7	2.500%	12/25/33	961,685	856,205(b)(c)
Structured Asset Securities Corp., 2004-NP1 A	0.694%	9/25/33	402,754	349,537(a)(b)(c)
Structured Asset Securities Corp., 2005-2XS 1A5B	4.650%	2/25/35	2,743,406	2,631,147(c)
Structured Asset Securities Corp., 2005-4XS 3A4	4.790%	3/25/35	2,426,242	2,410,369(c)
Structured Asset Securities Corp., 2005-5 2A2	5.500%	4/25/35	500,000	464,186
Structured Asset Securities Corp., 2005-RF1 A	0.644%	3/25/35	145,934	113,254(a)(b)
Structured Asset Securities Corp., 2005-RF2 A	0.644%	4/25/35	138,776	111,122(a)(b)(c)
Structured Asset Securities Corp., 2006-RF3 1A1	6.000%	10/25/36	193,431	192,627(a)(c)
Structured Asset Securities Corp., 2006-RF4 2A1	6.000%	10/25/36	174,473	168,374(a)(c)
Thornburg Mortgage Securities Trust, 2007-4 2A1	6.157%	9/25/37	1,290,836	1,149,969(b)(c)
Truman Capital Mortgage Loan Trust, 2006-1 A	0.554%	3/25/36	413,133	284,917(a)(b)
Wachovia Mortgage Loan Trust LLC, 2005-B 2A2	2.679%	10/20/35	279,360	260,207(b)
Wachovia Mortgage Loan Trust LLC, 2005-B 2A3	2.679%	10/20/35	1,450,000	1,064,660(b)
Wachovia Mortgage Loan Trust LLC, 2006-ALT1 A1	0.374%	1/25/37	442,863	204,769(b)
Wachovia Mortgage Loan Trust LLC, 2006-ALT1 A2	0.474%	1/25/37	1,043,452	486,719(b)
WaMu Alternative Mortgage Pass-Through Certificates, 2006-5 1A1	0.894%	7/25/36	283,511	125,686(b)
WaMu Alternative Mortgage Pass-Through Certificates, 2007-3 A9, IO	6.366%	4/25/37	9,093,335	2,079,201(b)(c)
WaMu Mortgage Pass-Through Certificates, 2004-AR10 A3	0.800%	7/25/44	173,806	119,240(b)
WaMu Mortgage Pass-Through Certificates, 2005-07 1A6	46.820%	9/25/35	127,821	230,649(b)
WaMu Mortgage Pass-Through Certificates, 2005-09 5A4	33.780%	11/25/35	237,112	324,716(b)
WaMu Mortgage Pass-Through Certificates, 2005-10 2A3	1.194%	11/25/35	446,209	250,546(b)
WaMu Mortgage Pass-Through Certificates, 2005-AR05 A5	2.572%	5/25/35	1,030,000	895,936(b)
WaMu Mortgage Pass-Through Certificates, 2005-AR05 A6	2.572%	5/25/35	550,000	408,222(b)
WaMu Mortgage Pass-Through Certificates, 2005-AR13 A1C3	0.784%	10/25/45	715,131	354,906(b)
WaMu Mortgage Pass-Through Certificates, 2005-AR14 1A1	2.479%	12/25/35	174,930	168,271(b)
WaMu Mortgage Pass-Through Certificates, 2006-AR08 3A2	5.756%	8/25/36	290,000	227,678(b)

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Western Asset Mortgage Defined Opportunity Fund Inc.

Security	Rate	Maturity Date	Face Amount	Value
WaMu Mortgage Pass-Through Certificates, 2006-AR10 1A2	5.836%	9/25/36	$ 132,139	$ 89,097(b)
WaMu Mortgage Pass-Through Certificates, 2006-AR10 A1	0.394%	12/25/36	938,433	400,575(b)
WaMu Mortgage Pass-Through Certificates, 2006-AR16 2A2	5.392%	12/25/36	764,671	551,276(b)
WaMu Mortgage Pass-Through Certificates, 2007-HY3 1A1	5.132%	3/25/37	1,630,394	944,524(b)
WaMu Mortgage Pass-Through Certificates, 2007-HY3 4A1	2.610%	3/25/37	298,312	224,489(b)
WaMu Mortgage Pass-Through Certificates, 2007-HY6 1A1	5.075%	6/25/37	4,504,548	3,007,070(b)(c)
WaMu Mortgage Pass-Through Certificates, 2007-HY7 1A1	2.631%	7/25/37	271,058	151,598(b)
WaMu Mortgage Pass-Through Certificates, 2007-HY7 3A1	5.403%	7/25/37	585,896	392,023(b)
WaMu Mortgage Pass-Through Certificates, 2007-OA2 1A	0.918%	3/25/47	492,957	245,606(b)
WaMu Mortgage Pass-Through Certificates, 2007-OA2 2A	2.526%	3/25/47	401,210	228,498(b)
WaMu Mortgage Pass-Through Certificates, 2007-OA3 2A	0.988%	4/25/47	1,858,930	993,963(b)
WaMu Mortgage Pass-Through Certificates, 2007-OA6 1A	1.028%	7/25/47	4,340,073	2,523,425(b)
Washington Mutual Inc. Mortgage Pass-Through Certificates, 2005-AR18 1A3A	2.565%	1/25/36	440,000	324,245(b)
Wells Fargo Mortgage Backed Securities Trust, 2006-AR8 3A2	2.706%	4/25/36	100,000	74,371(b)
Wells Fargo Mortgage Backed Securities Trust, 2007-8 2A6	6.000%	7/25/37	350,000	301,890
Wells Fargo Mortgage Loan Trust, 2010-RR2 1A2	5.125%	9/27/35	1,800,000	1,446,901(a)(b)(c)
Total Residential Mortgage-Backed Securities (Cost $160,271,766)				**152,848,753**
Asset-Backed Securities 7.6%				
Access Group Inc., 2001 1A2	0.676%	5/25/29	1,837,231	1,690,118(b)(c)
Associates Manufactured Housing Pass-Through Certificates, 1997-1 B1	7.600%	6/15/28	432,885	466,623(b)(c)(d)
Credit-Based Asset Servicing & Securitization, 2005-CB4 M1	0.714%	8/25/35	2,000,000	1,351,564(b)
Credit-Based Asset Servicing & Securitization LLC, 2006-MH1 M1	6.250%	10/25/36	500,000	482,534(a)
Credit-Based Asset Servicing and Securitization LLC, 2007-SP1 A4	6.020%	12/25/37	1,200,000	970,904(a)
GMAC Mortgage Servicer Advance Funding Co., Ltd., 2011-1A A	3.720%	3/15/23	460,000	459,966(a)(c)

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Western Asset Mortgage Defined Opportunity Fund Inc.

Security	**Rate**	**Maturity Date**	**Face Amount**	**Value**
Greenpoint Manufactured Housing, 1999-2 A2	3.785%	3/18/29	$ 600,000	$ 465,805(b)
Greenpoint Manufactured Housing, 1999-3 1A7	7.270%	6/15/29	440,000	415,149
Greenpoint Manufactured Housing, 1999-3 2A2	3.785%	6/19/29	325,000	250,939(b)
Greenpoint Manufactured Housing, 1999-4 A2	3.787%	2/20/30	500,000	388,231(b)
Greenpoint Manufactured Housing, 2000-4 A3	2.257%	8/21/31	1,150,000	893,426(b)
Greenpoint Manufactured Housing, 2000-6 A3	2.257%	11/22/31	325,000	270,548(b)
Greenpoint Manufactured Housing, 2000-7 A2	3.731%	11/17/31	475,000	373,195(b)
Greenpoint Manufactured Housing, 2001-2 IA2	3.748%	2/20/32	625,000	474,489(b)
Greenpoint Manufactured Housing, 2001-2 IIA2	3.778%	3/13/32	575,000	434,572(b)
MASTR Asset-Backed Securities Trust, 2005-AB1 A5A	5.712%	11/25/35	3,360,000	906,007
Mid-State Trust, 2005-1 M2	7.079%	1/15/40	1,657,823	1,687,282(c)
Option One Mortgage Loan Trust, 2001-4 A	0.894%	1/25/32	17,942	15,657(b)
Origen Manufactured Housing, 2006-A A2	3.743%	10/15/37	2,100,000	1,134,000(b)
Origen Manufactured Housing, 2007-A A2	3.743%	4/15/37	3,011,594	1,656,377(b)
Pennsylvania Higher Education Assistance Agency, 2003-1 B1	2.430%	7/25/42	3,500,000	2,695,000(b)(c)
Structured Asset Securities Corp., 2006-GEL3 A2	0.524%	7/25/36	2,268,660	1,645,160(a)(b)(c)
Total Asset-Backed Securities (Cost $20,740,456)				**19,127,546**
PPIP Limited Partnership 27.7%				
RLJ Western Asset Public/Private Master Fund, LP (Cost $83,747,785)	N/A	N/A	N/A	**69,367,168**(d)(e)(f)
Total Investments before Short-Term Investments (Cost $269,992,440)				**246,618,645**
Short-Term Investment 1.6%				
Repurchase Agreements 1.6%				
State Street Bank & Trust Co. repurchase agreement dated 12/30/11; Proceeds at maturity $4,049,005; (Fully collateralized by U.S. Treasury Notes, 1.000% due 8/31/16; Market Value $4,131,000) (Cost $4,049,000)	0.010%	1/3/12	$4,049,000	4,049,000
Total Investments 100.0% (Cost $274,041,440 #)				**$250,667,645**

(a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(b) Variable rate security. Interest rate disclosed is as of the most recent information available.

(c) All or a portion of this security is held by the counterparty as collateral for open reverse repurchase agreements.

(d) Illiquid security (unaudited).

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

(f) Investment through RLJ Western Asset Public/Private Collector Fund, LP.

See Notes to Financial Statements.

Western Asset Mortgage Defined Opportunity Fund Inc.

Aggregate cost for federal income tax purposes is $268,445,018.

Abbreviations used in this schedule:

ARM	Adjustable Rate Mortgage
IO	Interest Only

See Notes to Financial Statements.

Statement of assets and liabilities

December 31, 2011

Assets:	
Investments, at value (Cost $190,293,655)	$181,300,477
PPIP Limited Partnership, at value (Cost $83,747,785) (Note 1)	69,367,168
Cash	578
Interest receivable	912,412
Principal paydown receivable	27,390
Prepaid expenses	12,715
Total Assets	***251,620,740***
Liabilities:	
Payable for open reverse repurchase agreement (Note 3)	51,375,848
Distributions payable	2,075,871
Investment management fee payable	271,363
Interest payable (Note 3)	97,531
Directors fees payable	438
Accrued expenses	510,896
Total Liabilities	***54,331,947***
Total Net Assets	**$197,288,793**
Net Assets:	
Par value ($0.001 par value, 10,379,357 shares issued and outstanding; 100,000,000 shares authorized)	$ 10,379
Paid-in capital in excess of par value	197,267,075
Undistributed net investment income	10,781,139
Accumulated net realized gain on investments	12,603,995
Net unrealized depreciation on investments	(23,373,795)
Total Net Assets	**$197,288,793**
Shares Outstanding	10,379,357
Net Asset Value	$19.01

See Notes to Financial Statements.

Statement of operations

For the Year Ended December 31, 2011

Investment Income:	
Interest	$ 14,931,518
Income from PPIP Limited Partnership (Note 1)	13,030,463
Total Investment Income	***27,961,981***
Expenses:	
Investment management fee (Note 2)	3,385,360
Interest expense (Note 3)	676,512
Excise tax (Note 1)	337,302
Audit and tax	262,156
Allocation subadvisor fee (Note 2)	155,700
Legal fees	39,928
Directors fees	36,370
Transfer agent fees	29,176
Fund accounting fees	23,044
Stock exchange listing fees	22,477
Shareholder reports	18,146
Insurance	5,480
Custody fees	2,067
Miscellaneous expenses	3,458
Total Expenses	***4,997,176***
Net Investment Income	**22,964,805**
Realized and Unrealized Gain (Loss) on Investments (Notes 1 and 3):	
Net Realized Gain From Investment Transactions	***7,008,131***
Change in Net Unrealized Appreciation (Depreciation) From:	
Investment Transactions	(20,088,172)
Investment in PPIP Limited Partnership	(20,834,174)
Change in Net Unrealized Appreciation (Depreciation) From Investments	***(40,922,346)***
Net Loss on Investments	**(33,914,215)**
Decrease in Net Assets from Operations	**$(10,949,410)**

See Notes to Financial Statements.

Statements of changes in net assets

For the Year and Period Ended December 31,	**2011**	**2010**
Operations:		
Net investment income	$ 22,964,805	$ 18,296,961
Net realized gain	7,008,131	6,033,132
Change in net unrealized appreciation (depreciation)	(40,922,346)	17,548,551
Increase (Decrease) in Net Assets From Operations	***(10,949,410)***	***41,878,644***
Distributions to Shareholders From (Note 1):		
Net investment income	(19,914,163)	(11,601,034)
Decrease in Net Assets From Distributions to Shareholders	***(19,914,163)***	***(11,601,034)***
Fund Share Transactions:		
Net proceeds from sale of shares (0 and 10,350,543 shares issued, respectively)		197,281,551
Reinvestment of distributions (15,130 and 13,684 shares issued, respectively)	318,174	275,031
Increase in Net Assets From Fund Share Transactions	***318,174***	***197,556,582***
Increase (Decrease) in Net Assets	***(30,545,399)***	***227,834,192***
Net Assets:		
Beginning of year	227,834,192	
End of year*	**$197,288,793**	**$227,834,192**
* Includes undistributed net investment income of:	$10,781,139	$6,363,212

For the period February 24, 2010 (commencement of operations) to December 31, 2010.

See Notes to Financial Statements.

Statement of cash flows

For the Year Ended December 31, 2011

Increase (Decrease) in Cash:	
Cash Provided from Operating Activities:	
Net decrease in net assets resulting from operations	$(10,949,410)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Purchases of portfolio securities	(35,506,368)
Proceeds from sales of portfolio securities	35,521,243
Net purchases, sales and maturities of short-term investments	(2,613,000)
Net amortization (accretion) of discount and premium	(9,936,704)
Increase in interest receivable	(96,042)
Decrease in prepaid expenses	845
Increase in paydown receivable	(27,390)
Decrease in investment management fee payable	(16,858)
Decrease in allocation subadviser fee payable	(14,411)
Decrease in Directors fee payable	(4,569)
Increase in interest payable	8,297
Increase in accrued expenses	43,740
Net realized gain on investments	(7,008,131)
Change in unrealized appreciation of investments	20,088,172
Change in unrealized appreciation of PPIP Limited Partnership	20,834,174
Net Cash Provided by Operating Activities*	***10,323,588***
Cash Flows from Financing Activities	
Distribution paid on common stock	(17,520,118)
Proceeds reverse repurchase agreements	7,193,205
Net Cash Used in Financing Activities	***(10,326,913)***
Net Decrease in Cash	**(3,325)**
Cash at Beginning of Year	3,903
Cash at End of Year	$ 578

* Included in operating expenses is cash paid for interest on borrowings of $668,215.

See Notes to Financial Statements.

Financial highlights

For a share of capital stock outstanding throughout each year ended December 31, unless otherwise noted:

	2011	**2010[1]**
Net asset value, beginning of year	$21.98	$19.06[2]
Income (loss) from operations:		
Net investment income	2.21	1.77
Net realized and unrealized gain (loss)	(3.26)	2.27
Total income (loss) from operations	***(1.05)***	***4.04***
Less distributions from:		
Net investment income	(1.92)	(1.12)
Total distributions	***(1.92)***	***(1.12)***
Net asset value, end of year	$19.01	$21.98
Market price, end of year	$19.61	$21.60
Total return, based on NAV[3,4]	***(5.07)%***	***21.81%***
Total return, based on Market Price[4]	***(0.35)%***	***14.08%***
Net assets, end of year (000s)	$197,289	$227,834
Ratios to average net assets:		
Gross expenses[5]	2.24%	2.04%[6]
Net expenses[5,7]	2.24	2.04[6]
Net investment income	10.29	10.27[6]
Portfolio turnover rate	13%	18%

1 For the period February 24, 2010 (commencement of operations) to December 31, 2010.
2 Initial public offering price of $20.00 per share less offering costs and sales load totaling $0.94 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. Total returns for periods of less than one year are not annualized.
4 The total return calculation assumes that distributions are reinvested in accordance with the Fund s dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.
5 Does not include expenses of PPIP Limited Partnership in which the Fund invests (Note 4).
6 Annualized.
7 The impact of compensating balance arrangements, if any, was less than 0.01%.

See Notes to Financial Statements.

Notes to financial statements

1. Organization and significant accounting policies

Western Asset Mortgage Defined Opportunity Fund Inc. (the Fund) was incorporated in Maryland on December 11, 2009, and is registered as a non-diversified, limited term, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s primary investment objective is to provide current income 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). The Fund intends to liquidate and distribute substantially all of the Fund s net assets to shareholders on or about March 1, 2022. The Fund invests at least 80% of its Managed Assets (total assets of the Fund plus any implicit leverage at the Master Fund (defined below) level attributable to the Fund s investment in the Feeder Fund (defined below) in MBS directly, and indirectly by investing in the RLJ Western Asset Public/Private Collector Fund, LP (the Feeder Fund), which invests substantially all of its assets available for investment, alongside the U.S. Department of the Treasury (the Treasury), in the RLJ Western Asset Public/Private Master Fund, LP (the Master Fund) that has been organized to invest directly in MBS and other assets eligible for purchase under the Legacy Securities Public-Private Investment Program (PPIP). As a secondary investment objective, the Fund will seek capital appreciation.

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 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 fair valuation techniques and methodologies. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment s fair value. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. 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. 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 Directors.

Notes to financial statements (cont d)

The Fund s investment in the Feeder Fund is valued by determining the Fund s pro rata ownership interest in the net assets of the Master Fund. On a daily basis, the Fund receives the net asset value of the Master Fund, which is used along with other inputs to derive a value for the Fund s investment in the Feeder Fund.

The Fund has adopted Financial Accounting Standards Board Codification Topic 820 (ASC Topic 820). ASC Topic 820 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund s investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized 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.)

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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.

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

		ASSETS		
Description	**Quoted Prices (Level 1)**	**Other Significant Observable Inputs**	**Significant Unobservable Inputs (Level 3)**	**Total**

	(Level 2)		
Long-term investments :			
Commercial mortgage-backed securities	$ 5,275,178		$ 5,275,178
Residential mortgage-backed securities	152,848,753		152,848,753
Asset-backed securities	19,127,546		19,127,546
PPIP limited partnership		$69,367,168	69,367,168
Total long-term investments	**$177,251,477**	**$69,367,168**	**$246,618,645**
Short-term investments	**4,049,000**		**4,049,000**
Total investments	**$181,300,477**	**$69,367,168**	**$250,667,645**

See Schedule of Investments for additional detailed categorizations.

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

Investments In Securities	Residential Mortgage-Backed Securities	Asset-Backed Securities	PPIP Limited Partnership	Total
Balance as of December 31, 2010	$ 2,380,000	$ 1,922,000	$ 82,487,040	$ 86,789,040
Accrued premiums/discounts	99,557	44,601		144,158
Realized gain (loss)[1]		32,492		32,492
Change in unrealized appreciation (depreciation)[2]	278,183	(254,310)	(20,834,174)	(20,810,301)
Purchases				
Sales		(88,406)		(88,406)
Undistributed earnings			7,714,302	7,714,302
Transfers into Level 3				
Transfers out of Level 3[3]	(2,757,740)	(1,656,377)		(4,414,117)
Balance as of December 31, 2011			**$ 69,367,168**	**$ 69,367,168**
Net change in unrealized appreciation (depreciation) for investments in securities still held at December 31, 2011[2]			**$(20,834,174)**	**$(20,834,174)**

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 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

Notes to financial statements (cont d)

of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Reverse repurchase agreements. The Fund may enter into reverse repurchase agreements. Under the terms of a typical reverse repurchase agreement, a fund sells a security subject to an obligation to repurchase the security from the buyer at an agreed-upon time and price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund s use of the proceeds of the agreement may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund s obligation to repurchase the securities. In entering into reverse repurchase agreements, the Fund will maintain cash, U.S. government securities or other liquid debt obligations at least equal in value to its obligations with respect to reverse repurchase agreements or will take other actions permitted by law to cover its obligations.

(d) PPIP investment. On March 23, 2009, the Treasury, in conjunction with the Federal Deposit Insurance Corporation and the Board of Governors of the United States Federal Reserve (the Federal Reserve), announced the creation of PPIP. PPIP calls for the creation of public private investment funds (PPIP Limited Partnerships), such as the Master Fund, through which privately raised capital and Treasury capital are pooled together to facilitate the purchase of PPIP Eligible Assets. PPIP Eligible Assets are those assets determined by the Treasury, from time to time, to be eligible for investment by the Master Fund. Eligible Assets currently include RMBS and CMBS issued prior to 2009 that were originally rated AAA or that received an equivalent rating by two or more nationally recognized statistical rating organizations without ratings enhancement and that are secured directly by actual mortgage loans, leases or other assets and not other securities (other than certain swap positions, as determined by the Treasury).

The Feeder Fund and Master Fund are Delaware limited partnerships formed to provide certain qualified institutional investors with access to PPIP. The Feeder Fund will participate in PPIP by investing all or substantially all of its assets available for investment, alongside the Treasury, in the Master Fund. The Feeder Fund s investment objective is to generate attractive returns for investors through long term opportunistic investments in PPIP Eligible Assets. The Master Fund has an investment objective that is consistent with that of the Feeder Fund. The Fund s interests in the Feeder Fund will be substantially identical to those of the other investors in the Feeder Fund in all material respects except with respect to fees payable in connection with PPIP. Investors in the Fund pay a management fee on the Fund s Managed Assets, which includes total assets attributable to the Fund s direct investments and its indirect investment in the leveraged Master Fund. The Feeder Fund invests all of its assets in the Master Fund. The Master Fund invests directly in a portfolio of PPIP Eligible Assets and borrows from the Treasury through a senior secured term loan facility. Neither the Feeder Fund nor the Master Fund is registered with the Securities and Exchange Commission as an investment company under the 1940 Act, and neither the Feeder Fund nor the Master Fund s interests are registered under the Securities Act of 1933, as amended.

Pursuant to the terms of the partnership agreement governing the Feeder Fund, the Fund generally may not withdraw from the Feeder Fund, and the Fund may not, directly or indirectly, sell, assign, pledge, exchange or otherwise transfer its interest in the Feeder Fund, in whole or in part, without the prior written consent of the General Partner. As a result, the Fund s investment in the Feeder Fund is illiquid.

The Master Fund is expected to terminate on or around November 5, 2017 (unless terminated earlier pursuant to certain conditions), subject to extension at the discretion of the General Partner with the written consent of the Treasury for consecutive periods of up to one year each and up to a maximum of two years. Upon its termination, it is anticipated that the Master Fund (and in turn the Feeder Fund) will distribute substantially all of its net assets to its partners on a pro-rata basis.

On March 12, 2010 the Fund made a subscription for an investment into the Feeder Fund of $68,000,000, $51,000,000 of which was immediately drawn and invested into the Feeder Fund. The Fund made additional investments into the Feeder Fund of $6,800,000, $5,440,000 and $4,760,000 on April 27, 2010, May 20, 2010 and July 6, 2010, respectively. As of December 31, 2011, the Fund has a 12.52% ownership interest in the Feeder Fund and indirectly, 5.48% in the Master Fund through its investment in the Feeder Fund. Additionally, as of December 31, 2011, the Fund had no undrawn capital commitment to the Feeder Fund.

(e) Leverage. The Fund may seek to enhance the level of its current distributions to holders of common stock through the use of leverage. The Fund may use leverage directly at the Fund level through borrowings, including loans from certain financial institutions or through a qualified government sponsored program, the use of reverse repurchase agreements and/or the issuance of debt securities (collectively, Borrowings), and possibly through the issuance of preferred stock (Preferred Stock), in an aggregate amount of up to approximately 33 1/3% of the Fund s Total Assets immediately after such Borrowings and/or issuances of Preferred Stock. Total Assets means net assets of the Fund plus the amount of any Borrowings and assets attributable to Preferred Stock that may be outstanding. Currently, the Fund has no intention to issue notes or debt securities or Preferred Stock. In addition, the Fund may enter into additional reverse repurchase agreements and/or use similar investment management techniques that may provide leverage, but which are not subject to the foregoing 33 1/3% limitation so long as the Fund has covered its commitment with respect to such techniques by segregating liquid assets, entering into offsetting transactions or owning positions covering related obligations.

Notes to financial statements (cont d)

The Master Fund is expected to borrow money from the Treasury for investment purposes in an amount equal to approximately 50% of the Master Fund s total assets immediately after giving effect to the borrowing (the Treasury Debt Financing). The Master Fund will bear the interest expense and other financing costs arising out of its use of the Treasury Debt Financing. To the extent the Fund invests in the Master Fund, through its investment in the Feeder Fund, the Fund will be subject to the implicit risks (and potential benefits) of such leverage. The Fund will also bear its allocable share of the Master Fund s cost of leverage. While such implicit leverage will not constitute actual borrowing of the Fund for purposes of the 1940 Act, in an effort to mitigate the overall risk of leverage, the Fund does not intend to incur additional direct leverage at the Fund level to the extent that its existing direct leverage at the Fund level and its implicit leverage through its investment in the Master Fund exceeds 33 1/3% of the Fund s Managed Assets immediately after Borrowings and/or issuances Preferred Stock at the Fund level. Managed Assets means the Total Assets of the Fund plus any implicit leverage at the Master Fund level attributable to the Fund s investment in the Feeder Fund.

(f) Mortgage-backed securities. Mortgage-Backed Securities (MBS) include CMBS and RMBS. These securities depend on payments (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities) primarily from the cash flow from secured commercial or residential mortgage loans made to borrowers. Such loans are secured (on a first priority basis or second priority basis, subject to permitted liens, easements and other encumbrances) by commercial or residential real estate, the proceeds of which are used to purchase and or to construct commercial or residential real estate. The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on some mortgage-related securities may expose the Master Fund to a lower rate of return upon reinvestment of principal. The value of these securities may fluctuate in response to the market s perception of the creditworthiness of the issuers. Additionally, although certain mortgage-related securities are supported by some form of government or private guarantee and/or insurance, there is no assurance that private guarantors or insurers will meet their obligations.

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

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

(h) 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.

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

(j) 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. 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.

PPIP makes distributions from net investment income to the Fund, if any, on a monthly basis. In the event that PPIP s net investment income for the month exceeds its distribution, the difference will be recorded on the Fund s books as income and offset by an increase to the cost of the PPIP investment. For the year ended December 31, 2011, the Fund has recorded $13,030,463 in net investment income from PPIP.

(k) 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.

Notes to financial statements (cont d)

(l) 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.

(m) 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% of net realized gains exceed the distributions from such taxable income and realized gains for the calendar year. The Fund paid $247,302 of Federal excise tax attributable to calendar year 2010. The Fund anticipates being subject to an excise tax of approximately $337,000 for calendar year 2011.

(n) 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 values per share. During the current year, the following reclassifications have been made:

	Undistributed Net Investment Income	Accumulated Net Realized Gain	Paid-in Capital
(a)	$ 337,302		$(337,302)
(b)	1,029,983	$(1,029,983)	

(a) Reclassifications are primarily due to a non-deductible excise tax paid by the Fund.
(b) Reclassifications are primarily due to differences between book and tax recognition of market discount and premiums on mortgage backed securities, book/tax differences in the treatment of distributions and the book vs. taxable income recognized from the PPIP limited partnership investment.

2. Investment management agreement and other transactions with affiliates

Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund s investment manager. Western Asset Management Company (Western Asset), Western Asset Limited (Western Asset Limited) and Wilshire Associates Incorporated (Allocation Subadviser) are the Fund s subadvisers. LMPFA, Western Asset and Western Asset Limited are wholly-owned subsidiaries of Legg Mason, Inc. (Legg Mason). The Allocation Subadviser is a registered investment adviser unaffiliated with Legg Mason, LMPFA, Western Asset or Western Asset Limited. Western Asset is also the investment advisor to the Feeder Fund and the Master Fund.

Under the investment management agreement, the Fund pays an investment management fee, calculated daily and paid monthly, at an annual rate of 1.00% of the Fund s average daily Managed Assets.

LMPFA provides administrative and certain oversight services to the Fund. LMPFA delegates to the subadviser the day-to-day portfolio management of the Fund. For its services, LMPFA pays Western Asset 70% of the net management fee it receives from the Fund. In turn, Western Asset pays Western Asset Limited a subadvisory fee of 0.70% of the Fund s daily Managed Assets that the subadviser allocates to Western Asset Limited to manage.

The Allocation Subadviser received an annual fee, payable monthly, from the Fund in an amount equal to 0.05% of the Fund s average daily Managed Assets, subject to a minimum compensation guarantee between the Allocation Subadviser and LMPFA. The contract with the Allocation Subadviser expired on November 30, 2011, and the Allocation Subadviser will receive no further payments from the Fund after that date.

All officers and one Director 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, 2011, 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	
Purchases	$35,506,368	
Sales	35,521,243	

At December 31, 2011, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	$ 8,083,748
Gross unrealized depreciation	(25,861,121)
Net unrealized depreciation	**$(17,777,373)**

Transactions in reverse repurchase agreements for the Fund during the year ended December 31, 2011 were as follows:

Average Daily Balance*	**Weighted Average Interest Rate***	**Maximum Amount Outstanding**
$47,701,341	1.42%	$53,391,873

* Averages based on the number of days that Fund had reverse repurchase agreements outstanding.

Interest rates on reverse repurchase agreements ranged from 1.10% to 1.77% during the year ended December 31, 2011. Interest expense incurred on reverse repurchase agreements totaled $676,512.

Notes to financial statements (cont d)

At December 31, 2011, the Fund had the following open reverse repurchase agreements:

Counterparty	Rate	Effective Date	Maturity Date	Face Amount of Reverse Repurchase Agreements	Principal & Interest of Reverse Repurchase Agreements at Maturity Date
Barclays	1.27	12/6/11	1/6/12	$ 992,105	$ 993,192
Barclays	1.77	12/6/11	1/6/12	851,895	853,195
Barclays	1.27	12/16/11	1/18/12	596,421	597,117
Barclays	1.37	12/16/11	1/18/12	1,419,388	1,421,176
Barclays	1.52	12/16/11	1/18/12	799,428	800,544
Barclays	1.37	12/23/11	1/24/12	92,596	92,710
CSFB	1.35	10/17/11	1/17/12	9,949,556	9,983,882
CSFB	1.75	11/16/11	2/16/12	25,336,511	25,449,823
CSFB	1.75	11/18/11	2/16/12	2,400,642	2,411,145
CSFB	1.75	12/1/11	1/13/12	807,019	808,706
CSFB	1.55	12/6/11	1/6/12	392,589	393,112
CSFB	1.75	12/7/11	1/6/12	910,213	911,541
CSFB	1.60	12/23/11	1/24/12	569,577	570,387
CSFB	1.77	12/30/11	1/30/12	6,257,908	6,267,448
				$51,375,848	**$51,553,978**

On December 31, 2011, the total market value of underlying collateral (refer to the Schedule of Investments for positions held at the counterparty as collateral for reverse repurchase agreements) for open reverse repurchase agreements was $73,933,858.

4. Summarized financial data Master Fund (unaudited)

At December 31, 2011, the fair value of the Fund s investment indirectly in the Master Fund through its investment in the Feeder Fund was $69,367,168. Summarized financial data for the Master Fund is presented in the following table:

Statement of assets, liabilities and partners capital
December 31, 2011

Assets	
Investments, at value (Cost $ 2,679,275,487)	$2,403,759,965
Other assets	94,559,503
Total Assets	**$2,498,319,468**
Liabilities	
Borrowings	1,227,468,470
Other liabilities	8,828,113
Total Liabilities	**1,236,296,583**
Partners Capital	**1,262,022,885**
Total Liabilities and Partners Capital	**$2,498,319,468**

Statement of operations
For the year ending December 31, 2011

Investment Income	
Interest Income	**$ 262,128,365**
Expenses	
Interest expense	16,756,735
Operating expenses	2,402,751
Total Expenses	**19,159,486**
Net Investment Income	**242,968,879**
Realized Gain from Investments	**8,768,695**
Change in Unrealized Gain on Investments	**(393,349,885)**
Net Loss on Investments	**(384,581,190)**
Net Decrease in Partners Capital Resulting from Operations	**$(141,612,311)**

The return on the Fund s investment in the Master Fund for the year ended December 31, 2011 was approximatly -9%.

5. Derivative instruments and hedging activities

Financial Accounting Standards Board Codification Topic 815 requires enhanced disclosure about an entity s derivative and hedging activities.

During the year ended December 31, 2011, the Fund did not invest in any derivative instruments.

6. Distributions subsequent to December 31, 2011

On November 10, 2011, the Fund s Board of Directors (the Board) declared three distributions, each in the amount of $0.1500 per share, payable on

Notes to financial statements (cont d)

December 23, 2011, January 27, 2012 and February 24, 2012 to shareholders of record on December 16, 2011, January 20, 2012 and February 17, 2012, respectively. The January and February record date distributions were made subsequent to the period end of this report.

On February 10, 2012, the Board declared three distributions, each in the amount of $0.1500 per share, payable on March 30, 2012, April 27, 2012 and May 25, 2012 to shareholders of record on March 23, 2012, April 20, 2012 and May 18, 2012, respectively.

7. Income tax information and distributions to shareholders

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

	2011	**2010**
Distributions Paid From:		
Ordinary income	$19,914,163	$11,601,034

As of December 31, 2011, the components of accumulated earnings on a tax basis were as follows:

Undistributed ordinary income net	$7,588,830
Undistributed long-term capital gains net	1,003,181
Total undistributed earnings	**$8,592,011**
Other book/tax temporary differences(a)	9,196,701
Unrealized appreciation (depreciation)(b)	(17,777,373)
Total accumulated earnings (losses) net	**$ 11,339**

(a) Other book/tax temporary differences are attributable primarily to 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 primarily to differences between the book and tax recognition of market discount and premiums on mortgage backed securities and the book vs. taxable income recognized from PPIP limited partnership investment.

8. Recent accounting pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standard Update No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04). ASU No. 2011-04 establishes common requirements for measuring fair value and for disclosing information about fair value measurements. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact the adoption of ASU No. 2011-04 will have on the Portfolio s financial statements and related disclosures.

Report of independent registered public accounting firm

The Board of Directors and Shareholders
Western Asset Mortgage Defined Opportunity Fund Inc.:

We have audited the accompanying statement of assets and liabilities of Western Asset Mortgage Defined Opportunity Fund Inc., including the schedule of investments, as of December 31, 2011, and the related statements of operations and cash flows for the year then ended and the statements of changes in net assets and the financial highlights for the year then ended and the period from February 24, 2010 (commencement of operations) to December 31, 2010. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2011, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Western Asset Mortgage Defined Opportunity Fund Inc. as of December 31, 2011, the results of its operations, the changes in its net assets, its cash flows, and the financial highlights for the periods described above, in conformity with U.S. generally accepted accounting principles.

New York, New York
February 17, 2012

Board approval of management and subadvisory agreements (unaudited)

Background

The Investment Company Act of 1940, as amended (the 1940 Act), requires that the Board of Directors (the Board) of Western Asset Mortgage Defined Opportunity Fund, Inc. (the Fund), including a majority of its members that are not considered to be interested persons under the 1940 Act (the Independent Directors) voting separately, approve on an annual basis the continuation of the investment management contract (the Management Agreement) with the Fund s manager, Legg Mason Partners Fund Advisor, LLC (the Manager), and the sub-advisory agreements (individually, a Sub-Advisory Agreement and, collectively, the Sub-Advisory Agreements) with the Manager s affiliates, Western Asset Management Company (Western Asset) and Western Asset Management Company Limited in London (Western Asset London). Western Asset and Western Asset London together are hereinafter referred to as the Sub-Advisers. At a meeting (the Contract Renewal Meeting) held in-person on November 9 and 10, 2011, the Board, including the Independent Directors, considered and approved the continuation of each of the Management Agreement and the Sub-Advisory Agreements for an additional one-year term. To assist in its consideration of the renewals of the Management Agreement and the Sub-Advisory Agreements, the Board received and considered a variety of information (together with the information provided at the Contract Renewal Meeting, the Contract Renewal Information) about the Manager and Sub-Advisers, as well as the management and sub-advisory arrangements for the Fund and the other closed-end funds in the same complex under the Board s supervision (collectively, the Legg Mason Closed-end Funds), certain portions of which are discussed below. A presentation made by the Manager and Western Asset to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management Agreement and Sub-Advisory Agreements encompassed the Fund and other Legg Mason Closed-end Funds. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Sub-Advisers to the Fund. The Board s evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as members of the Board of the Fund and other Legg Mason Closed-end Funds with respect to the services provided to the Fund by the Manager and the Sub-Advisers.

The Manager provides the Fund with investment advisory and administrative services pursuant to the Management Agreement and the Sub-Advisers provide, or in the case of Western Asset London helps to provide, the Fund with certain investment sub-advisory services pursuant to the Sub-Advisory Agreements. The discussion below covers both the advisory and administrative functions being rendered by the Manager, each such function being encompassed by the Management Agreement, and the investment sub-advisory functions being rendered by the Sub-Advisers.

Board approval of management agreement and sub-advisory agreements

In its deliberations regarding renewal of the Management Agreement and the Sub-Advisory Agreements, the Board, including the Independent Directors, considered the factors below.

Nature, extent and quality of the services under the management agreement and sub-advisory agreements

The Board received and considered Contract Renewal Information regarding the nature, extent and quality of services provided to the Fund by the Manager and the Sub-Advisers under the Management Agreement and the Sub-Advisory Agreements, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund s compliance policies and procedures established pursuant to the 1940 Act.

The Board reviewed the qualifications, backgrounds and responsibilities of the Fund s senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates, the Contract Renewal Information and the Board s discussions with the Manager and Western Asset at the Contract Renewal Meeting, the general reputation and investment records of the Manager, Western Asset and their affiliates and the financial resources available to the corporate parent of the Manager and the Sub-Advisers, Legg Mason, Inc. (Legg Mason), to support their activities in respect of the Fund and the other Legg Mason Closed-end Funds.

The Board considered the responsibilities of the Manager and the Sub-Advisers under the Management Agreement and the Sub-Advisory Agreements, respectively, including the Manager s coordination and oversight of the services provided to the Fund by the Sub-Advisers and others and Western Asset s coordination and oversight of services provided to the Fund by Western Asset London. The Management Agreement permits the Manager to delegate certain of its responsibilities, including its investment advisory duties thereunder, provided that the Manager, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Management Agreement, the Manager does not provide day-to-day portfolio management services to the Fund. Rather, portfolio management services for the Fund are provided by Western Asset pursuant to the Sub-Advisory Agreement (the Western Asset Sub-Advisory Agreement) between the Manager and Western Asset. The Western Asset Sub-Advisory Agreement permits Western Asset to delegate certain of its responsibilities, including its sub-advisory duties thereunder, provided that Western Asset, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Western Asset Sub-Advisory Agreement, Western Asset London helps to provide certain sub-advisory services to the Fund pursuant to a separate Sub-Advisory Agreement with Western Asset.

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

In reaching its determinations regarding continuation of the Management Agreement and Sub-Advisory Agreements, the Board took into account that Fund shareholders, in pursuing their investment goals and objectives, likely purchased their shares based upon the reputation and the investment style, philosophy and strategy of the Manager and Western Asset, as well as the resources available to the Manager and the Sub-Advisers.

The Board concluded that, overall, the nature, extent and quality of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreements have been satisfactory under the circumstances.

Fund performance

The Board received and considered performance information and analyses (the Lipper Performance Information) for the Fund, as well as for a group of funds (the Performance Universe) selected by Lipper, Inc. (Lipper), an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe included the Fund and all leveraged U.S. mortgage closed-end funds, as classified by Lipper, regardless of asset size. The Performance Universe consisted of eleven funds for the period ended June 30, 2011. The Board noted that it had received and discussed with the Manager and Western Asset information throughout the year at periodic intervals comparing the Fund s performance against its benchmarks and its peer funds as selected by Lipper.

The Lipper Performance Information comparing the Fund s performance to that of the Performance Universe based on net asset value per share showed, among other things, that the Fund s performance for the 1-year period ended June 30, 2011 was ranked third among the funds in the Performance Universe for that period and was significantly better than the median performance for the Performance Universe. The Board also considered the Fund s performance relative to its benchmarks and in absolute terms. The Board noted that the Fund s limited performance record and the small number of funds in the Performance Universe made meaningful comparisons difficult.

Based on its review of the Fund s performance, which included consideration of all of the factors noted above, the Board concluded that, under the circumstances, the Fund s performance supported continuation of the Management Agreement and Sub-Advisory Agreements for an additional period not to exceed one year.

Management fees and expense ratios

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager under the Management Agreement

and the sub-advisory fees (the Sub-Advisory Fees) payable to the Sub-Advisers under the Sub-Advisory Agreements in light of the nature, extent and overall quality of the management, investment advisory and other services provided by the Manager and the Sub-Advisers. The Board noted that the Sub-Advisory Fees payable to Western Asset under the Western Asset Sub-Advisory Agreement are paid by the Manager, not the Fund, and accordingly, that the retention of Western Asset does not increase the fees or expenses otherwise incurred by the Fund s shareholders. Similarly, the Board noted that the Sub-Advisory Fees payable to Western Asset London under its Sub-Advisory Agreement with Western Asset are paid by Western Asset, not the Fund, and, accordingly, that the retention of Western Asset London does not increase the fees or expenses otherwise incurred by the Fund s shareholders.

Additionally, the Board received and considered information and analyses prepared by Lipper (the Lipper Expense Information) comparing the Management Fee and the Fund s overall expenses with those of funds in an expense group (the Expense Group) selected and provided by Lipper. The comparison was based upon the constituent funds latest fiscal years. The Expense Group consisted of the Fund and five other leveraged U.S. mortgage closed-end funds, as classified by Lipper. The Expense Group funds had net common share assets ranging from $79.7 million to $472.8 million. One of the other funds in the Expense Group was larger than the Fund and four of the other funds were smaller.

The Lipper Expense Information, comparing the Management Fee as well as the Fund s actual total expenses to the Fund s Expense Group, showed, among other things, that the Management Fee on a contractual basis was ranked sixth (highest) among the six funds in the Expense Group and was worse than the Expense Group median for that expense component, and that the actual Management Fee (i.e., giving effect to any voluntary fee waivers implemented by the Manager with respect to the Fund and by the managers of the other Expense Group funds) whether compared on the basis of common assets only or on the basis of both common and leveraged assets was ranked fifth among the funds in the Expense Group and also was worse than the Expense Group median. The Fund s actual total expenses whether compared on the basis of common assets only or on the basis of both common and leveraged assets were ranked fourth among the funds in the Expense Group and were worse than the Expense Group median. The Manager noted, among other things, that the Fund s total actual expenses were very close to the average for the Expense Group funds. The Board also noted that the small number of funds in the Expense Group and the Fund s limited operating history made meaningful comparisons difficult.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, institutional

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

and separate accounts. The Board was advised that the fees paid by such institutional, separate account and other clients generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to these other clients, noting that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund s chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Contract Renewal Information included information regarding management fees paid by open-end mutual funds in the same complex (the Legg Mason Open-end Funds) and such information indicated that the management fees paid by the Legg Mason Closed-end Funds generally were higher than those paid by the Legg Mason Open-end Funds. The Manager, in response to an inquiry by the Board as to the reasons for the fee differential, provided information as to differences between the services provided to the Fund and the other Legg Mason Closed-end Funds and services provided to the Legg Mason Open-end Funds. The Board considered the fee comparisons in light of the different services provided in managing these other types of clients and funds.

Taking all of the above into consideration, the Board determined that the Management Fee and the Sub-Advisory Fees were reasonable in light of the nature, extent and overall quality of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreements.

Manager profitability

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund for the Manager s fiscal years ended March 31, 2011 and March 31, 2010. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager s revenue and cost allocation methodologies used in preparing such profitability data. In 2007, the Board received a report from an outside consultant that had reviewed the Manager s methodologies and the Board was assured by the Manager at the Contract Renewal Meeting that there had been no significant changes in those methodologies since the report was rendered. The profitability to each of the Sub-Advisers was not considered to be a material factor in the Board s considerations since Western Asset s Sub-Advisory Fee is paid by the Manager and the Sub-Advisory Fees for Western Asset London is paid by Western Asset. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager in providing services to the Fund was at a level which was not considered excessive by the Board in light of the nature, extent and overall quality of management, investment advisory and other services provided to the Fund by the Manager and the Sub-Advisers. The Board in reaching the determination, however, considered the limited operating history and performance record of the Fund.

Economies of scale

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund s assets grow. The Board noted that because the Fund is a closed-end fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund s investment portfolio, rather than sales of additional shares in the Fund. The Board determined that the Management Fee structure was appropriate under present circumstances.

Other benefits to the manager and the sub-advisers

The Board considered other benefits received by the Manager, the Sub-Advisers and their affiliates as a result of their relationship with the Fund and did not regard such benefits as excessive.

* * * * * *

In light of all of the foregoing and other relevant factors, the Board determined that, under the circumstances, continuation of the Management Agreement and the Sub-Advisory Agreements would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year.

No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management Agreement and the Sub-Advisory Agreements, and each Board member attributed different weights to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received a memorandum prepared by the Manager discussing its responsibilities in connection with the proposed continuation of the Management Agreement and Sub-Advisory Agreements as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreements in private sessions with their independent legal counsel at which no representatives of the Manager were present.

Additional information (unaudited)

Information about Directors and Officers

The business and affairs of Western Asset Mortgage Defined Opportunity Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o R. Jay Gerken, 620 Eighth Avenue, 49th Floor, New York, New York 10018. Information pertaining to the Directors and officers of the Fund is set forth below.

Independent Directors :

Carol L. Colman	
Year of birth	1946
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None
Daniel P. Cronin	
Year of birth	1946
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None
Paolo M. Cucchi	
Year of birth	1941
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class I
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Professor of French and Italian at Drew University; formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None

Independent Directors cont d

Leslie H. Gelb	
Year of birth	1937
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2010
Principal occupation(s) during past five years	President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), The Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994)
William R. Hutchinson	
Year of birth	1942
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class II
Term of office1 and length of time served	Since 2010
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)
Riordan Roett	
Year of birth	1938
Position(s) held with Fund1	Director and Member of the Nominating and Audit Committees, Class III
Term of office1 and length of time served	Since 2010
Principal occupation(s) during past five years	The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1973)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	None

Additional information (unaudited) (cont d)

Information about Directors and Officers

Independent Directors cont d

Jeswald W. Salacuse	
Year of birth	1938
Position(s) held with Fund[1]	Director and Member of the Nominating and Audit Committees, Class III
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Henry J. Braker Professor of Commercial Law, The Fletcher School of Law and Diplomacy, Tufts University (since 1986); President and Member, Arbitration Tribunal, World Bank/ICSID (since 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	25
Other board memberships held by Director	Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1993)

Interested Director and Officer:

R. Jay Gerken[2]	
Year of birth	1951
Position(s) held with Fund[1]	Director, Chairman, President and Chief Executive Officer, Class II
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co., LLC (Legg Mason & Co.) (since 2005); Officer and Trustee/Director of 161 funds associated with Legg Mason Partners Fund Advisor, LLC (LMPFA) or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); President and Chief Executive Officer (CEO) of LMPFA (since 2006); President and CEO of Smith Barney Fund Management LLC (SBFM) (formerly a registered investment adviser) (since 2002)
Number of portfolios in fund complex overseen by Director (including the Fund)	161
Other board memberships held by Director	None

Additional Officers:

Ted P. Becker	
Legg Mason	
620 Eighth Avenue, New York, NY 10018	
Year of birth	1951
Position(s) held with Fund[1]	Chief Compliance Officer
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)
Vanessa A. Williams	
Legg Mason	
100 First Stamford Place, Stamford, CT 06902	
Year of birth	1979
Position(s) with Fund[1]	Identity Theft Prevention Officer
Term of office[1] and length of time served	Since 2011
Principal occupation(s) during past five years	Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Chief Anti-Money Laundering Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); formerly, Assistant Vice President and Senior Compliance Officer of Legg Mason & Co. (2008 to 2011); formerly, Compliance Analyst of Legg Mason & Co. or its predecessors (2004 to 2008)
Robert I. Frenkel	
Legg Mason	
100 First Stamford Place, Stamford, CT 06902	
Year of birth	1954
Position(s) held with Fund[1]	Secretary and Chief Legal Officer
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel of Global Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

Additional information (unaudited) (cont d)

Information about Directors and Officers

Additional Officers cont d

Thomas C. Mandia	
Legg Mason	
100 First Stamford Place, Stamford, CT 06902	
Year of birth	1962
Position(s) held with Fund1	Assistant Secretary
Term of office1 and length of time served	Since 2010
Principal occupation(s) during past five years	Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of SBFM and CFM (since 2002)
Richard F. Sennett	
Legg Mason	
55 Water Street, New York, NY 10041	
Year of birth	1970
Position(s) held with Fund1	Principal Financial Officer
Term of office1 and length of time served	Since 2011
Principal occupation(s) during past five years	Principal Financial Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co. s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC s Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC s Division of Investment Management (2002 to 2007)
Steven Frank	
Legg Mason	
55 Water Street, New York, NY 10041	
Year of birth	1967
Position(s) held with Fund1	Treasurer
Term of office1 and length of time served	Since 2010
Principal occupation(s) during past five years	Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (since 2002); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010); formerly, Assistant Controller of certain mutual funds associated with Legg Mason & Co. predecessors (prior to 2005)

Additional Officers cont d

Jeanne M. Kelly	
Legg Mason	
620 Eighth Avenue, New York, NY 10018	
Year of birth	1951
Position(s) with Fund[1]	Senior Vice President
Term of office[1] and length of time served	Since 2010
Principal occupation(s) during past five years	Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the 1940 Act.

1 The Fund s Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2014, year 2012 and year 2013, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund s executive officers are chosen each year at the first meeting of the Fund s Board of Directors following the Annual Meeting of Stockholders, to hold office until the meeting of the Board following the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

2 Mr. Gerken is an interested person of the Fund as defined in the 1940 Act because Mr. Gerken is an officer of LMPFA and certain of its affiliates.

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

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

Other shareholder communications regarding accounting matters (unaudited)

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

The CCO may be contacted at:
Legg Mason & Co., LLC
Compliance Department
620 Eighth Avenue, 49th Floor
New York, New York 10018

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

Dividend reinvestment plan (unaudited)

Unless you elect to receive distributions in cash (i.e., opt-out), all dividends, including any capital gain dividends, on your Common Stock will be automatically reinvested by American Stock Transfer & Trust Company LLC, as agent for the stockholders (the Plan Agent), in additional shares of Common Stock under the Fund s Dividend Reinvestment Plan (the Plan). You may elect not to participate in the Plan by contacting the Plan Agent. If you do not participate, you will receive all cash distributions paid by check mailed directly to you by American Stock Transfer & Trust Company LLC, as dividend paying agent.

If you participate in the Plan, the number of shares of Common Stock you will receive will be determined as follows:

(1) If the market price of the Common Stock on the record date (or, if the record date is not a NYSE trading day, the immediately preceding trading day) for determining stockholders eligible to receive the relevant dividend or distribution (the determination date) is equal to or exceeds 98% of the net asset value per share of the Common Stock, the Fund will issue new Common Stock at a price equal to the greater of

(a) 98% of the net asset value per share at the close of trading on the NYSE on the determination date or

(b) 95% of the market price per share of the Common Stock on the determination date.

(2) If 98% of the net asset value per share of the Common Stock exceeds the market price of the Common Stock on the determination date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Stock in the open market, on the NYSE or elsewhere, for your account as soon as practicable commencing on the trading day following the determination date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the record date for the next succeeding dividend or distribution to be made to the stockholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds 98% of the net asset value per share of the Common Stock at the close of trading on the NYSE on the determination date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan Agent will cease purchasing Common Stock in the open market and the Fund shall issue the remaining Common Stock at a price per share equal to the greater of (a) 98% of the net asset value per share at the close of trading on the NYSE on the determination date or (b) 95% of the then current market price per share.

Common Stock in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all shares of Common Stock you have received under the Plan.

You may withdraw from the Plan (i.e., opt-out) by notifying the Plan Agent in writing at P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the Plan Agent at 877-366-6441. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent s investment of the most recently declared dividend or distribution on the Common Stock.

Upon any termination, you will be sent a certificate or certificates for the full number of shares of Common Stock held for you under the Plan and cash for any fractional share of Common Stock. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your Common Stock on your behalf. You will be charged a service charge and the Plan Agent is authorized to deduct brokerage charges actually incurred for this transaction from the proceeds.

There is no service charge for reinvestment of your dividends or distributions in Common Stock. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. Because all dividends and distributions will be automatically reinvested in additional shares of Common Stock, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Stock over time. Dollar cost averaging is a technique for lowering the average cost per share over time if the Fund s net asset value declines. While dollar cost averaging has definite advantages, it cannot assure profit or protect against loss in declining markets.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Investors will be subject to income tax on amounts reinvested under the Plan.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. The Plan may be amended or supplemented by the Fund upon notice in writing mailed to stockholders at least 30 days prior to the record date for the payment of any dividend or distribution by the Fund for which the amendment or supplement is to be effective. Additional information about the Plan and your account may be obtained from the Plan Agent at 6201 15th Avenue, Brooklyn, New York 11219 or by calling the Plan Agent at 1-888-888-0151.

Western Asset

Mortgage Defined Opportunity Fund Inc.

Directors
Carol L. Colman
Daniel P. Cronin
Paolo M. Cucchi
Leslie H. Gelb
R. Jay Gerken
Chairman
William R. Hutchinson
Riordan Roett
Jeswald W. Salacuse

Officers
R. Jay Gerken
President and Chief Executive Officer
Richard F. Sennett
Principal Financial Officer
Ted P. Becker
Chief Compliance Officer
Vanessa A. Williams
Identity Theft Prevention Officer
Robert I. Frenkel
Secretary and Chief Legal Officer
Thomas C. Mandia
Assistant Secretary
Steven Frank
Treasurer
Jeanne M. Kelly
Senior Vice President

Western Asset Mortgage Defined Opportunity Fund Inc.
620 Eight Avenue
49th Floor
New York, NY 10018

Investment manager
Legg Mason Partners Fund Advisor, LLC

Subadvisers
Western Asset Management Company
Western Asset Management Company Limited

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

Transfer agent
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Independent registered public accounting firm
KPMG LLP
345 Park Avenue
New York, NY 10154

Legal counsel
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017

New York Stock Exchange Symbol
DMO

Legg Mason Funds Privacy and Security Notice

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

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

The Type of Nonpublic Personal Information the Funds Collect About You

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

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

How the Funds Use Nonpublic Personal Information About You

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

- Employees, agents, and affiliates on a need to know basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;
- Service providers, including the Funds affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds behalf, including companies that may perform marketing services solely for the Funds;
- The Funds representatives such as legal counsel, accountants and auditors; and
- Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

NOT PART OF THE ANNUAL REPORT

Legg Mason Funds Privacy and Security Notice (cont d)

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

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

Keeping You Informed of the Funds Privacy and Security Practices

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

The Funds Security Practices

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

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

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

Revised April 2011

NOT PART OF THE ANNUAL REPORT

Western Asset Mortgage Defined Opportunity Fund Inc.

Western Asset Mortgage Defined Opportunity Fund Inc.
620 Eighth Avenue
49th Floor
New York, NY 10018

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

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

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

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

American Stock
Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

WASX013171 2/12 SR12-1594

ITEM 2. CODE OF ETHICS.

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

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

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

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

a) Audit Fees. The aggregate fees billed in the previous fiscal years ending December 31, 2010 and December 31, 2011 (the Reporting Periods) for professional services rendered by the Registrant s principal accountant (the Auditor) for the audit of the Registrant s annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were $0 in December 31, 2010 and $90,000 in December 31, 2011.

b) Audit-Related Fees. There aggregate fees billed in the Reporting Periods for assurance and related services by the Auditor that are reasonably related to the performance of the audit of the Registrant s financial statements were $0 in December 31, 2010 and $0 in December 31, 2011.

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

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were $0 in December 31, 2010 and $3,500 in December 31, 2011. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

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

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the Western Asset Mortgage Defined Opportunity Fund Inc.

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

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

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

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

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

(2) For the Western Asset Mortgage Defined Opportunity Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for December 31, 2010 and December 31, 2011; Tax Fees were 100% and 100% for December 31, 2010 and December 31, 2011; and Other Fees were 100% and 100% for December 31, 2010 and December 31, 2011.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to Western Asset Mortgage Defined Opportunity Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to Western Asset Mortgage Defined Opportunity Fund Inc. during the reporting period were $0 in 2011.

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

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

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

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Dr. Riordan Roett

Jeswald W. Salacuse

b) Not applicable

ITEM 6. SCHEDULE OF INVESTMENTS.

Included herein under Item 1.

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

PROXY VOTING LMPFA & Western Asset Management Company (and affiliates)

Proxy Voting Guidelines and Procedures

Legg Mason Partners Fund Advisor, LLC (LMPFA) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser s Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund s portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-777-0102, (2) on the fund s website at http://www.leggmason.com/individualinvestors and (3) on the SEC s website at http://www.sec.gov.

Background

Western Asset Management Company (WA) and Western Asset Management Company Limited (WAML) (together Western Asset) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 (Advisers Act). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA and WAML may so consult and agree with each other) regarding the voting of any securities owned by its clients.

Policy

Western Asset s proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset s contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset deems appropriate).

Procedures

Responsibility and Oversight

The Western Asset Legal and Compliance Department (Legal and Compliance Department) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support (Corporate Actions). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

Client Authority

The Investment Management Agreement for each client is reviewed at account start-up for proxy voting instructions. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Legal and Compliance Department maintains a matrix of proxy voting authority.

Proxy Gathering

Registered owners of record, client custodians, client banks and trustees (Proxy Recipients) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

Proxy Voting

Once proxy materials are received by Corporate Actions, they are forwarded to the Legal and Compliance Department for coordination and the following actions:

a. Proxies are reviewed to determine accounts impacted.

b. Impacted accounts are checked to confirm Western Asset voting authority.

c. Legal and Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)

d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client s proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

e. Legal and Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst s or portfolio manager s basis for their decision is documented and maintained by the Legal and Compliance Department.

f. Legal and Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

a. A copy of Western Asset s policies and procedures.

b. Copies of proxy statements received regarding client securities.

c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.

d. Each written client request for proxy voting records and Western Asset s written response to both verbal and written client requests.

e. A proxy log including:

1. Issuer name;

2. Exchange ticker symbol of the issuer s shares to be voted;

3. Committee on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;

4. A brief identification of the matter voted on;

5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;

6. Whether a vote was cast on the matter;

7. A record of how the vote was cast; and

8. Whether the vote was cast for or against the recommendation of the issuer s management team.

Records are maintained in an easily accessible place for five years, the first two in Western Asset s offices.

Disclosure

Part II of the WA Form ADV and the WAML Form ADV, each, contain a description of Western Asset s proxy policies. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

Conflicts of Interest

All proxies are reviewed by the Legal and Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western Asset (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;

2. Whether Western Asset or an officer or director of Western Asset or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, Voting Persons) is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and

3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

Voting Guidelines

Western Asset s substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company s board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

I. Board Approved Proposals

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

1. Matters relating to the Board of Directors

Western Asset votes proxies for the election of the company s nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

d. Votes are cast on a case-by-case basis in contested elections of directors.

2. Matters relating to Executive Compensation

Western Asset generally favors compensation programs that relate executive compensation to a company s long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.

b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.

c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock s current market price.

d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

3. Matters relating to Capitalization

The management of a company s capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company s capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

a. Western Asset votes for proposals relating to the authorization of additional common stock.

b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).

c. Western Asset votes for proposals authorizing share repurchase programs.

4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions

Western Asset votes these issues on a case-by-case basis on board-approved transactions.

5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.

b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

6. Other Business Matters

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company s name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

a. Western Asset votes on a case-by-case basis on proposals to amend a company s charter or bylaws.

b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company s proxy statement. These proposals generally seek to change some aspect of a company s corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company s board of directors on all shareholder proposals, except as follows:

1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.

2. Western Asset votes for shareholder proposals that are consistent with Western Asset s proxy voting guidelines for board-approved proposals.

3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

III. Voting Shares of Investment Companies

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients portfolios.

2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

IV. Voting Shares of Foreign Issuers

In the event Western Asset is required to vote on securities held in non-U.S. issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.

2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.

3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company s outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company s outstanding common stock where shareholders have preemptive rights.

Retirement Accounts

For accounts subject to ERISA, as well as other Retirement Accounts, Western Asset is presumed to have the responsibility to vote proxies for the client. The Department of Labor (DOL) has issued a bulletin that states that investment managers have the responsibility to vote proxies on behalf of Retirement Accounts unless the authority to vote proxies has been specifically reserved to another named fiduciary. Furthermore, unless Western Asset is expressly precluded from voting the proxies, the DOL has determined that the responsibility remains with the investment manager.

In order to comply with the DOL s position, Western Asset will be presumed to have the obligation to vote proxies for its Retirement Accounts unless Western Asset has obtained a specific written instruction indicating that: (a) the right to vote proxies has been reserved to a named fiduciary of the client, and (b) Western Asset is precluded from voting proxies on behalf of the client. If Western Asset does not receive such an instruction, Western Asset will be responsible for voting proxies in the best interests of the Retirement Account client and in accordance with any proxy voting guidelines provided by the client.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Stephen A. Walsh Western Asset 385 East Colorado Blvd. Pasadena, CA 91101	Since 2010	Co-portfolio manager of the fund; Deputy Chief Investment Officer of Western Asset from 2000 to 2008; Chief Investment Officer of Western Asset since 2008.
Ronald D. Mass Western Asset 385 East Colorado Blvd. Pasadena, CA	Since 2010	Co-portfolio manager of the fund; Head of Structured Products of Western Asset for more than five years

(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL

The following tables set forth certain additional information with respect to the fund s portfolio managers for the fund. Unless noted otherwise, all information is provided as of December 31, 2011.

Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund s portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Portfolio Manager(s)	Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
Stephen A. Walsh	101 registered investment companies with $163.8 billion in total assets under management	208 Other pooled investment vehicles with $103.7 billion in assets under management*	741 Other accounts with $175.5 billion in total assets under management**
Ronald D. Mass	3 registered investment Companies with $1.0 billion in total assets Under management	6 Other pooled investment vehicles with $1.3 billion in assets under management ***	2 Other accounts with $5 million in total assets under management

* Includes 6 accounts managed, totaling $0.9 billion, for which advisory fee is performance based.
** Includes 76 accounts managed, totaling $18.9 billion, for which advisory fee is performance based.
*** Includes 2 accounts managed, totaling $0.3 billion, for which advisory fee is performance based.

The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company (Western Asset). Mr. Walsh is involved in the management of all the Firm s portfolios, but they are not solely responsible for particular portfolios. Western Asset s investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. He is responsible for overseeing implementation of Western Asset s overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.

(a)(3): *Portfolio Manager Compensation*

With respect to the compensation of the portfolio managers, Western Asset s compensation system assigns each employee a total compensation range, which is derived from annual market surveys that benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, the subadviser s employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, and are determined by the professional s job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is a portfolio manager s investment performance versus appropriate peer groups and benchmarks (*e.g.*, a securities index and with respect to a fund, the benchmark set forth in the fund s Prospectus to which the fund s average annual total returns are compared or, if none, the benchmark set forth in the fund s annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. The subadviser may also measure a portfolio manager s pre-tax investment performance against other benchmarks, as it determines appropriate. Because portfolio managers are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser s business.

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

Potential Conflicts of Interest

Conflicts of Interest

The manager, subadvisers and portfolio managers have interests which conflict with the interests of the fund. There is no guarantee that the policies and procedures adopted by the manager, the subadvisers and the fund will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

Allocation of Limited Time and Attention. A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. A portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such a portfolio manager may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

Allocation of Limited Investment Opportunities; Aggregation of Orders. If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit the fund s ability to take full advantage of the investment opportunity. Additionally, a subadviser may aggregate transaction orders for multiple accounts for purpose of execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. In addition, a subadviser s trade allocation policies may result in the fund s orders not being fully executed or being delayed in execution.

Pursuit of Differing Strategies. At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, a portfolio manager may determine that it would be in the interest of another account to sell a security that the fund holds long, potentially resulting in a decrease in the market value of the security held by the fund.

Cross Trades. Portfolio managers may manage funds that engage in cross trades, where one of the manager s funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

Selection of Broker/Dealers. Portfolio managers may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide subadvisers with brokerage and research services, These services may be taken into account in the selection of brokers and dealers whether a broker is being selected to effect a trade on an agency basis for a commission or (as is normally the case for the funds) whether a dealer is being selected to effect a trade on a principal basis. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the manager s funds or accounts than to others (but not necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

Variation in Financial and Other Benefits. A conflict of interest arises where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager s management fee and/or a portfolio manager s compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the portfolio manager s performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager. A portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, a portfolio manager s or the manager s or a subadviser s desire to increase assets under management could influence the portfolio manager to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the portfolio manager might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if a portfolio manager does not personally hold an investment in the fund, the portfolio manager s conflicts of interest with respect to the fund may be more acute.

Related Business Opportunities. The investment manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the investment manager and its affiliates.

(a)(4): *Portfolio Manager Securities Ownership*

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of December 31, 2011.

Portfolio Manager(s)	**Dollar Range of Portfolio Securities Beneficially Owned**
Stephen A. Walsh	E
Ronald D. Mass	E

Dollar Range ownership is as follows:
A: none
B: $1 - $10,000
C: 10,001 - $50,000
D: $50,001 - $100,000
E: $100,001 - $500,000
F: $500,001 - $1 million
G: over $1 million

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

Not applicable.

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

Not applicable.

ITEM 11. CONTROLS AND PROCEDURES.

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

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant s last fiscal half-year (the registrant s second fiscal half-year in the case of an annual report) that have materially affected, or are likely to materially affect the registrant s internal control over financial reporting.

ITEM 12. EXHIBITS.

(a) (1) Not applicable.

Exhibit 99.CODE ETH

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

Exhibit 99.CERT

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

Exhibit 99.906CERT

SIGNATURES

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

Western Asset Mortgage Defined Opportunity Fund Inc.

By:	/s/ **R. Jay Gerken** **(R. Jay Gerken)** Chief Executive Officer of **Western Asset Mortgage Defined Opportunity Fund Inc.**
Date:	February 28, 2012

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

By:	/s/ **R. Jay Gerken** **(R. Jay Gerken)** Chief Executive Officer of **Western Asset Mortgage Defined Opportunity Fund Inc.**
Date:	February 28, 2012
By:	/s/ **Richard F. Sennett** **(Richard F. Sennett)** Principal Financial Officer of **Western Asset Mortgage Defined Opportunity Fund Inc.**
Date:	February 28, 2012