

NUVEEN MASSACHUSETTS PREMIUM INCOME MUNICIPAL FUND

Form 497

January 19, 2010

PROSPECTUS

\$17,575,000

Nuveen Massachusetts Premium Income Municipal Fund

MUNIFUND TERM PREFERRED SHARES

1,757,500 Shares, 2.65% Series 2015

Liquidation Preference \$10 Per Share

The Offering. Nuveen Massachusetts Premium Income Municipal Fund is offering 1,757,500 MuniFund Term Preferred Shares, 2.65% Series 2015 (Series 2015 MTP Shares), with a liquidation preference of \$10 per share (MTP Shares). The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem a portion of the Fund's outstanding Municipal Auction Rate Cumulative Preferred Shares (MuniPreferredShares), and to maintain the Fund's leveraged capital structure. Certain of the underwriters and their affiliates or their customers own or are obligated to repurchase in the future MuniPreferred shares and, as a result, may benefit from any such redemption. See Prospectus Summary The Offering.

The Fund. The Fund is a diversified, closed-end management investment company. The Fund's primary investment objective is current income exempt from both regular federal income taxes and Massachusetts personal income taxes, and its secondary investment objective is the enhancement of portfolio value relative to the Massachusetts municipal bond market through investments in tax-exempt Massachusetts Municipal Obligations (as defined below) that, in the opinion of the Fund's investment adviser, are underrated or undervalued or that represent municipal market sectors that are undervalued.

Listing. Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days after the date of this prospectus, subject to notice of issuance. Prior to the expected commencement of trading on the New York Stock Exchange, the underwriters do not intend to make a market in the MTP Shares. Consequently, it is anticipated that, prior to the commencement of trading on the New York Stock Exchange, an investment in the MTP Shares will be illiquid and holders of MTP Shares may

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not be able to sell such shares as it is unlikely that a secondary market for the MTP Shares will develop. If a secondary market does develop prior to the commencement of trading on the New York Stock Exchange, holders of MTP Shares may be able to sell such shares only at substantial discounts from their liquidation preference. The trading or ticker symbol is NMT Pr C.

Investing in MuniFund Term Preferred Shares involves risks. See *Risks* beginning on page 46.

PRICE \$10 A SHARE

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions^{1,2}</u>	<u>Proceeds to the Fund³</u>
<i>Per Share</i>	\$10.00	\$0.15	\$9.85
<i>Total</i>	\$17,575,000	\$263,625	\$17,311,375

¹ Nuveen Asset Management, the Fund's investment adviser (and not the Fund), has agreed to pay from its own assets a development fee to Morgan Stanley & Co. Incorporated. See *Underwriters* on page 64 of this prospectus.

² Total expenses of issuance and distribution, excluding underwriting discounts and commissions, are estimated to be \$280,000.

³ The Fund has granted the underwriters the right to purchase up to 263,600 additional MTP Shares at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus solely to cover over-allotments, if any. If such option is exercised in full, the Price to Public, Underwriting Discounts and Commissions and Proceeds to the Fund will be \$20,211,000, \$303,165 and \$19,907,835, respectively. See *Underwriters* on page 63 of this prospectus.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Book-Entry Only. It is expected that the MTP Shares will be delivered to the underwriters in book-entry form only, through the facilities of the Depository Trust Company, on or about January 21, 2010.

CUSIP No. 67061E 302

Sole Structuring Coordinator

Joint Book Runners

MORGAN STANLEY

BoFA MERRILL LYNCH

CITI

UBS INVESTMENT BANK
Co-Manager

WELLS FARGO SECURITIES

NUVEEN INVESTMENTS, LLC

January 15, 2010

(continued from previous page)

Investment Strategies. The Fund seeks to achieve its investment objectives by investing substantially all of its assets in tax-exempt Massachusetts Municipal Obligations rated at the time of purchase within the four highest grades (Baa/BBB or better) by Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Services, LLC a subsidiary of The McGraw Hill Companies, Inc. (S&P), except that up to 20% of the Fund's assets may be invested in unrated Massachusetts Municipal Obligations that, in the opinion of the Fund's investment adviser, have credit characteristics equivalent to, and are of comparable quality to, Massachusetts Municipal Obligations which are so rated. There is no assurance that the Fund will achieve its investment objectives. See The Fund's Investments.

Ratings. MTP Shares will have upon issuance a long-term credit rating of Aaa from Moody's, a long-term credit rating of AAA from S&P and a long-term credit rating of AAA from Fitch Ratings, Inc. (Fitch). See Description of MTP Shares Rating Agencies.

Fixed Dividend Rate:

Series 2015 MTP Shares

2.65% per annum

The Fixed Dividend Rate may be adjusted in the event of a change in the credit rating of the MTP Shares, as described herein. See Description of MTP Shares Dividends and Dividend Periods.

Dividends. Dividends on the MTP Shares will be payable monthly. The initial dividend period for the MTP Shares will commence on the first date of original issuance of MTP Shares and end on February 28, 2010 and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares). Dividends will be paid on the first business day of the month next following a dividend period and upon redemption of the MTP Shares, except that dividends paid with respect to any dividend period consisting of the month of December in any year will be paid on the last business day of December. Dividends with respect to any monthly dividend period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly dividend period (or if such day is not a business day, the next preceding business day).

Redemption. The Fund is required to redeem the MTP Shares on February 1, 2015 unless earlier redeemed or repurchased by the Fund. In addition, MTP Shares are subject to optional and mandatory redemption in certain circumstances. As of February 1, 2011, the Series 2015 MTP Shares will be subject to redemption at the option of the Fund, subject to payment of a premium through January 31, 2012, and at par thereafter. The Series 2015 MTP Shares also will be subject to redemption, at the option of the Fund, at par in the event of certain changes in the credit rating of the MTP Shares, as described herein. See Description of MTP Shares Redemption.

Tax Exemption. The dividend rate for MTP Shares assumes that each month's distribution is comprised solely of dividends exempt from regular federal and Massachusetts income taxes, although a portion of those dividends may be subject to the federal alternative minimum tax. From time to time, the Fund may be required to allocate capital gains and/or ordinary income to a given month's distribution on MTP Shares. To the extent that it does so, the Fund will contemporaneously make a separate, supplemental distribution of an amount that, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income in the monthly distribution, is intended to make the two distributions equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the monthly distribution if it had been entirely comprised of dividends exempt from regular federal and Massachusetts income taxes. Alternatively (particularly in cases where the amount of capital gains or ordinary income to be allocated to the MTP Shares is small), the Fund will satisfy the requirement to allocate capital gains or ordinary income to MTP Shares by making a supplemental distribution of such gains or income to holders of MTP Shares, over and above the monthly dividend that is fully exempt from regular federal and Massachusetts income taxes. If, in connection with a redemption of MTP Shares, the Fund allocates capital gains or ordinary income to a distribution on MTP Shares without having made either a contemporaneous supplemental distribution of an additional amount or an alternative

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supplemental distribution of capital gains and/or ordinary income, it will cause an additional amount to be distributed to holders of MTP Shares whose interests are redeemed, which amount, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income allocated in the distribution, is intended to make the distribution and the additional amount equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the distribution if it had been entirely comprised of dividends exempt from regular federal income tax.

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Investors should consult with their own tax advisors before making an investment in the MTP Shares. See Tax Matters and Description of MTP Shares Dividends and Dividend Periods Distribution with respect to Taxable Allocations.

Priority of Payment. *MTP Shares will be senior securities that represent stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares will have equal priority as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund with other preferred shares currently outstanding. The Fund may issue additional preferred shares on parity with MTP Shares, subject to certain limitations. The Fund may not issue additional classes of shares that are senior to MTP Shares and other outstanding preferred shares of the Fund as to payments of dividends or as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. See Description of MTP Shares. The Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares. In addition, as a fundamental policy, the Fund may not borrow money, except from banks for temporary or emergency purposes, or for repurchase of its shares, subject to certain restrictions. See Investment Restrictions in the Statement of Additional Information.*

Redemption and Paying Agent. *The redemption and paying agent for MTP Shares will be State Street Bank and Trust Company, Canton, Massachusetts.*

Adviser. *Nuveen Asset Management (NAM), the Fund's investment adviser, is responsible for determining the Fund's overall investment strategies and their implementation.*

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in MTP Shares and retain it for future reference. A Statement of Additional Information, dated January 15, 2010, and as it may be supplemented, containing additional information about the Fund has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 67 of this prospectus, annual and semi-annual reports to shareholders, when available, and other information about the Fund, and make shareholder inquiries by calling (800) 257-8787 or by writing to the Fund, or from the Fund's website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the Fund's website is not part of this prospectus. You also may obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the Securities and Exchange Commission's website (<http://www.sec.gov>).

MTP Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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You should rely only on the information contained in or incorporated by reference to this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell MTP Shares and seeking offers to buy MTP Shares, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of MTP Shares.

PROSPECTUS SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this prospectus and in the Statement of Additional Information (the SAI), including the form of the Fund's Statement Establishing and Fixing the Rights and Preferences of MuniFund Term Preferred Shares (the Statement), attached as Appendix A to the SAI, prior to making an investment in the Fund, especially the information set forth under the heading Risks. Capitalized terms used but not defined in this prospectus shall have the meanings given to such terms in the Statement.

The Fund

Nuveen Massachusetts Premium Income Municipal Fund (the Fund) is a diversified, closed-end management investment company. The Fund's common shares, \$0.01 par value, are traded on the New York Stock Exchange under the symbol NMT. See

Description of Outstanding Shares Common Shares. The Fund commenced investment operations on March 18, 1993. As of September 30, 2009, the Fund had 4,764,710 common shares outstanding and 1,360 preferred shares outstanding. Preferred shares previously offered by the Fund are referred to as MuniPreferred shares. MTP Shares, as defined below, and any other preferred shares, including MuniPreferred shares, that may then be outstanding are collectively referred to as Preferred Stock.

The Offering

The Fund is offering 1,757,500 MuniFund Term Preferred Shares, 2.65% Series 2015 (Series 2015 MTP Shares or MTP Shares), at a purchase price of \$10 per share. MTP Shares are being offered by the underwriters listed under Underwriters. The Fund has granted the underwriters the right to purchase up to 263,625 additional MTP Shares to cover over-allotments. Unless otherwise specifically stated, the information throughout this prospectus does not take into account the possible issuance to the underwriters of additional MTP Shares pursuant to their right to purchase additional MTP Shares to cover over-allotments. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem a portion of the outstanding MuniPreferred shares, and to maintain the Fund's leveraged capital structure. Certain underwriters and their affiliates, including Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Citigroup Global Markets Inc., UBS Securities LLC and Wells Fargo Securities, LLC, currently own or are obligated to repurchase in the future outstanding MuniPreferred shares. In addition, customers of certain underwriters and their affiliates currently own outstanding MuniPreferred shares. Upon the successful completion of this offering, these outstanding MuniPreferred shares may be redeemed or purchased by the Fund with the net proceeds of the offering as set forth in Use of Proceeds. Although such a redemption or purchase would be done in accordance with the Investment Company Act of 1940, as amended (the 1940 Act) in a manner that did not favor these underwriters, affiliates or customers, the underwriters or their affiliates may nonetheless be deemed to obtain a material benefit from the offering of the MTP Shares due to such redemption or purchase including, for certain of the underwriters

and their affiliates, potentially substantial financial relief and/or relief related to legal and regulatory matters associated with currently illiquid MuniPreferred shares.

The first issuance date of the MTP Shares upon the closing of this offering is referred to herein as the Date of Original Issue. MTP Shares will be senior securities that constitute stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares will have equal priority as to payments of dividends and as to distributions of assets upon dissolution, liquidation or winding up of the affairs of the Fund and will be in parity in all respects with MuniPreferred shares outstanding. The Fund may not issue additional classes of shares that are senior to Preferred Stock as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund.

Who May Want to Invest

You should consider your investment goals, time horizons and risk tolerance before investing in MTP Shares. An investment in MTP Shares is not appropriate for all investors and is not intended to be a complete investment program. MTP Shares are designed as an intermediate-term investment to help achieve the after-tax income and capital preservation goals of investors, and not as a trading vehicle. MTP Shares may be an appropriate investment for you if you are seeking:

- Current income exempt from regular federal and Massachusetts income taxes;
- Consistent monthly dividends;
- Return of your capital investment after a limited term of 5 years;
- A highly rated security that benefits from significant over-collateralization and related protective provisions;
- Municipal market exposure through the Fund (rather than a single municipal issuer) that diversifies credit risk by investing in many securities and various essential-service sectors;
- Potential for daily liquidity and transparency afforded by New York Stock Exchange listing, once the MTP Shares begin trading on such exchange as anticipated; and
- An intermediate-term fixed income investment with potentially less price volatility than longer-dated fixed income securities.

However, keep in mind that you will need to assume the risks associated with an investment in MTP Shares and the Fund. See Risks.

Fixed Dividend Rate

MTP Shares pay a dividend at a fixed rate of 2.65% per annum of the \$10 liquidation preference per share (the Fixed Dividend Rate). The

Fixed Dividend Rate is subject to adjustment in certain circumstances (but will not in any event be lower than the 2.65% Fixed Dividend Rate). See Description of MTP Shares Dividends and Dividend Periods Fixed Dividend Rate, Description of MTP Shares Dividends and Dividend Periods Adjustments to Fixed Dividend Rate Ratings and Description of MTP Shares Dividends and Dividend Periods Adjustments to Fixed Dividend Rate Default Period.

Dividend Payments

The holders of MTP Shares will be entitled to receive cumulative cash dividends and distributions on each such share, when, as and if declared by, or under authority granted by, the Board of Trustees, out of funds legally available for payment. Dividends on the MTP Shares will be payable monthly. The initial dividend period for the MTP Shares will commence on the Date of Original Issue of MTP Shares and end on February 28, 2010 and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares) (each dividend period a Dividend Period). Dividends will be paid on the first Business Day of the month next following a Dividend Period and upon redemption of the MTP Shares, except that dividends paid with respect to any Dividend Period consisting of the month of December in any year will be paid on the last Business Day of December (each payment date a Dividend Payment Date). Dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly Dividend Period (or if such day is not a Business Day, the next preceding Business Day). Dividends with respect to the first Dividend Period of the Series 2015 MTP Shares will be declared and paid to holders of record of such MTP Shares as their names appear on the registration books of the Fund at the close of business on February 15, 2010. See Description of MTP Shares Dividends and Dividend Periods.

Business Day means any calendar day on which the New York Stock Exchange is open for trading.

On account of the foregoing provisions, only the holders of MTP Shares on the record date for a Dividend Period will be entitled to receive dividends and distributions payable with respect to such Dividend Period, and holders of MTP Shares who sell shares before such a record date and purchasers of MTP Shares who purchase shares after such a record date should take the effect of the foregoing provisions into account in evaluating the price to be received or paid for such MTP Shares.

Term Redemption

The Fund is required to provide for the mandatory redemption of all outstanding Series 2015 MTP Shares on February 1, 2015 at a

redemption price equal to \$10 per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the redemption date (the Term Redemption Price). No amendment, alteration or repeal of the obligations of the Fund to redeem all of the Series 2015 MTP Shares on February 1, 2015 can be effected without the prior unanimous vote or consent of the holders of Series 2015 MTP Shares. See Description of MTP Shares Redemption.

Mandatory Redemption for

Asset Coverage and Effective

Leverage Ratio

Asset Coverage. If the Fund fails to have Asset Coverage (as defined below) of at least 225% as of the close of business on any Business Day on which such Asset Coverage is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Asset Coverage Cure Date), the Fund will redeem within 30 calendar days of the Asset Coverage Cure Date shares of Preferred Stock equal to the lesser of (i) the minimum number of shares of Preferred Stock that will result in the Fund having Asset Coverage of at least 230% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of monies expected to be legally available; and, at the Fund's sole option, the Fund may redeem a number of shares of Preferred Stock (including shares of Preferred Stock required to be redeemed) that will result in the Fund having Asset Coverage of up to and including 285%. The Preferred Stock to be redeemed may include at the Fund's sole option any number or proportion of MTP Shares. If MTP Shares are to be redeemed in such an event, they will be redeemed at a redemption price equal to their \$10 liquidation preference per share plus accumulated but unpaid dividends thereon (whether or not declared, but excluding interest thereon) to (but excluding) the date fixed for such redemption (the Mandatory Redemption Price).

Effective Leverage Ratio. If the Effective Leverage Ratio (as defined below) of the Fund exceeds 50% as of the close of business on any Business Day on which such ratio is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Effective Leverage Ratio Cure Date), the Fund will within 30 calendar days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio that does not exceed 50% by (A) engaging in transactions involving or relating to the floating rate securities not owned by the Fund and/or the inverse floating rate securities owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming a sufficient number of shares of Preferred Stock, which at the Fund's sole option may include any number or proportion of MTP Shares, in accordance with the terms of such Preferred Stock, or (C) engaging in any combination of the

actions contemplated by (A) and (B) above. Any MTP Shares so redeemed will be redeemed at a price per share equal to the Mandatory Redemption Price. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities and Floating Rate Securities.

Optional Redemption

As of February 1, 2011, Series 2015 MTP Shares will be subject to optional redemption (in whole or from time to time, in part) at the sole option of the Fund out of monies legally available therefor, at the redemption price per share equal to the sum of the \$10 liquidation preference per share plus (i) an initial premium of 1.00% of the liquidation preference (with such premium declining by 0.5% every six months so that by February 1, 2012 there will cease to be a premium) and (ii) an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for such redemption. See Description of MTP Shares Redemption Optional Redemption. The period from the Date of Original Issue to the date that the MTP Shares are subject to such optional redemption is referred to herein as the Non-Call Period. In addition to the optional redemption described above, the MTP Shares will also be subject to optional redemption on any Business Day during a Rating Downgrade Period with respect to such MTP Shares at the redemption price per share equal to the sum of the \$10 liquidation preference per share (without any additional premium) plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared, but excluding interest thereon) to (but excluding) the date fixed for redemption. A Rating Downgrade Period means any period during which the MTP Shares are rated A+ or lower by S&P, A1 or lower by Moody's and A+ or lower by Fitch. See Description of MTP Shares Redemption.

Federal and Massachusetts State Income Taxes

Because under normal circumstances the Fund will invest substantially all of its assets in municipal securities that pay interest exempt from regular federal and Massachusetts income taxes, the dividends designated by the Fund as exempt-interest dividends received by a holder of MTP Shares will be similarly exempt. The dividends received by a holder of MTP Shares may be subject to other state and local taxes. All or a portion of the income from the Fund's portfolio securities, and in turn the exempt-interest dividends paid to holders of MTP Shares, may be subject to the federal alternative minimum tax, so MTP Shares may not be a suitable investment if you are subject to this tax. Taxable income or gain earned by the Fund will be allocated proportionately to holders of Preferred Stock and common shares, based on the percentage of total Preferred Stock dividends relative to common share dividends.

The Fund has elected to be treated, and intends to continue to qualify each year, as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), and generally does not expect to be subject to federal income tax.

Ratings

It is a condition of the underwriters' obligation to purchase MTP Shares that MTP Shares will be rated Aaa, AAA and AAA by Moody's, S&P and Fitch, respectively, as of the Date of Original Issue. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of the MTP Shares. The ratings are based on current information furnished to Moody's, S&P and Fitch by the Fund and its investment adviser. The ratings may be changed, suspended or withdrawn in the rating agencies' discretion. The Fund, however, will use commercially reasonable efforts to cause at least one rating agency (Moody's, S&P or Fitch, each a Rating Agency) to publish a credit rating with respect to MTP Shares for so long as MTP Shares are outstanding. The Fixed Dividend Rate will be subject to an increase in the event that the ratings of the MTP Shares by Moody's, S&P and Fitch are each downgraded below Aaa, AAA and AAA, respectively or if no Rating Agency is then rating the shares. See Description of MTP Shares Dividends and Dividend Periods Adjustment to Fixed Dividend Rate Ratings. The Board of Trustees of the Fund has the right to terminate the designation of any of S&P, Moody's and Fitch as a Rating Agency for purposes of the MTP Shares, provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares. In such event, any rating of such terminated Rating Agency, to the extent it would have been taken into account in any of the provisions of the MTP Shares which are described in this prospectus or included in the Statement, will be disregarded, and only the ratings of the then-designated Rating Agencies will be taken into account.

Asset Coverage

If the Fund fails to maintain at least 225% asset coverage as of the close of business on each Business Day, the MTP Shares may become subject to mandatory redemption as provided above. Asset coverage for Preferred Stock is calculated pursuant to Section 18(h) of the 1940 Act, as in effect on the date of the Statement, and is determined on the basis of values calculated as of a time within 48 hours (only including Business Days) preceding each daily determination (Asset Coverage). See Description of MTP Shares Asset Coverage.

The Fund estimates that on the Date of Original Issue, the Asset Coverage, based on the composition of its portfolio as of August 31, 2009, and after giving effect to (i) the issuance of MTP Shares offered hereby (\$17,575,000), and (ii) \$543,625 of underwriting discounts and commissions and estimated offering expenses for such MTP Shares, and assuming the redemption of \$17,025,000 liquidation

preference of MuniPreferred shares, will be 289%. The Fund's net investment income coverage calculated by dividing the Fund's net investment income by the distributions from net investment income to preferred shareholders has averaged approximately 977% since June 1, 1999. Net investment income coverage has varied significantly year over year since the Fund's inception, and there is no assurance that historical coverage levels can be maintained.

Effective Leverage Ratio

If the Fund's Effective Leverage Ratio exceeds 50% as of the close of business on any Business Day, the MTP Shares may become subject to mandatory redemption as provided above.

The Effective Leverage Ratio on any date means the quotient of the sum of (A) the aggregate liquidation preference of the Fund's senior securities (as that term is defined in the 1940 Act) that are stock, excluding, without duplication, (1) any such senior securities for which the Fund has issued a notice of redemption and either has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption and (2) the Fund's outstanding Preferred Stock that is to be redeemed with net proceeds from the sale of the MTP Shares, for which the Fund has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption; (B) the aggregate principal amount of the Fund's senior securities representing indebtedness (as that term is defined in the 1940 Act); and (C) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund's valuation procedures) of the Fund's total assets (including amounts attributable to senior securities), less the amount of the Fund's accrued liabilities (other than liabilities for the aggregate principal amount of senior securities representing indebtedness, including floating rate securities); and (B) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund.

Voting Rights

Except as otherwise provided in the Fund's Declaration of Trust or as otherwise required by law, (i) each holder of MTP Shares shall be entitled to one vote for each MTP Share held by such holder on each matter submitted to a vote of shareholders of the Fund and (ii) the holders of outstanding Preferred Stock and of common shares shall vote together as a single class; provided that holders of Preferred Stock, voting separately as a class, shall elect at least two of the Fund's trustees and will elect a majority of the Fund's trustees to the extent the Fund fails to pay dividends on any Preferred Stock in an amount equal to two full years of dividends on that stock. See Description of MTP Shares Voting Rights.

Liquidation Preference

The liquidation preference of MTP Shares will be \$10 per share (the "Liquidation Preference"). In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of MTP Shares will be entitled to receive a liquidation distribution per share equal to the Liquidation Preference plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon). See "Description of MTP Shares" "Liquidation Rights."

Investment Objectives and Policies

The Fund's primary investment objective is current income exempt from both regular federal income taxes and Massachusetts personal income taxes, and its secondary investment objective is the enhancement of portfolio value relative to the Massachusetts municipal bond market through investments in tax-exempt Massachusetts Municipal Obligations that, in the opinion of the Fund's investment adviser, are underrated or undervalued or that represent municipal market sectors that are undervalued. By purchasing such tax-exempt Massachusetts Municipal Obligations, the Fund seeks to realize above-average capital appreciation in a rising market, and to experience less than average capital losses in a declining market. Any capital appreciation realized by the Fund will generally result in the distribution of taxable capital gains to Fund shareholders, including holders of MTP Shares. See "Tax Matters."

Except as described below, the Fund seeks to achieve its investment objectives by investing substantially all (in excess of 80%) of its assets in tax-exempt Massachusetts Municipal Obligations rated at the time of purchase within the four highest grades (Baa/BBB or better) by Moody's or S&P, except that up to 20% of the Fund's assets may be invested in unrated Massachusetts Municipal Obligations that, in the opinion of the Fund's investment adviser, have credit characteristics equivalent to, and are of comparable quality to, Massachusetts Municipal Obligations which are so rated. During temporary defensive periods and in order to keep cash on hand fully invested, the Fund may invest in high quality, short-term temporary investments the income on which will be exempt from both regular federal income taxes and Massachusetts income taxes, to the extent such securities are available or, if such securities are unavailable, in comparable temporary investments the income on which will be subject to Massachusetts income taxes or to both Massachusetts income taxes and regular federal income taxes. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. There is no assurance that the Fund will achieve its investment objectives. See "The Fund's Investments."

Investment Adviser

NAM is the Fund's investment adviser, responsible for determining the Fund's overall investment strategy and its implementation. See "Management of the Fund" "Investment Adviser and Portfolio Managers."

Nuveen Investments, LLC, a registered broker-dealer affiliate of NAM that is involved in the offering of the Fund's MTP Shares, has received notice of certain charges that may be brought against it by the Financial Industry Regulatory Authority (FINRA) in connection with the marketing of MuniPreferred shares. See Underwriters.

Listing

Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days after the date of this prospectus, subject to notice of issuance. Prior to the expected commencement of trading on the New York Stock Exchange, the underwriters do not intend to make a market in the MTP Shares. Consequently, it is anticipated that, prior to the commencement of trading on the New York Stock Exchange, an investment in the MTP Shares will be illiquid and holders of MTP Shares may not be able to sell such shares as it is unlikely that a secondary market for the MTP Shares will develop. If a secondary market does develop prior to the commencement of trading on the New York Stock Exchange, holders of MTP Shares may be able to sell such shares only at substantial discounts from their liquidation preference. The trading or ticker symbol is NMT Pr C.

Redemption and Paying Agent

The Fund has entered into an amendment to its Transfer Agency and Service Agreement with State Street Bank and Trust Company, Canton, Massachusetts (the Redemption and Paying Agent) for the purpose of causing the Fund's transfer agent and registrar to serve as transfer agent and registrar, dividend disbursing agent, and redemption and paying agent with respect to MTP Shares.

Risks

Risk is inherent in all investing. Therefore, before investing in MTP Shares you should consider certain risks carefully. The primary risks of investing in the Fund, and in MTP Shares in particular, are:

Risks of Investing in MTP Shares

- *Interest Rate Risk MTP Shares.* MTP Shares pay dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on intermediate term securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares prior to its term redemption. See also Secondary Market and Delayed Listing Risk.
- *Secondary Market and Delayed Listing Risk.* Because the Fund has no prior trading history for exchange-listed preferred shares, it is difficult to predict the trading patterns of MTP Shares, including the effective costs of trading MTP Shares. Moreover, MTP Shares will not be listed on a stock exchange until up to 30 days after the date of this prospectus and during this time period an investment in MTP Shares will be illiquid. Even after

the MTP Shares are listed on the New York Stock Exchange as anticipated, there is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features.

- *Ratings Risk.* The Fund expects that, at issuance, the MTP Shares will be rated Aaa, AAA and AAA by Moody's, S&P and Fitch, respectively, and that such ratings will be a requirement of issuance of such shares by the underwriters pursuant to an underwriting agreement. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of MTP Shares. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a Rating Agency is only the opinion of the entity issuing the rating at that time, and is not a guarantee as to quality, or an assurance of the future performance, of the rated security (in this case, MTP Shares). In addition, the manner in which the Rating Agency obtains and processes information about a particular security may affect the Rating Agency's ability to timely react to changes in an issuer's circumstances (in this case, the Fund) that could influence a particular rating. A Rating Agency could downgrade MTP Shares, which may make MTP Shares less liquid in the secondary market and reduce market prices, though with higher resulting dividend rates than the Fixed Dividend Rate. If all of the Rating Agencies designated by the Board of Trustees at the time in question downgrade MTP Shares, the Fund is required to pay a higher dividend rate on such shares.
- *Early Redemption Risk.* The Fund may voluntarily redeem MTP Shares or may be forced to redeem MTP Shares to meet regulatory requirements and the asset coverage requirements of the MTP Shares. Such redemptions may be at a time that is unfavorable to holders of MTP Shares. The Fund expects to voluntarily redeem MTP Shares before the Term Redemption Date to the extent that market conditions allow the Fund to issue other preferred shares or debt securities at a rate that is lower than the Fixed Dividend Rate on MTP Shares. For further information, see *Description of MTP Shares Redemption* and *Description of MTP Shares Asset Coverage*.
- *Tax Risk.* To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent

of the Fund's current and accumulated earnings and profits. The value of MTP Shares may be adversely affected by changes in tax rates and policies. Because dividends from MTP Shares are generally not expected to be subject to regular federal or Massachusetts income taxation, the attractiveness of such shares in relation to other investment alternatives is affected by changes in federal or Massachusetts income tax rates or changes in the tax-exempt treatment of dividends on MTP Shares. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. See "Tax Matters." See also the opinion of counsel included as Appendix C to the SAI.

- *Credit Crisis and Liquidity Risk.* General market uncertainty and extraordinary conditions in the credit markets, including the municipal market, may impact the liquidity of the Fund's investment portfolio, which in turn, during extraordinary circumstances, could impact the Fund's distributions and/or the liquidity of the Term Redemption Liquidity Account (as described under "Description of MTP Shares"). Further, there may be market imbalances of sellers and buyers of MTP Shares during periods of extreme illiquidity and volatility. Such market conditions may lead to periods of thin trading in any secondary market for MTP Shares and may make valuation of MTP Shares uncertain. As a result, the spread between bid and asked prices is likely to increase significantly such that an MTP Shares investor may have greater difficulty selling his or her MTP Shares. Less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.
- *Inflation Risk.* Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or "real") value of an investment in MTP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of MTP Shares and dividends on MTP Shares declines.
- *Reinvestment Risk MTP Shares.* Given the five-year term and potential for early redemption of MTP Shares, holders of MTP Shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of MTP Shares may be lower than the return previously obtained from an investment in MTP Shares.

General Risks of Investing in the Fund

- *Credit Risk.* Credit risk is the risk that an issuer of a municipal security held in the Fund's portfolio will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal securities carry a greater degree of credit risk. If Rating Agencies lower their ratings of municipal securities

in the Fund's portfolio, the value of those securities could decline, which could jeopardize the Rating Agencies' ratings of MTP Shares. Because the primary source of income for the Fund is the interest and principal payments on the municipal securities in which the Fund invests, defaults by issuers of municipal securities could have a negative impact on the Fund's ability to pay dividends on MTP Shares and could result in the redemption of some or all MTP Shares.

- *Municipal Securities Market Risk.* Investing in the municipal securities market involves certain risks. The municipal securities market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on NAM's analytical abilities than if the Fund were to invest in stocks or taxable bonds. As noted above, the secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them.

- *Concentration in Massachusetts Issuers.* The Fund's policy of investing primarily in municipal obligations of issuers located in the Commonwealth of Massachusetts makes the Fund more susceptible to adverse economic, political or regulatory occurrences affecting such issuers.

- *Risks Specific to Massachusetts.* The effects of the dramatic national economic downturn on the Commonwealth of Massachusetts expose the Fund to increased risks with respect to Massachusetts issuers of municipal bond funds. The Commonwealth experienced increased unemployment and reduced tax revenue in the last fiscal year. The Commonwealth ended fiscal year 2009 with a budgetary loss of approximately \$1.4 billion. During fiscal year 2009, budgeted tax revenues declined by 12.6% to nearly \$18.5 billion. The fiscal 2009 tax revenue decrease is attributable in large part to decreases of \$2.2 billion in income tax payments, a \$244 million decrease in sales and use tax collections and a \$650 million drop in other forms of taxes offset by a \$417 million increase in corporate taxation. The Legislature enacted the fiscal 2010 budget totaling \$27.411 billion on June 19, 2009. The Commonwealth will continue to receive funds from the federal American Recovery and Reinvestment Act in fiscal years 2010 and 2011 and expects to benefit as a result of an increase in the sales and use tax from 5% to 6.25%, effective August 1, 2009. The

Commonwealth anticipates a probable deficiency of state tax revenues of approximately \$600 million with respect to the appropriations approved to date for fiscal 2010. The Governor has filed legislation containing proposed solutions to the projected \$600 million tax revenue shortfall, including \$277 million in spending reductions across executive branch agencies. See *Risks-Concentration Risk* and Appendix A of this prospectus. (*Factors Affecting Municipal Securities in Massachusetts*).

- *Interest Rate Risk The Fund.* Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change.
- *Inverse Floating Rate Securities Risk.* The Fund may invest up to 15% of its net assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal securities. See *Portfolio Composition Municipal Securities Inverse Floating Rate Securities*. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund's investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In NAM's discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of the trust, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate securities. In such instances, the Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

The Fund's investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund's inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the "gearing"). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund's anticipated effective leverage ratio.

The economic effect of leverage through the Fund's purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a special purpose trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. The leverage attributable to such inverse floating rate securities may be "called away" on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the common shares may be greater for the Fund to the extent that it relies on inverse floating rate securities to achieve a significant portion of its desired effective leverage ratio. The Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

If the Fund has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;

If special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding special purpose trusts; and

If the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the trust) and if additional collateral has not been posted by the Fund.

- *Insurance Risk.* The Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. Many significant providers of insurance for municipal securities have recently incurred significant losses and as a result, such losses have reduced the insurers' capital and called into question their continued ability to perform their obligations under such insurance if they are called to do so in the future. The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation or the market value of the insured obligation. See *Risks Insurance Risk*.
- *Reinvestment Risk the Fund.* With respect to the Fund, reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the Fund's portfolio's current earnings rate.
- *Anti-Takeover Provisions.* The Fund's Declaration of Trust and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. See *Certain Provisions in the Declaration of Trust and By-Laws*.

For additional risks of investing in MTP Shares and general risks of the Fund, see *Risks*.

Governing Law

The Declaration of Trust and the Statement are governed by the laws of the Commonwealth of Massachusetts.

FINANCIAL HIGHLIGHTS

The following Financial Highlights table is intended to help a prospective investor understand the Fund's financial performance for the periods shown. Certain information reflects financial results for a single common share or MuniPreferred share of the Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in common shares of the Fund (assuming reinvestment of all dividends). The information with respect to the fiscal year ended May 31, 2009 has been audited by Ernst & Young LLP, whose report for the fiscal year ended May 31, 2009, along with the financial statements of the Fund including the Financial Highlights for each of the five years in the period then ended, are included in the Fund's 2009 Annual Report. A copy of the 2009 Annual Report may be obtained from www.sec.gov or by visiting www.nuveen.com. The information contained in, or that can be accessed through, the Fund's website is not part of this prospectus. Past results are not indicative of future performance.

The following per share data and ratios have been derived from information provided in the financial statements.

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FINANCIAL HIGHLIGHTS

Information contained in the table below under the headings Per Share Operating Performance and Ratios/Supplemental Data shows the operating performance of the Fund since the commencement of operations.

Selected data for a common share outstanding throughout each period:

	Year Ended May 31,		
	2009	2008	2007
PER SHARE OPERATING PERFORMANCE			
Beginning Common Share Net Asset Value	\$ 14.22	\$ 14.56	\$ 14.45
Investment Operations:			
Net Investment Income	0.91	0.88	0.88
Net Realized/Unrealized Gain (Loss)	(0.98)	(0.32)	0.13
Distributions from Net Investment Income to Preferred Shareholders	(0.15)	(0.25)	(0.23)
Distributions from Capital Gains to Preferred Shareholders	(0.02)	(0.01)	0.00***
Total	(0.24)	0.30	0.78
Less Distributions:			
Net Investment Income to Common Shareholders	(0.65)	(0.62)	(0.67)
Capital Gains to Common Shareholders	(0.04)	(0.02)	0.00***
Total	(0.69)	(0.64)	(0.67)
Offering Costs and Preferred Share Underwriting Discounts	0.00	0.00	0.00
Ending Common Share Net Asset Value	\$ 13.29	\$ 14.22	\$ 14.56
Ending Market Value	\$ 13.28	\$ 13.61	\$ 14.33
Total Returns:			
Based on Market Value*	3.54%	(0.48)%	4.60%
Based on Common Share Net Asset Value*	(1.36)%	2.08%	5.47%
Ratios/Supplemental Data			
Ending Net Assets Applicable to Common Shares (000)	\$ 63,321	\$ 67,720	\$ 69,323
Ratios to Average Net Assets Applicable to Common Shares Before Credit/Reimbursement :			
Expenses Including Interest(a)	1.43%	1.26%	1.24%
Expenses Excluding Interest(a)	1.34%	1.26%	1.24%
Net Investment Income	7.01%	6.09%	5.97%
Ratios to Average Net Assets Applicable to Common Shares After Credit/Reimbursement **:			
Expenses Including Interest(a)	1.41%	1.24%	1.23%
Expenses Excluding Interest(a)	1.32%	1.24%	1.23%
Net Investment Income	7.02%	6.11%	5.98%
Portfolio Turnover Rate	1%	14%	9%
Preferred Shares at End of Period:			
Aggregate Amount Outstanding (000)	\$ 34,000	\$ 34,000	\$ 34,000

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Liquidation and Market Value Per Share	\$ 25,000	\$ 25,000	\$ 25,000
Asset Coverage Per Share	\$ 71,559	\$ 74,794	\$ 75,973

* Total Return Based on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based on Common Share Net Asset Value is the combination of changes in Common share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvestment price for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized.

** After custodian fee credit and expense reimbursement, where applicable.

Year Ended May 31,

2006	2005	2004	2003	2002	2001	2000
\$ 15.10	\$ 14.34	\$ 15.30	\$ 14.48	\$ 14.26	\$ 13.17	\$ 14.72
0.88	0.91	0.94	0.98	1.03	1.05	1.05
(0.50)	0.81	(0.97)	0.78	0.13	1.10	(1.54)
(0.18)	(0.08)	(0.05)	(0.07)	(0.11)	(0.24)	(0.21)
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.20	1.64	(0.08)	1.69	1.05	1.91	(0.70)
(0.81)	(0.88)	(0.88)	(0.87)	(0.83)	(0.82)	(0.85)
(0.04)	0.00	0.00	0.00	0.00	0.00	0.00
(0.85)	(0.88)	(0.88)	(0.87)	(0.83)	(0.82)	(0.85)
0.00	0.00	0.00	0.00	0.00	0.00	0.00
\$ 14.45	\$ 15.10	\$ 14.34	\$ 15.30	\$ 14.48	\$ 14.26	\$ 13.17
\$ 14.35	\$ 16.14	\$ 14.35	\$ 16.80	\$ 15.70	\$ 15.33	\$ 14.00
(6.14)%	18.97%	(9.51)%	12.98%	8.04%	15.71%	(7.66)%
1.41%	11.74%	(0.51)%	12.02%	7.51%	14.72%	(4.79)%
\$ 68,776	\$ 71,648	\$ 67,806	\$ 72,003	\$ 67,856	\$ 66,579	\$ 61,323
1.25%	1.24%	1.24%	1.28%	1.31%	1.37%	1.32%
1.25%	1.24%	1.24%	1.28%	1.31%	1.37%	1.32%
5.98%	6.15%	6.37%	6.61%	7.11%	7.46%	7.71%
1.24%	1.24%	1.23%	1.27%	1.30%	1.35%	1.31%
1.24%	1.24%	1.23%	1.27%	1.30%	1.35%	1.31%
6.00%	6.16%	6.38%	6.63%	7.12%	7.48%	7.73%
13%	18%	22%	18%	13%	14%	11%
\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000	\$ 34,000
\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
\$ 75,571	\$ 77,682	\$ 74,857	\$ 77,943	\$ 74,894	\$ 73,955	\$ 70,091

*** Rounds to less than \$0.01 per share.

The amounts shown are based on Common share equivalents.

Ratios do not reflect the effect of dividend payments to Preferred shareholders; Net Income Ratios reflect income earned and expenses incurred on assets attributable to Preferred shares.

- (a) The expense ratios reflect, among other things, the interest expense deemed to have been paid by the Fund on the floating rate certificates issued by the special purpose trusts for the self-deposited inverse floaters held by the Fund.

THE FUND

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on January 12, 1993 pursuant to a Declaration of Trust governed by the laws of the Commonwealth of Massachusetts (the Declaration of Trust). The Fund's common shares are listed on the New York Stock Exchange under the symbol NMT. The Fund's principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

The table below provides information on MuniPreferred shares since 2000.

<u>Period Ended</u>	<u>Amount Outstanding Exclusive of Treasury Securities</u>	<u>Asset Coverage Per Share*</u>	<u>Involuntary Liquidation Preference Per Share</u>	<u>Asset Coverage Ratio**</u>
May 31, 2000	1,360	\$ 70,091	\$ 25,000	280
May 31, 2001	1,360	\$ 73,955	\$ 25,000	296
May 31, 2002	1,360	\$ 74,894	\$ 25,000	300
May 31, 2003	1,360	\$ 77,943	\$ 25,000	312
May 31, 2004	1,360	\$ 74,857	\$ 25,000	299
May 31, 2005	1,360	\$ 77,682	\$ 25,000	311
May 31, 2006	1,360	\$ 75,571	\$ 25,000	302
May 31, 2007	1,360	\$ 75,973	\$ 25,000	304
May 31, 2008	1,360	\$ 74,794	\$ 25,000	299
May 31, 2009	1,360	\$ 71,559	\$ 25,000	286
August 31, 2009	1,360	\$ 73,017	\$ 25,000	292

* Calculated by dividing net assets (including net assets attributable to preferred shares) at period end by the number of MuniPreferred shares outstanding at period end.

** Calculated by dividing Asset Coverage Per Share by Involuntary Liquidation Preference Per Share.

The following provides information about the Fund's outstanding shares as of August 31, 2009.

<u>Title of Class</u>	<u>Amount Authorized</u>	<u>Amount Held by the Fund or for its Account</u>	<u>Amount Outstanding</u>
Common	unlimited		4,764,710
MuniPreferred	unlimited		
Series TH	1,360		1,360
MTP	unlimited		
Series 2015			

USE OF PROCEEDS

The net proceeds of the offering will be approximately \$17,031,375 or \$19,628,081 if the underwriters exercise the overallotment option in full, after payment of the underwriting discounts and commissions and estimated offering costs. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem a portion of the Fund's outstanding MuniPreferred shares, and to maintain the Fund's leveraged

capital structure. To the extent the underwriters purchase additional shares to cover over-allotments, the proceeds to the Fund from such additional purchase will be invested in accordance with the Fund's investment policies. Such redemption of the MuniPreferred shares is expected to occur within four weeks of the closing of the offering.

CAPITALIZATION

The following table sets forth the capitalization of the Fund as of August 31, 2009, and as adjusted to give effect to (i) the issuance of all MTP Shares offered hereby (assuming that the underwriters' overallotment option is not exercised) and (ii) the redemption of 681 outstanding MuniPreferred shares with the proceeds of the issuance of MTP Shares. The as adjusted information is illustrative only.

	Actual August 31, 2009	As Adjusted August 31, 2009
	(Unaudited)	(Unaudited)
MuniPreferred shares, \$25,000 stated value per share, at liquidation value; unlimited shares authorized (1,360 shares outstanding and 679 shares outstanding, as adjusted, respectively)*	\$ 34,000,000	\$ 16,975,000
MTP Shares, \$10 stated value per share, at liquidation value; unlimited shares authorized; (no shares outstanding and 1,757,500 shares outstanding, as adjusted, respectively)*	\$	17,575,000
COMMON SHAREHOLDERS' EQUITY:		
Common shares, \$.01 par value per share; unlimited shares authorized, 4,764,710 shares outstanding*	\$ 47,647	\$ 47,647
Paid-in surplus**	66,159,047	66,159,047
Undistributed net investment income	668,129	668,129
Accumulated net realized gain (loss) from investments and derivative transactions	(21,140)	(21,140)
Net unrealized appreciation (depreciation) of investments and derivative transactions	(1,550,826)	(1,550,826)
Net assets applicable to common shares	\$ 65,302,857	\$ 65,302,857

* None of these outstanding shares are held by or for the account of the Fund.

** Assumes a total of \$543,625 of underwriting discounts and commissions and other estimated offering costs of the MTP Shares issuance will be capitalized and amortized over the life of the MTP Shares.

SUPPLEMENTAL PORTFOLIO INFORMATION

Set forth below are selected historical data (unaudited) relating to the Fund and its portfolio holdings at each period noted.

	August 31, 2009	May 31,		
		2009	2008	2007
OPERATING PERFORMANCE RATIOS				
Asset Coverage(a)	292%	286%	299%	304%
Net Investment Income Coverage(b)	2623%	607%	352%	383%
Structural Leverage(c)	34%	35%	33%	33%
Effective Leverage(d)	36%	37%	33%	33%

(a) Based on 1940 Act requirements that are described in this prospectus under the heading "Description of MTP Shares - Restrictions on Dividend, Redemption and Other Payments."

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- (b) Calculated by dividing Net Investment Income by Distributions from Net Investment Income to Preferred Shareholders.
- (c) Based on the inverse of the Asset Coverage Ratio (meaning the ratio of the Fund's total debt, if any, and the involuntary liquidation preference of Preferred Stock to the Fund's total assets less liabilities and indebtedness not represented by senior securities).
- (d) Effective Leverage Ratio is previously defined in the prospectus summary under the heading Effective Leverage Ratio.

	August 31,	May 31,		
	2009	2009	2008	2007
PORTFOLIO DATA				
Total Managed Assets (000s)(a)	\$ 99,303	\$ 97,321	\$ 101,720	\$ 103,323
Number of Issuers(b)	57	58	61	56
Number of Issuers in Default	\$	\$	\$	\$
Average Issuer Holding (000s)(c)	\$ 1,733	\$ 1,675	\$ 1,778	\$ 1,841
Top 10 Issuers (as % of Total Investments)	46.28%	46.41%	44.59%	50.43%
Average Effective Maturity on Securities (years)	15.05	15.26	15.92	15.62
Average Duration (years)	6.61	7.45	5.90	5.65
AMT Bonds (as % of Total Investments)	12.25%	12.23%	12.93%	13.23%
Inverse Floaters (as % of Total Investments)(d)	2.48%	2.39%	0%	0%

(a) Net assets applicable to common shares plus Preferred Stock at liquidation value.

(b) Issuer is defined as the legal entity or obligor that develops, registers and sells municipal securities for the purpose of financing its operations.

(c) Calculated by dividing the market value of the municipal securities in the Fund's portfolio by the number of issuers.

(d) Inverse floating rate securities (sometimes referred to as inverse floaters) are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities.

	August 31,	May 31,		
	2009	2009	2008	2007
CREDIT QUALITY (AS % OF TOTAL MUNICIPAL BONDS)(a),(b)				
AAA/U.S. Guaranteed	38%	40%	63%	67%
AA	24%	37%	15%	18%
A	23%	8%	8%	3%
BBB	10%	10%	9%	9%
BB or Lower	2%	2%	3%	1%
N/R	3%	3%	2%	2%
	100%	100%	100%	100%

(a) The percentages shown in the table above may reflect the ratings on certain bonds whose insurer has experienced downgrades.

(b) Under normal market conditions, the Fund will invest its net assets in a portfolio of municipal securities that are exempt from regular federal and Massachusetts income taxes.

	August 31,	May 31,		
	2009	2009	2008	2007
PORTFOLIO COMPOSITION (AS % OF TOTAL INVESTMENTS)				
Consumer Discretionary	1.0%	1.0%	1.2%	1.5%
Consumer Staples	%	%	%	0.6%
Education and Civic Organizations	20.2%	20.2%	20.2%	15.1%
Health Care	16.0%	15.8%	16.9%	12.0%
Housing/Multifamily	5.0%	5.1%	4.9%	5.4%
Housing/Single Family	2.4%	2.4%	1.2%	2.4%
Industrials	0.7%	0.7%	0.8%	0.8%
Long-Term Care	4.4%	4.4%	4.6%	4.3%
Tax Obligation/General	12.4%	12.6%	11.2%	13.7%
Tax Obligation/Limited	9.6%	9.6%	8.6%	10.1%
Transportation	6.5%	6.1%	6.6%	7.9%
U.S. Guaranteed	12.1%	12.4%	14.8%	16.8%
Utilities	1.9%	1.9%	2.0%	2.0%

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Water and Sewer	<u>7.8%</u>	<u>7.8%</u>	<u>7.0%</u>	<u>7.4%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

DESCRIPTION OF MTP SHARES

The following is a brief description of the terms of MTP Shares, including specific terms of Series 2015 MTP Shares. This is not a complete description and is subject to and entirely qualified by reference to the Fund's Declaration of Trust and the Statement. These documents are filed with the Securities and Exchange Commission as exhibits to the Fund's registration statement of which this prospectus is a part and the form of the Statement also is attached as Appendix A to the SAI. Copies may be obtained as described under Available Information. Many of the terms in this section have a special meaning. Any capitalized terms in this section that are not defined have the meaning assigned to them in the Statement.

General

At the time of issuance the MTP Shares will be fully paid and non-assessable and have no preemptive, conversion, or exchange rights or rights to cumulative voting. MTP Shares will rank equally with shares of all other Preferred Stock of the Fund including outstanding MuniPreferred shares, if any, and with any other series of preferred shares of the Fund that might be issued in the future, as to payment of dividends and the distribution of the Fund's assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares and all other Preferred Stock of the Fund are senior as to dividends and distributions to the Fund's common shares. The Fund may issue additional series of Preferred Stock in the future that will be classified as MuniFund Term Preferred Shares, and any such series, together with the MTP Shares, are herein collectively referred to as MuniFund Term Preferred Shares.

Except in certain limited circumstances, holders of MTP Shares will not receive certificates representing their ownership interest in such shares, and the MTP Shares will be represented by a global certificate to be held by the Securities Depository for the MTP Shares. The Depository Trust Company will initially act as Securities Depository with respect to the MTP Shares.

Dividends and Dividend Periods

General. The following is a general description of dividends and dividend periods. The holders of MTP Shares will be entitled to receive cumulative cash dividends and distributions on such shares, when, as and if declared by, or under authority granted by, the Board of Trustees, out of funds legally available for payment and in preference to dividends and distributions on common shares of the Fund, calculated separately for each Dividend Period for such MTP Shares at the Dividend Rate for such MTP Shares in effect during such Dividend Period, on an amount equal to the Liquidation Preference for such MTP Shares. The Dividend Rate is computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends so declared and payable will be paid to the extent permitted under state law and the Declaration of Trust, and to the extent available, in preference to and priority over any dividend declared and payable on the common shares.

Fixed Dividend Rate. The Fixed Dividend Rate is an annual rate of 2.65% for Series 2015 MTP Shares. The Fixed Dividend Rate for MTP Shares may be adjusted in certain circumstances, including a change in the credit rating of such MTP Shares and/or upon the occurrence of certain events resulting in a Default Period (as defined below) (the Fixed Dividend Rate as it may be adjusted is referred to as the Dividend Rate).

Payment of Dividends and Dividend Periods. Dividends on the MTP Shares will be payable monthly. The initial Dividend Period for the MTP Shares will commence on the Date of Original Issue of MTP Shares and end on February 28, 2010 and each subsequent Dividend Period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares). Dividends will be paid on the Dividend Payment Date the first Business Day of the month next following a Dividend Period and upon redemption of the MTP Shares, except that

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dividends paid with respect to any Dividend Period consisting of the month of December in any year will be paid on the last Business Day of December. Dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly Dividend Period (or if such day is not a

Business Day, the next preceding Business Day). Dividends with respect to the first Dividend Period of the Series 2015 MTP Shares will be declared and paid to holders of record of such MTP Shares as their names appear on the registration books of the Fund at the close of business on February 15, 2010. Dividends payable on any MTP Shares for any period of less than a full monthly Dividend Period, including in connection with the first Dividend Period for such shares or upon any redemption of such shares on any redemption date other than on a Dividend Payment Date, will be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed for any period of less than one month.

On account of the foregoing provisions, only the holders of MTP Shares on the record date for a Dividend Period will be entitled to receive dividends and distributions payable with respect to such Dividend Period, and holders of MTP Shares who sell shares before such a record date and purchasers of MTP Shares who purchase shares after such a record date should take the effect of the foregoing provisions into account in evaluating the price to be received or paid for such MTP Shares.

Adjustment to Fixed Dividend Rate Ratings. So long as MTP Shares are rated on any date AAA by S&P, Aaa by Moody's or AAA by Fitch, then the Dividend Rate will be equal to the Fixed Dividend Rate. If the highest credit rating assigned on any date to outstanding MTP Shares by any of Moody's, S&P or Fitch is equal to one of the ratings set forth in the table below, the Dividend Rate applicable to such outstanding MTP Shares for such date will be adjusted by multiplying the Fixed Dividend Rate by the applicable percentage (expressed as a decimal) set forth opposite the applicable highest credit rating so assigned on such date to such outstanding MTP Shares by any such Rating Agency as set forth in the table below.

Dividend Rate Adjustment Schedule

S&P	Moody's	Fitch	Applicable Percentage
AA+ to AA-	Aa1 to Aa3	AA+ to AA-	110%
A+ to A-	A1 to A3	A+ to A-	125%
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	150%
BB+ and lower	Ba1 and lower	BB+ and lower	200%

If no Rating Agency is rating outstanding MTP Shares, the Dividend Rate applicable to the MTP Shares for such date shall be adjusted by multiplying the Fixed Dividend Rate for such shares by 200%.

The Board of Trustees of the Fund has the right to terminate the designation of any of S&P, Moody's and Fitch as a Rating Agency for purposes of the MTP Shares, provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares. In such event, any rating of such terminated Rating Agency, to the extent it would have been taken into account in any of the provisions of the MTP Shares which are described in this prospectus or included in the Statement, will be disregarded, and only the ratings of the then-designated Rating Agencies will be taken into account. If a Rating Agency replaces any credit rating used in the determination of the Dividend Rate with a replacement credit rating, references to the replaced credit rating shall thereafter refer to the replacement credit rating. No adjustment to the Dividend Rate shall result in the Dividend Rate being less than the Fixed Dividend Rate.

Adjustment to Fixed Dividend Rate Default Period. The Dividend Rate will be adjusted to the Default Rate in the following circumstances. Subject to the cure provisions below, a Default Period with respect to MTP Shares will commence on a date the Fund fails to deposit with the Redemption and Paying Agent by 12:00 noon, New York City time, on the (i) applicable Dividend Payment Date, Deposit Securities sufficient to pay the full amount of any dividend on MTP Shares payable on such Dividend Payment Date (a Dividend Default) or (ii) applicable Redemption Date (as defined below), Deposit Securities sufficient to pay the full amount of the redemption price payable on such Redemption Date (a Redemption Default) and, together with a Dividend Default, referred to as a Default. Subject to the cure provisions in the next paragraph

below, a Default Period with respect to a Dividend Default or a Redemption Default shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends and any unpaid redemption price shall have

been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of a Default, the applicable dividend rate for each day during the Default Period will be equal to the Default Rate. The Default Rate for any calendar day shall be equal to the applicable Dividend Rate in effect on such day plus five percent (5%) per annum.

No Default Period with respect to a Dividend Default or Redemption Default will be deemed to commence if the amount of any dividend or any redemption price due (if such default is not solely due to the willful failure of the Fund) is deposited irrevocably in trust, in same-day funds with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three Business Days after the applicable Dividend Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount and period of such non-payment based on the actual number of calendar days comprising such period divided by 360.

Mechanics of Payment of Dividends. Not later than 12:00 noon, New York City time, on a Dividend Payment Date, the Fund is required to deposit with the Redemption and Paying Agent sufficient funds for the payment of dividends in the form of Deposit Securities. Deposit Securities will generally consist of (i) cash or cash equivalents; (ii) direct obligations of the United States or its agencies or instrumentalities that are entitled to the full faith and credit of the United States (U.S. Government Obligations); (iii) securities that constitute municipal securities as described in this prospectus, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of income that is exempt from federal income taxes (Municipal Obligations) that have credit ratings from at least one nationally recognized statistical rating organization (NRSRO) that is the highest applicable rating generally ascribed by such NRSRO to Municipal Obligations with substantially similar terms; (iv) investments in money market funds registered under the 1940 Act that qualify under Rule 2a-7 under the 1940 Act and certain similar investment vehicles that invest in Municipal Obligations, U.S. Government Obligations or any combination thereof; or (v) any letter of credit from a bank or other financial institution that has a credit rating from at least one NRSRO that is the highest applicable rating generally ascribed by such NRSRO to bank deposits or short-term debt of similar banks or other financial institutions, in each case either that is a demand obligation payable to the holder on any Business Day or that has a maturity date, mandatory redemption date or mandatory payment date, preceding the relevant Redemption Date, Dividend Payment Date or other payment date. The Fund does not intend to establish any reserves for the payment of dividends.

All Deposit Securities paid to the Redemption and Payment Agent for the payment of dividends will be held in trust for the payment of such dividends to the holders of MTP Shares. Dividends will be paid by the Redemption and Payment Agent to the holders of MTP Shares as their names appear on the registration books of the Fund. Dividends that are in arrears for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date. Such payments are made to holders of MTP Shares as their names appear on the registration books of the Fund on such date, not exceeding 15 calendar days preceding the payment date thereof, as may be fixed by the Board of Trustees. Any payment of dividends in arrears will first be credited against the earliest accumulated but unpaid dividends. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on any MTP Shares which may be in arrears. See

Adjustment to Fixed Dividend Rate Default Period.

Upon failure to pay dividends for at least two years, the holders of MTP Shares will acquire certain additional voting rights. See Voting Rights below. Such rights shall be the exclusive remedy of the holders of MTP Shares upon any failure to pay dividends on MTP Shares.

Distributions with respect to Taxable Allocations.

Holders of MTP Shares will be entitled to receive, when, as and if declared by the Board of Trustees, out of funds legally available therefor, additional distributions payable with respect to Taxable Allocations (as defined below) that are paid with respect to such shares in accordance with one of the procedures described in the following three paragraphs as set forth below.

Each year, the Fund will allocate exempt interest dividends, ordinary income dividends, and capital gain distributions, between its common shares and Preferred Stock, including MTP Shares, in proportion to the total dividends paid to each class during or with respect to such year. See

Tax Matters Federal Income Tax Treatment of Holders of MTP Shares. The Fund may provide notice to the Redemption and Paying Agent prior to the commencement of any Dividend Period for MTP Shares of the amount of a Taxable Allocation that will be made in respect of such MTP Shares for such Dividend Period (a Notice of Taxable Allocation). Such Notice of Taxable Allocation will state the amount of the dividends payable in respect of MTP Shares for such Dividend Period that will be treated as a Taxable Allocation and the amount of any Additional Amount Payments (as defined below) to be paid in respect of such Taxable Allocation. If the Fund provides a Notice of Taxable Allocation with respect to dividends payable on MTP Shares for a Dividend Period, the Fund will, in addition to and in conjunction with the payment of such dividends payable, make a supplemental distribution in respect of each MTP Share for such Dividend Period of an additional amount equal to the Additional Amount Payment payable in respect of the Taxable Allocation paid on such MTP Share for such Dividend Period. In general, the Fund intends to provide Notices of Taxable Allocations as contemplated by this paragraph.

If the Fund does not provide a Notice of Taxable Allocation as provided above with respect to a Taxable Allocation that is made in respect of MTP Shares, the Fund may make one or more supplemental distributions on such MTP Shares equal to the amount of such Taxable Allocation. Any such supplemental distribution in respect of such shares may be declared and paid on any date, without reference to any regular Dividend Payment Date, to the holders of such MTP Shares as their names appear on the registration books of the Fund on such date, not exceeding 15 calendar days preceding the payment date of such supplemental distribution, as may be fixed by the Board of Trustees.

If in connection with a redemption of MTP Shares, the Fund makes a Taxable Allocation without having either given advance notice thereof or made one or more supplemental distributions as described above, the Fund will direct the Redemption and Paying Agent to send an Additional Amount Payment in respect of such Taxable Allocation to each holder of such shares at such holder's address as the same appears or last appeared on the record books of the Fund.

The Fund will not be required to pay Additional Amount Payments with respect to any MTP Shares with respect to any net capital gains or other taxable income determined by the Internal Revenue Service to be allocable in a manner different from the manner used by the Fund.

The term Taxable Allocation as used above means, with respect to MTP Shares, the allocation of any net capital gains or other income taxable for federal income tax purposes to a dividend paid in respect of such shares. The term Additional Amount Payment means a payment to a holder of MTP Shares of an amount which, when taken together with the aggregate amount of Taxable Allocations made to such holder to which such Additional Amount Payment relates, would cause such holder's dividends in dollars (after federal income tax consequences) from the aggregate of such Taxable Allocations and the related Additional Amount Payment to be equal to the dollar amount of the dividends that would have been received by such holder if the amount of such aggregate Taxable Allocations would have been excludable (for federal income tax purposes) from the gross income of such holder. Such Additional Amount Payment will be calculated (i) without consideration being given to the time value of money; (ii) assuming that no holder of MTP Shares is subject to the federal alternative minimum tax with respect to dividends received from the Fund; and (iii) assuming that each Taxable Allocation and each Additional Amount Payment (except to the extent such Additional Amount Payment is designated as an exempt-interest dividend under Section 852(b)(5) of the Code) would be taxable in the hands of each holder of MTP Shares at the maximum marginal regular federal individual income tax rate applicable to ordinary income or net capital gains, as applicable, or the maximum marginal regular federal corporate income tax rate applicable to ordinary income or net capital gains, as applicable, whichever is greater, in effect at the time such Additional Amount Payment is paid.

Restrictions on Dividend, Redemption and Other Payments

No full dividends and distributions will be declared or paid on MTP Shares for any Dividend Period, or a part of a Dividend Period, unless the full cumulative dividends and distributions due through the most recent

dividend payment dates for all outstanding shares of Preferred Stock (including shares of other series of MuniFund Term Preferred Shares) have been, or contemporaneously are, declared and paid through the most recent dividend payment dates for each share of Preferred Stock. If full cumulative dividends and distributions due have not been paid on all outstanding shares of Preferred Stock of any series, any dividends and distributions being declared and paid on MTP Shares will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on the shares of each such series of Preferred Stock on the relevant dividend payment date. No holders of MTP Shares will be entitled to any dividends and distributions in excess of full cumulative dividends and distributions as provided in the Statement.

For so long as any MuniFund Term Preferred Shares are outstanding, the Fund will not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in common stock of the Fund) in respect of the common stock of the Fund, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any such common stock, or (z) pay any proceeds of the liquidation of the Fund in respect of such common stock, unless, in each case, (A) immediately thereafter, the Fund shall be in compliance with the 200% asset coverage limitations set forth under the 1940 Act, (B) all cumulative dividends and distributions of shares of all series of MuniFund Term Preferred Shares of the Fund and all other series of Preferred Stock ranking on a parity with the MTP Shares due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and sufficient funds or Deposit Securities as permitted by the terms of such Preferred Stock for the payment thereof shall have been deposited irrevocably with the applicable paying agent) and (C) the Fund shall have deposited Deposit Securities with the Redemption and Paying Agent in accordance with the requirements described herein with respect to outstanding MuniFund Term Preferred Shares of any series to be redeemed pursuant to a Term Redemption or Asset Coverage or Effective Leverage Mandatory Redemption resulting from the failure to comply with the Asset Coverage or Effective Leverage Ratio as described below for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms described herein on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

Except as required by law, the Fund will not redeem any MTP Shares unless all accumulated and unpaid dividends and distributions on all outstanding MTP Shares and other series of Preferred Stock ranking on a parity with the MTP Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Fund) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent, provided, however, that the foregoing shall not prevent the purchase or acquisition of outstanding MTP Shares pursuant to the an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding MTP Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

As a fundamental policy, the Fund may not issue debt securities that rank senior to MTP Shares other than for temporary or emergency purposes. See the SAI, Investment Restrictions. Under the 1940 Act, the Fund may not (i) declare any dividend with respect to any preferred shares if, at the time of such declaration (and after giving effect thereto), asset coverage with respect to any borrowings of the Fund that are senior securities representing indebtedness (as defined in the 1940 Act), would be less than 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring dividends on its preferred shares) or (ii) declare any other distribution on the preferred shares or purchase or redeem preferred shares if at the time of the declaration or redemption (and after giving effect thereto), asset coverage with respect to such borrowings that are senior securities representing indebtedness would be less than 300% (or such higher percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its shares). Notwithstanding the 1940 Act's requirements, MTP Shares have a higher Asset Coverage (as defined for purposes of the MTP Shares) of at least 225% instead of 200%.

Senior securities representing indebtedness generally means any bond, debenture, note or similar obligation or instrument constituting a security (other than shares of capital stock) and evidencing indebtedness and could include the Fund's obligations under any borrowings. For purposes of determining asset coverage for senior securities representing indebtedness in connection with the payment of dividends or other distributions on or purchases or redemptions of stock, the term senior security does not include any promissory note or other evidence of indebtedness issued in consideration of any loan, extension or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed. The term senior security also does not include any such promissory note or other evidence of indebtedness in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the Fund at the time when the loan is made; a loan is presumed under the 1940 Act to be for temporary purposes if it is repaid within 60 calendar days and is not extended or renewed; otherwise it is presumed not to be for temporary purposes. For purposes of determining whether the 200% and 300% statutory asset coverage requirements described above apply in connection with dividends or distributions on or purchases or redemptions of preferred shares, such asset coverages may be calculated on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of the applicable determination.

Asset Coverage

If the Fund fails to maintain Asset Coverage of at least 225% as of the close of business on each Business Day, the MTP Shares may become subject to mandatory redemption as provided below. Asset Coverage means asset coverage of a class of senior security which is a stock, as defined for purposes of Section 18(h) of the 1940 Act as in effect on the date of the Statement, determined on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of such determination. For purposes of this determination, no MTP Shares or other Preferred Stock shall be deemed to be outstanding for purposes of the computation of Asset Coverage if, prior to or concurrently with such determination, either (A) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Preferred Stock) to pay the full redemption price for such Preferred Stock (or the portion thereof to be redeemed) shall have been deposited in trust with the paying agent for such Preferred Stock and the requisite notice of redemption for such Preferred Stock (or the portion thereof to be redeemed) shall have been given or (B) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Preferred Stock) to pay the full redemption price for such Preferred Stock (or the portion thereof to be redeemed) shall have been segregated by the Fund and its custodian from the assets of the Fund in the same manner as described under Term Redemption Liquidity Account and Liquidity Requirement below with respect to the Liquidity Requirement applicable to the MTP Shares. In such event, the Deposit Securities or other sufficient funds so deposited or segregated shall not be included as assets of the Fund for purposes of the computation of Asset Coverage.

Effective Leverage Ratio

If the Fund's Effective Leverage Ratio exceeds 50% as of the close of business on any Business Day, the MTP Shares may become subject to mandatory redemption as provided below. The Effective Leverage Ratio on any date means the quotient of the sum of (A) the aggregate liquidation preference of the Fund's senior securities (as that term is defined in the 1940 Act) that are stock for purposes of the 1940 Act, excluding, without duplication, (1) any such senior securities for which the Fund has issued a notice of redemption and either has delivered Deposit Securities or sufficient funds (in accordance with the terms of such senior securities) to the paying agent for such senior securities or otherwise has adequate Deposit Securities or sufficient funds on hand for the purpose of such redemption and (2) any such senior securities that are to be redeemed with net proceeds from the sale of the MTP Shares, for which the Fund has delivered Deposit Securities or sufficient funds to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities or sufficient funds on hand for the purpose of such redemption; (B) the aggregate principal amount of the Fund's senior securities representing indebtedness (as that term is defined in the 1940 Act); and (C) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund's valuation procedures) of the Fund's total assets (including amounts attributable to senior securities), less the amount of the Fund's accrued liabilities (other than

liabilities for the aggregate principal amount of senior securities representing indebtedness, including floating rate securities); and (B) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund.

Redemption

Term Redemption. The Fund is required to provide for the mandatory redemption (the *Term Redemption*) of all of the Series 2015 MTP Shares on February 1, 2015 (the *Term Redemption Date*), at a redemption price equal to the Liquidation Preference per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the *Term Redemption Date* (the *Term Redemption Price*).

Mandatory Redemption for Asset Coverage and Effective Leverage Ratio.

Asset Coverage. If the Fund fails to have Asset Coverage of at least 225% as provided in the Statement and such failure is not cured as of the close of business on the Asset Coverage Cure Date, the Fund will fix a redemption date and proceed to redeem the number of shares of Preferred Stock as described below at a price per share equal to the liquidation price per share of the applicable Preferred Stock, which in the case of the MTP Shares is equal to the Liquidation Preference per Share plus accumulated but unpaid dividends and distributions thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for redemption by the Board of Trustees (the *Mandatory Redemption Price*). The Fund will redeem out of funds legally available the number of shares of Preferred Stock (which may include at the sole option of the Fund any number or proportion of MTP Shares) equal to the lesser of (i) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in the Fund having Asset Coverage of at least 230% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available in accordance with the Declaration of Trust of the Fund and applicable law. Notwithstanding the foregoing sentence, in the event that shares of Preferred Stock are redeemed pursuant to the Statement, the Fund may at its sole option, but is not required to, redeem a sufficient number of MTP Shares that, when aggregated with other shares of Preferred Stock redeemed by the Fund, permits the Fund to have with respect to the shares of Preferred Stock (including MTP Shares) remaining outstanding after such redemption, Asset Coverage on such Asset Coverage Cure Date of as much as 285%. The Fund will effect a redemption on the date fixed by the Fund, which date will not be later than 30 calendar days after the Asset Coverage Cure Date, except that if the Fund does not have funds legally available for the redemption of all of the required number of MTP Shares and other shares of Preferred Stock which have been designated to be redeemed or the Fund otherwise is unable to effect such redemption on or prior to 30 calendar days after the Asset Coverage Cure Date, the Fund will redeem those MTP Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption.

If fewer than all of the outstanding MTP Shares are to be redeemed pursuant to the Asset Coverage mandatory redemption provisions above, the MTP Shares to be redeemed will be selected either (i) pro rata among MTP Shares, (ii) by lot or (iii) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable.

Effective Leverage Ratio. If the Fund fails to comply with the Effective Leverage Ratio (as defined above) requirement as of the close of business on any Business Day on which such compliance is determined and such failure is not cured as of the close of business on the Effective Leverage Ratio Cure Date, the Fund will within 30 days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio of 50% or less by (A) engaging in transactions involving or relating to the floating rate securities not owned by the Fund and/or the inverse floating rate securities owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming in accordance with the Fund's Declaration of Trust a sufficient number of shares of Preferred Stock, which at the Fund's sole option may include any number or proportion of MuniFund Term Preferred Shares, or (C) engaging in any combination of the actions contemplated by clauses (A) and (B). Any MTP Shares so redeemed will be redeemed at a price per share equal to the Mandatory Redemption Price.

On the Redemption Date for a redemption contemplated by clause (B) in the paragraph above, the Fund will not redeem more than the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available therefor in accordance with the Fund's Declaration of Trust and applicable law. If the Fund is unable to redeem the required number of MTP Shares and other shares of Preferred Stock which have been designated to be redeemed in accordance with clause (B) in the paragraph above due to the unavailability of legally available funds, the Fund will redeem those MTP Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption.

If fewer than all of the outstanding MTP Shares are to be redeemed pursuant to the Effective Leverage Ratio mandatory redemption provisions above, the MTP Shares to be redeemed will be selected either (A) pro rata among MTP Shares, (B) by lot or (C) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable.

Optional Redemption. On any Business Day following the expiration of the Non-Call Period for MTP Shares or on any Business Day during a Rating Downgrade Period for MTP Shares, including a Business Day during the Non-Call Period for such MTP Shares (any such Business Day, an Optional Redemption Date), the Fund may redeem in whole or from time to time in part outstanding MTP Shares, at a redemption price equal to the Liquidation Preference, *plus* an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by the Fund, but excluding interest thereon), *plus* the applicable Optional Redemption Premium per share (as calculated below) (the Optional Redemption Price). The Optional Redemption Premium with respect to each MTP Share will be an amount equal to:

- if the Optional Redemption Date does not occur during a Rating Downgrade Period but occurs on or after February 1, 2011 and prior to August 1, 2011, 1.00% of the Liquidation Preference;
- if the Optional Redemption Date does not occur during a Rating Downgrade Period but occurs on or after August 1, 2011 and prior to February 1, 2012, 0.5% of the Liquidation Preference; or
- if the Optional Redemption Date either occurs during a Rating Downgrade Period or occurs on or after February 1, 2012, 0.00% of the Liquidation Preference.

If fewer than all of the outstanding MTP Shares are to be redeemed pursuant to the optional redemption provisions above, the MTP Shares to be redeemed will be selected either (i) pro rata among MTP Shares, (ii) by lot or (iii) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable. Subject to the provisions of the Statement and applicable law, the Fund's Board of Trustees will have the full power and authority to prescribe the terms and conditions upon which MTP Shares will be redeemed from time to time.

The Fund may not on any date deliver a notice of redemption to redeem any MTP Shares pursuant to the optional redemption provisions described above unless on such date the Fund has available Deposit Securities for the Optional Redemption Date contemplated by such notice of redemption having a Market Value not less than the amount (including any applicable premium) due to holders of MTP Shares by reason of the redemption of such MTP Shares on such Optional Redemption Date.

Redemption Procedures. The Fund will file a notice of its intention to redeem with the Securities and Exchange Commission so as to provide the 30 calendar day notice period contemplated by Rule 23c-2 under the 1940 Act, or such shorter notice period as may be permitted by the Securities and Exchange Commission or its staff.

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If the Fund shall determine or be required to redeem, in whole or in part, MTP Shares, it will deliver a notice of redemption (a Notice of Redemption) by overnight delivery, by first class mail, postage prepaid or by electronic means to the holders of such MTP Shares to be redeemed, or request the Redemption and Paying Agent, on behalf of the Fund, to promptly do so by overnight delivery, by first class mail or by electronic means.

A Notice of Redemption will be provided not more than 45 calendar days prior to the date fixed for redemption in such Notice of Redemption (the Redemption Date). Each Notice of Redemption will state: (i) the Redemption Date; (ii) the number of MTP Shares to be redeemed; (iii) the CUSIP number(s) of such MTP Shares; (iv) the applicable Redemption Price of MTP Shares to be redeemed on a per share basis; (v) if applicable, the place or places where the certificate(s) for such MTP Shares (properly endorsed or assigned for transfer, if the Board of Trustees of the Fund will so require and the Notice of Redemption states) are to be surrendered for payment of the redemption price; (vi) that dividends on MTP Shares to be redeemed will cease to accumulate from and after the redemption date; and (vii) the provisions of the Statement under which such redemption is made. If fewer than all MTP Shares held by any holder are to be redeemed, the Notice of Redemption mailed to such holder shall also specify the number of MTP Shares to be redeemed from such holder or the method of determining such number. The Fund may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to a Statement that such redemption is subject to one or more conditions precedent and that the Fund will not be required to effect such redemption unless each such condition has been satisfied. No defect in any Notice of Redemption or delivery thereof will affect the validity of redemption proceedings except as required by applicable law.

If the Fund gives a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by the Fund), the Fund will (i) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value at the time of deposit no less than the redemption price of the MTP Shares to be redeemed on the Redemption Date and (ii) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable redemption price to the holders of MTP Shares called for redemption on the Redemption Date. The Fund may direct the Redemption and Paying Agent with respect to the investment of any Deposit Securities consisting of cash so deposited prior to the Redemption Date, provided that the proceeds of any such investment will be available at the opening of business on the Redemption Date as same day funds. Notwithstanding the foregoing, if the Redemption Date is the Term Redemption Date, then such deposit of Deposit Securities (which may come in whole or in part from the Term Redemption Liquidity Account described below) will be made no later than 15 calendar days prior to the Term Redemption Date.

Upon the date of the deposit of Deposit Securities by the Fund for purposes of redemption of MTP Shares, all rights of the holders of MTP Shares so called for redemption shall cease and terminate except the right of the holders thereof to receive the Term Redemption Price, Mandatory Redemption Price or Optional Redemption Price thereof, as applicable (any of the foregoing referred to herein as the Redemption Price), and such MTP Shares shall no longer be deemed outstanding for any purpose whatsoever (other than the transfer thereof prior to the applicable Redemption Date and other than the accumulation of dividends thereon in accordance with the terms of the MTP Shares up to (but excluding) the applicable Redemption Date). The Fund will be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of MTP Shares called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of 90 calendar days from the Redemption Date will, to the extent permitted by law, be repaid to the Fund, after which the holders of MTP Shares so called for redemption shall look only to the Fund for payment of the Redemption Price. The Fund will be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

On or after a Redemption Date, each holder of MTP Shares in certificated form (if any) that are subject to redemption will surrender the certificate(s) evidencing such MTP Shares to the Fund at the place designated in the Notice of Redemption and will then be entitled to receive the Redemption Price, without interest, and in the case of a redemption of fewer than all MTP Shares represented by such certificate(s), a new certificate representing MTP Shares that were not redeemed.

Notwithstanding the other redemption provisions described herein, except as otherwise required by law, the Fund will not redeem any MTP Shares unless all accumulated and unpaid dividends and distributions on all outstanding MTP Shares and shares of other series of Preferred Stock ranking on a parity with the MTP Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or

declared by the Fund) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent as set forth herein, provided that the Fund will not be prevented from the purchase or acquisition of outstanding MTP Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding MTP Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

If any redemption for which a Notice of Redemption has been provided is not made by reason of the absence of legally available funds of the Fund in accordance with the Declaration of Trust of the Fund and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default will be deemed to have occurred if the Fund has failed to deposit in trust with the Redemption and Paying Agent the applicable Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent has not been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any MuniFund Term Preferred Shares, dividends may be declared and paid on such MuniFund Term Preferred Shares in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such MuniFund Term Preferred Shares shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

The Fund may, in its sole discretion and without a shareholder vote, modify the redemption procedures with respect to notification of redemption for the MTP Shares, provided that such modification does not materially and adversely affect the holders of MTP Shares or cause the Fund to violate any applicable law, rule or regulation.

Term Redemption Liquidity Account and Liquidity Requirement

On or prior to August 1, 2014 (the "Liquidity Account Initial Date"), the Fund will cause its custodian to segregate, by means of appropriate identification on its books and records or otherwise in accordance with its custodian's normal procedures, from the other assets of the Fund (the "Term Redemption Liquidity Account") Deposit Securities or any other security or investment owned by the Fund that is rated not less than A3 by Moody's, A- by S&P, A- by Fitch or an equivalent rating by any other NRSRO (each a "Liquidity Account Investment" and collectively the "Liquidity Account Investments") with a Market Value (as defined in the Statement) equal to at least 110% of the Term Redemption Amount (as defined below) with respect to such MTP Shares. The "Term Redemption Amount" for MTP Shares is equal to the Term Redemption Price to be paid on the Term Redemption Date, based on the number of MTP Shares then outstanding, assuming for this purpose that the Dividend Rate in effect at the Liquidity Account Initial Date will be the Dividend Rate in effect until the Term Redemption Date. If, on any date after the Liquidity Account Initial Date, the aggregate Market Value of the Liquidity Account Investments included in the Term Redemption Liquidity Account for MTP Shares as of the close of business on any Business Day is less than 110% of the Term Redemption Amount, then the Fund will cause the custodian and NAM to take all such necessary actions, including segregating assets of the Fund as Liquidity Account Investments, so that the aggregate Market Value of the Liquidity Account Investments included in the Term Redemption Liquidity Account is at least equal to 110% of the Term Redemption Amount not later than the close of business on the next succeeding Business Day. With respect to assets of the Fund segregated as Liquidity Account Investments with respect to the MTP Shares, NAM, on behalf of the Fund, will be entitled to instruct the custodian on any date to release any Liquidity Account Investments from such segregation and to substitute therefor other Liquidity Account Investments not so segregated, so long as (i) the assets of the Fund segregated as Liquidity Account Investments at the close of business on such date have a Market Value (as defined in the Statement) equal to 110% of the Term Redemption Amount and (ii) the assets of the Fund segregated as Deposit Securities at the close of business on such date have a Market Value equal to the Liquidity Requirement (if any) (as set forth below) that is applicable to such date. The Fund will cause the custodian not to permit any lien, security interest or encumbrance to be created or permitted to exist on or in

respect of any Liquidity Account Investments included in the Term Redemption Liquidity Account, other than liens, security interests or encumbrances arising by operation of law and any lien of the custodian with respect to the payment of its fees or repayment for its advances.

The Market Value of the Deposit Securities held in the Term Redemption Liquidity Account for the MTP Shares, from and after the 15th day of the calendar month that is the number of months preceding the month of the Term Redemption Date specified in the table set forth below, will not be less than the percentage of the Term Redemption Amount for the MTP Shares set forth below opposite such number of months (the Liquidity Requirement), but in all cases subject to the cure provisions of described below:

Number of Months Preceding	Value of Deposit Securities as Percentage of Term Redemption Amount
5	20%
4	40%
3	60%
2	80%
1	100%

If the aggregate Market Value of the Deposit Securities included in the Term Redemption Liquidity Account for the MTP Shares as of the close of business on any Business Day is less than the Liquidity Requirement for such Business Day, then the Fund will cause the segregation of additional or substitute Deposit Securities in respect of the Term Redemption Liquidity Account, so that the aggregate Market Value of the Deposit Securities included in the Term Redemption Liquidity Account is at least equal to the Liquidity Requirement not later than the close of business on the next succeeding Business Day.

The Deposit Securities included in the Term Redemption Liquidity Account may be applied by the Fund, in its discretion, towards payment of the Term Redemption Price. Upon the deposit by the Fund with the Redemption and Paying Agent of Deposit Securities having an initial combined Market Value sufficient to effect the redemption of the MTP Shares on the Term Redemption Date, the requirement of the Fund to maintain the Term Redemption Liquidity Account as described above will lapse and be of no further force and effect.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of MuniFund Term Preferred Shares will be entitled to receive out of the assets of the Fund available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the common stock, a liquidation distribution equal to the Liquidation Preference of \$10 per share, plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for such distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon), and such holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

If, upon any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the assets of the Fund available for distribution among the holders of all MuniFund Term Preferred Shares, and any other outstanding shares of Preferred Stock, shall be insufficient to permit the payment in full to such holders of MuniFund Term Preferred Shares of the Liquidation Preference plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to such other shares of Preferred Stock, then the available assets shall be distributed among the holders of such MuniFund Term Preferred Shares and such other series of Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or

winding up of the affairs of the Fund whether voluntary or involuntary, unless and until the Liquidation Preference on each outstanding MuniFund Term Preferred Share plus accumulated and unpaid dividends and distributions has been paid in full to the

holders of MuniFund Term Preferred Shares, no dividends, distributions or other payments will be made on, and no redemption, repurchase or other acquisition by the Fund will be made by the Fund in respect of, the common stock of the Fund.

Neither the sale of all or substantially all of the property or business of the Fund, nor the merger, consolidation or reorganization of the Fund into or with any other business or statutory trust, corporation or other entity, nor the merger, consolidation or reorganization of any other business or statutory trust, corporation or other entity into or with the Fund will be a dissolution, liquidation or winding up, whether voluntary or involuntary, for purposes of the provisions relating to liquidation set forth in the Statement.

Voting Rights

Except as otherwise provided in the Fund's Declaration of Trust, the Statement, or as otherwise required by applicable law, each holder of MTP Shares will be entitled to one vote for each MTP Share held by such holder on each matter submitted to a vote of shareholders of the Fund and the holders of outstanding shares of Preferred Stock, including the MTP Shares, will vote together with holders of shares of common stock of the Fund as a single class. Under applicable rules of the New York Stock Exchange, the Fund is currently required to hold annual meetings of shareholders.

In addition, the holders of outstanding shares of Preferred Stock, including the MTP Shares, will be entitled, as a class, to the exclusion of the holders of all other securities and classes of common stock of the Fund, to elect two trustees of the Fund at all times. The holders of outstanding shares of common stock and Preferred Stock, including MTP Shares, voting together as a single class, will elect the balance of the trustees of the Fund.

Notwithstanding the foregoing, if (i) at the close of business on any dividend payment date for dividends on any outstanding share of Preferred Stock, including any outstanding MuniFund Term Preferred Shares, accumulated dividends (whether or not earned or declared) on the shares of Preferred Stock, including the MTP Shares, equal to at least two full year's dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or (ii) at any time holders of any shares of Preferred Stock are entitled under the 1940 Act to elect a majority of the trustees of the Fund (a period when either of the foregoing conditions exists, a "Voting Period"), then the number of members constituting the Board of Trustees of the Fund will automatically be increased by the smallest number that, when added to the two trustees elected exclusively by the holders of shares of Preferred Stock, including the MTP Shares, as described above, would constitute a majority of the Board as so increased by such smallest number; and the holders of the shares of Preferred Stock, including the MTP Shares, will be entitled as a class on a one-vote-per-share basis, to elect such additional trustees. The terms of office of the persons who are trustees at the time of that election will not be affected by the election of the additional trustees. If the Fund thereafter shall pay, or declare and set apart for payment, in full all dividends payable on all outstanding shares of Preferred Stock, including MTP Shares, for all past dividend periods, or the Voting Period is otherwise terminated, (i) the voting rights stated above shall cease, subject always, however, to the reversioning of such voting rights in the holders of shares of Preferred Stock upon the further occurrence of any of the events described herein, and (ii) the terms of office of all of the additional trustees so elected will terminate automatically. Any Preferred Stock, including MTP Shares, issued after the date hereof will vote with MTP Shares as a single class on the matters described above, and the issuance of any other Preferred Stock, including MTP Shares, by the Fund may reduce the voting power of the holders of MTP Shares.

As soon as practicable after the accrual of any right of the holders of shares of Preferred Stock to elect additional trustees as described above, the Fund will call a special meeting of such holders and notify the Redemption and Paying Agent and/or such other person as is specified in the terms of such Preferred Stock to receive notice, (i) by mailing or delivery by electronic means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such holders, such meeting to be held not less than 10 nor more than 30 calendar days after the date of the delivery by electronic means or mailing of such notice. If the Fund fails to call such a special meeting, it may be called at the

expense of the Fund by any such holder on like notice. The record date for determining the holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of holders of shares of Preferred Stock held during a Voting Period at which trustees are to be elected, such holders, voting together as a class (to the exclusion of the holders of all other securities and classes of capital stock of the Fund), will be entitled to elect the number of additional trustees prescribed above on a one-vote-per-share basis.

Except as otherwise permitted by the terms of the Statement, so long as any MuniFund Term Preferred Shares are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of MuniFund Term Preferred Shares of all series outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the Declaration of Trust or the Statement, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of the MuniFund Term Preferred Shares or the holders thereof; provided, however, that (i) a change in the capitalization of the Fund as described under the heading **Issuance of Additional Preferred Stock** will not be considered to materially and adversely affect the rights and preferences of MuniFund Term Preferred Shares, and (ii) a division of a MuniFund Term Preferred Share will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of MuniFund Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a MuniFund Term Preferred Share of such Series or the holder thereof unless such matter (i) alters or abolishes any preferential right of such MuniFund Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such MuniFund Term Preferred Share (other than as a result of a division of a MuniFund Term Preferred Share). So long as any MuniFund Term Preferred Shares are outstanding, the Fund will not, without the affirmative vote or consent of at least 66 ²/₃% of the holders of MuniFund Term Preferred Shares outstanding at the time, voting as a separate class, file a voluntary application for relief under federal bankruptcy law or any similar application under state law for so long as the Fund is solvent and does not foresee becoming insolvent.

Except as otherwise permitted by the terms of the Statement, so long as any MTP Shares are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of the MTP Shares outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the appendix to the Statement relating to the MTP Shares, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power set forth in such appendix of the MTP Shares or the holders thereof; provided, however, that (i) a change in the capitalization of the Fund as described under the heading **Issuance of Additional Preferred Stock** will not be considered to materially and adversely affect the rights and preferences of the MTP Shares, and (ii) a division of an MTP Share will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of the MTP Shares; and provided, further, that no amendment, alteration or repeal of the obligations of the Fund to (x) pay the Term Redemption Price on the Term Redemption Date for the MTP Shares or (y) accumulate dividends at the Dividend Rate for the MTP Shares will be effected without, in each case, the prior unanimous vote or consent of the holders of the MTP Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a MTP Share or the holder thereof unless such matter (i) alters or abolishes any preferential right of such MTP Share, or (ii) creates, alters or abolishes any right in respect of redemption of such MTP Share.

Unless a higher percentage is provided for in the Declaration of Trust of the Fund, (i) the affirmative vote of the holders of at least a majority of the shares of Preferred Stock, including the MuniFund Term Preferred Shares outstanding at the time, voting as a separate class, will be required to approve any conversion of the Fund from a closed-end to an open-end investment company, (ii) to approve any plan of reorganization (as such term is defined in Section 2(a)(33) of the 1940 Act) adversely affecting such shares of Preferred Stock or (iii) to approve any other action requiring a vote of security holders of the Fund under Section 13(a) of the 1940 Act. For purposes of the foregoing, the vote of a majority of the outstanding shares of Preferred Stock means the vote at an annual or special meeting duly called of (i) 67% or more of such shares present at a meeting, if the

holders of more than 50% of such shares are present or represented by proxy at such meeting, or (ii) more than 50% of such shares, whichever is less.

For purposes of determining any rights of the holders of MTP Shares to vote on any matter, whether such right is created by the Statement, by the provisions of the Declaration of Trust, by statute or otherwise, no holder of MTP Shares will be entitled to vote any MTP Shares and no MTP Shares will be deemed to be outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such MTP Shares will have been given in accordance with the Statement, and the Redemption Price for the redemption of such MTP Shares will have been irrevocably deposited with the Redemption and Paying Agent for that purpose. No MTP Shares held by the Fund will have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

Notwithstanding anything herein to the contrary, the Rating Agency Guidelines discussed below, as they may be amended from time to time by the respective Rating Agency, may be amended by the respective Rating Agency without the vote, consent or approval of the Fund, the Board of Trustees of the Fund and any holder of shares of Preferred Stock, including any MTP Shares, or any other shareholder of the Fund.

Unless otherwise required by law or the Declaration of Trust, holders of MTP Shares will not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in the Voting Rights section of the Statement. The holders of MTP Shares will have no rights to cumulative voting. In the event that the Fund fails to declare or pay any dividends on MTP Shares, the exclusive remedy of the holders will be the right to vote for additional trustees as discussed above; provided that the foregoing does not affect the obligation of the Fund to accumulate and, if permitted by applicable law and the Statement, pay dividends at the Default Rate as discussed above.

Rating Agencies

The Fund will use commercially reasonable efforts to cause at least one Rating Agency to issue a credit rating with respect to MTP Shares for so long as such MTP Shares are outstanding (which credit rating may consist of a credit rating on the MuniFund Term Preferred Shares generally or the Preferred Stock generally). Rating Agency means any of Moody's, S&P or Fitch, as designated by the Board of Trustees from time to time to be a Rating Agency for purposes of the Statement. The Board of Trustees has initially designated Moody's, S&P and Fitch to be Rating Agencies. The Fund will use commercially reasonable efforts to comply with any applicable Rating Agency Guidelines. Rating Agency Guidelines are guidelines of any Rating Agency, as they may be amended or modified from time to time, compliance with which is required to cause such Rating Agency to continue to issue a rating with respect to MTP Shares for so long as such MTP Shares are outstanding. The Board of Trustees may elect to terminate the designation of any Rating Agency previously designated by the Board of Trustees to act as a Rating Agency for purposes of the Statement (provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares), and may elect to replace any Rating Agency previously designated as a Rating Agency by the Board of Trustees with any other Rating Agency not so designated at such time, if such replacement Rating Agency has at the time of such replacement (i) issued a rating for the MTP Shares and (ii) entered into an agreement with the Fund to continue to issue such rating subject to the Rating Agency's customary conditions. A copy of the current Rating Agency Guidelines will be provided to any holder of MTP Shares promptly upon request therefor made by such holder to the Fund by writing the Fund at 333 West Wacker Dr., Chicago, Illinois 60606.

Issuance of Additional Preferred Stock

So long as any MTP Shares are outstanding, the Fund may, without the vote or consent of the holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of senior securities of the Fund representing stock under Section 18 of the 1940 Act, ranking

on a parity with MuniFund

Term Preferred Shares as to payment of dividends and distributions of assets upon dissolution, liquidation or the winding up of the affairs of the Fund, in addition to then outstanding MTP Shares, including additional series of MuniFund Term Preferred Shares, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, including additional MTP Shares, in each case in accordance with applicable law, provided that the Fund will, immediately after giving effect to the issuance of such additional Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of Preferred Stock with such proceeds, have Asset Coverage of at least 225%.

Actions on Other than Business Days

Unless otherwise provided herein or in the Statement, if the date for making any payment, performing any act or exercising any right is not a Business Day, such payment will be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount will accrue for the period between such nominal date and the date of payment.

Modification

The Board of Trustees, without the vote of the holders of MTP Shares, may interpret, supplement or amend the provisions of the Statement or any appendix thereto to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Preferred Stock of the Fund.

THE FUND'S INVESTMENTS

Investment Objectives and Policies

The Fund's primary investment objective is current income exempt from both regular federal income taxes and Massachusetts personal income taxes, and its secondary investment objective is the enhancement of portfolio value relative to the Massachusetts municipal bond market through investments in tax-exempt Massachusetts Municipal Obligations that, in the opinion of the Fund's investment adviser, are underrated or undervalued or that represent municipal market sectors that are undervalued. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax.

Except as described below, the Fund seeks to achieve its investment objectives by investing substantially all of its assets in tax-exempt Massachusetts Municipal Obligations rated at the time of purchase within the four highest grades (Baa or BBB or better), except that up to 20% of the Fund's assets may be invested in unrated Massachusetts Municipal Obligations that, in NAM's opinion, have credit characteristics equivalent to, and are of comparable quality to, Massachusetts Municipal Obligations which are so rated. During temporary defensive periods and in order to keep cash on hand fully invested, the Fund may invest in high quality, short-term temporary investments the income on which will be exempt from both regular federal income taxes and Massachusetts income taxes, to the extent such securities are available or, if such securities are unavailable, in comparable temporary investments the income on which will be subject to Massachusetts income taxes or to both Massachusetts income taxes and regular federal income taxes.

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The Fund has not established any limit on the percentage of its portfolio that may be invested in Massachusetts Municipal Obligations subject to the alternative minimum tax provisions of federal tax law, and a substantial portion of the income produced by the Fund may be includable in alternative minimum taxable income. Preferred Stock therefore would not ordinarily be a suitable investment for investors who are subject to the federal alternative minimum tax.

The Fund emphasizes investments in Massachusetts Municipal Obligations with long-term maturities in order to maintain an average portfolio maturity of 15-30 years, but the average maturity may be shortened from

time to time depending on market conditions. As a result, the Fund's portfolio at any given time may include both long-term and intermediate-term Massachusetts Municipal Obligations.

The foregoing policies as to ratings of portfolio investments will apply only at the time of the purchase of a security, and the Fund will not be required to dispose of securities in the event Moody's or S&P subsequently downgrades its assessment of the credit characteristics of a particular issuer.

The Fund may purchase municipal bonds that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of companies which provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Fund's income. Insurance generally will be obtained from insurers with a claims-paying ability rated AA or better by an NRSRO at the time of purchase. The insurance feature does not guarantee the market value of the insured obligations or the net asset value of the common shares.

Underrated municipal securities are those municipal securities whose ratings do not, in NAM's opinion, reflect their true value. They may be underrated because of the time that has elapsed since their last ratings, or because rating agencies have not fully taken into account positive factors, or for other reasons. Undervalued municipal securities are those securities that, in NAM's opinion, are worth more than their market value. They may be undervalued because there is a temporary excess of supply in that particular sector (such as hospital bonds, or bonds of a particular municipal issuer). NAM may buy such a security even if the value of that security is consistent with the value of other securities in that sector. Municipal securities also may be undervalued because there has been a general decline in the market price of municipal securities for reasons that do not apply to the particular municipal securities that NAM considers undervalued. NAM believes that the prices of these municipal securities should ultimately reflect their true value.

The Fund also may invest up to 15% of its net assets in inverse floating rate securities. The economic effect of leverage through the Fund's purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

The Fund cannot change its investment objectives without the approval of the holders of a majority of the outstanding shares of common shares and Preferred Stock, voting together, and of the holders of a majority of the outstanding Preferred Stock, voting separately. For this purpose, a majority of the outstanding shares means the vote of (1) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy; or (2) more than 50% of the shares, whichever is less.

The Fund is diversified for purposes of the 1940 Act. Consequently, as to 75% of its assets, the Fund may not invest more than 5% of its total assets in the securities of any single issuer.

See Appendix A to this prospectus for a general description of the economic and credit characteristics of municipal issuers in Massachusetts.

Pending Changes to Certain Investment Policies Contingent Upon Shareholder Approval

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The Fund is seeking shareholder approval to adopt updated investment policies. In particular, the Fund is seeking to eliminate its existing fundamental policies relating to investments in municipal securities and below investment grade securities and as set forth in this prospectus and Statement of Additional Information. Contingent upon receipt of shareholder approval, the Fund would adopt a new fundamental policy that would permit the Fund to invest at least 80% of its Managed Assets in municipal securities and other related investments, the income from which is exempt from regular federal and Massachusetts income taxes. In addition, the Fund's Board has adopted new non-fundamental policies with respect to investing in investment grade

securities which would be implemented upon the elimination of the Fund's current fundamental policies as noted above. The new non-fundamental policies relating to investing in investment grade securities are as follows:

(i) Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one nationally recognized statistical rating organization or are unrated but judged to be of comparable quality by NAM.

(ii) The Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by NAM.

(iii) No more than 10% of the Fund's Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by NAM.

In addition, shareholder approval also is being sought to revise certain other fundamental policies relating to (i) the purchase or sale of commodities or commodities contracts (ii) engaging in short sales of securities, (iii) purchasing financial futures and options, which would have the effect of permitting the Fund to engage in derivative transactions for non-hedging purposes and (iii) the limitation of investments in securities other than municipal securities, which would have the effect of permitting the Fund to invest in securities of other investment companies. A complete description of the proposed changes is included in the Fund's proxy statement dated October 26, 2009 on file with the Securities and Exchange Commission and available at www.sec.gov. There can be no guarantee that the Fund will receive the necessary shareholder approval on some or all of the outstanding proposals.

Certain Trading Strategies of the Fund

When-Issued and Delayed Delivery Transactions. The Fund may buy and sell municipal securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. On such transactions, the payment obligation and the interest rate are fixed at the time the purchaser enters into the commitment. Beginning on the date the Fund enters into a commitment to purchase securities on a when-issued or delayed delivery basis, the Fund is required under the rules of the Securities and Exchange Commission to maintain in a separate account liquid assets, consisting of cash, cash equivalents or liquid securities having a market value at all times of at least equal to the amount of any delayed payment commitment. Income generated by any such assets which provide taxable income for federal income tax purposes is includable in the taxable income of the Fund and, to the extent distributed, will be taxable distributions to shareholders. The commitment to purchase securities on a when-issued or delayed delivery or forward basis may involve an element of risk because no interest accrues on the bonds prior to settlement and at the time of delivery the market value may be less than their cost.

Financial Futures and Options Transactions. The Fund may attempt to hedge its investment portfolio against market risk by engaging in transactions in financial futures contracts, options on financial futures or options that either are based on an index of long-term Municipal Obligations (*i.e.*, those with remaining maturities averaging 15-30 years) or relate to debt securities whose prices are anticipated by the Adviser to correlate with the prices of the Municipal Obligations owned by the Fund. To accomplish such hedging, the Fund may take an investment position in a futures contract or in an option that is expected to move in the opposite direction from the position being hedged. Hedging may be utilized to reduce the risk that the value of securities owned by the Fund may decline on account of an increase in interest rates and to hedge against increases in the cost of the securities the Fund intends to purchase as a result of a decline in interest rates. The use of futures and options for hedging purposes can be expected to result in taxable income or gain. *See Tax Matters* for information relating to the allocation of taxable income between Common Shares and preferred shares, if any.

The sale of financial futures or the purchase of put options on financial futures or on debt securities or indexes is a means of hedging against the risk of rising interest rates, whereas the purchase of financial futures or of call options on financial futures or on debt securities or indexes is a means of hedging the Fund's portfolio

against an increase in the price of securities the Fund intends to purchase. Writing a call option on a futures contract or on debt securities or indexes may serve as a hedge against a modest decline in prices of Municipal Obligations held in the Fund's portfolio, and writing a put option on a futures contract or on debt securities or indexes may serve as a partial hedge against an increase in the value of Municipal Obligations the Fund intends to acquire. The writing of such options provides a hedge to the extent of the premium received in the writing transaction.

Although certain risks are involved in futures and options transactions, because these transactions will be engaged in by the Fund only for hedging purposes, these futures and options portfolio strategies should not subject the Fund to those risks frequently associated with speculation in futures or options transactions. The Fund will not purchase futures unless it has segregated cash, government securities or high grade liquid debt equal to the contract price of the futures less any margin on deposit, or unless the long futures position is covered by the purchase of a put option. The Fund will not sell futures unless the Fund owns the instruments underlying the futures or owns options on such instruments or owns a portfolio whose market price may be expected to move in tandem with the market price of the instruments or index underlying the futures. In addition, the Fund is subject to the tax requirement that it derive less than 30% of its gross income from the gain on the sale or other disposition of securities held for less than three months. With respect to its engaging in transactions involving the purchase or writing of put and call options on debt securities or indexes, the Fund will not purchase such options if more than 5% of its assets would be invested in the premiums for such options, and it will only write covered or secured options, wherein the securities or cash required to be delivered upon exercise are held by the Fund, with such cash being maintained in a segregated account. These requirements and limitations may limit the Fund's ability to engage in hedging transactions.

A futures contract is a contract between a seller and a buyer for the sale and purchase of specified property at a specified future date for a specified price. An option is a contract that gives the holder of the option the right, but not the obligation, to buy (in the case of a call option) specified property from, or to sell (in the case of a put option) specified property to, the writer of the option for a specified price during a specified period prior to the option's expiration. Financial futures contracts and options cover specified debt securities (such as U.S. Treasury securities) or indexes designed to correlate with price movements in certain categories of debt securities. At least one exchange trades futures contracts on an index designed to correlate with the long-term municipal bond market. Financial futures contracts and options on financial futures contracts are traded on exchanges regulated by the CFTC. Options on certain financial instruments and financial indexes are traded in securities markets regulated by the Securities and Exchange Commission. Although futures contracts and options on specified financial instruments call for settlement by delivery of the financial instruments covered by the contracts, in most cases positions in these contracts are closed out in cash by entering into offsetting liquidating or closing transactions. Index futures and options are designed for cash settlement only.

There are certain risks associated with the use of financial futures and options to hedge investment portfolios. There may be an imperfect correlation between price movements of the futures and options and price movements of the portfolio securities being hedged. Losses may be incurred in hedging transactions, which could reduce the portfolio gains that might have been realized if the hedging transaction had not been entered into. The ability to close out positions in futures and options depends upon the existence of a liquid secondary market, which may not exist for all futures and options at all times. If the Fund engages in futures transactions or in the writing of options on futures, it will be required to maintain initial margin and variation margin in accordance with applicable rules of the exchanges and the CFTC. If the Fund purchases a financial futures contract or a call option or writes a put option in order to hedge the anticipated purchase of Municipal Obligations, and if the Fund fails to complete the anticipated purchase transaction, the Fund may experience a loss or a gain on the futures or options transaction that will not be offset by price movements in the Municipal Obligations that were the subject of the anticipatory hedge. The cost of put options on debt securities or indexes effectively increases the cost of the securities subject to them, thereby reducing the yield otherwise available from such securities.

Portfolio Turnover. The Fund may buy and sell municipal securities to accomplish its investment objectives in relation to actual and anticipated changes in interest rates. The Fund also may sell one municipal

security and buy another of comparable quality at about the same time to take advantage of what NAM believes to be a temporary price disparity between the two bonds that may result from imbalanced supply and demand. The Fund also may engage in a limited amount of short-term trading, consistent with its investment objectives. The Fund may sell securities in anticipation of a market decline (a rise in interest rates) or buy securities in anticipation of a market rise (a decline in interest rates) and later sell them, but the Fund will not engage in trading solely to recognize a gain. The Fund will attempt to achieve its investment objectives by prudently selecting municipal securities with a view to holding them for investment. Although the Fund cannot accurately predict its annual portfolio turnover rate, the Fund expects, though it cannot guarantee, that its annual portfolio turnover rate generally will not exceed 100% under normal circumstances. For the fiscal year ended May 31, 2009, the Fund's portfolio turnover rate was 1%. There are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. In addition, high portfolio turnover may result in the realization of net short term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income.

PORTFOLIO COMPOSITION

Municipal Securities

General. The Fund may invest in various municipal securities, including municipal bonds and notes and other securities issued to finance and refinance public projects, and other related securities that provide for the payment of income that is exempt from regular federal income tax Municipal Obligations.

States, local governments and municipalities issue municipal securities to raise money for public purposes such as building public facilities, refinancing outstanding obligations, and financing internal operating expenses. Municipal securities are generally either general obligation bonds, which are backed by the full faith and credit of the issuer and may be repaid from any revenue source, or revenue bonds, which may be repaid only from the revenues of a specific facility or source. The Fund also may buy municipal securities that represent interests in lease obligations. These securities carry special risks because the issuer may not be required to appropriate money annually to make payments under the lease. To reduce this risk, the Fund will only buy these securities where the issuer has a strong incentive to continue making appropriations until the municipal security matures. The Fund does not have any limits on investing in lease obligations that do not contain a non-appropriation clause. The Fund may invest no more than 10% of its net assets in municipal securities issued by U.S. possessions or territories, which pay interest exempt from regular federal income tax.

The Fund may buy municipal securities that pay a variable or floating rate of interest that changes with changes in specified market rates or indices, such as a bank prime rate or a tax-exempt money market index.

The municipal securities in which the Fund will invest are generally issued by the Commonwealth of Massachusetts, a municipality of Massachusetts, or a political subdivision of such Commonwealth or municipality, and pay interest that, in the opinion of bond counsel to the issuer (or on the basis of other authority believed by NAM to be reliable), is exempt from regular federal and Massachusetts income taxes, although the interest may be subject to the federal alternative minimum tax and the Fund may invest in municipal securities issued by U.S. territories (such as Puerto Rico or Guam) that are exempt from regular federal and Massachusetts income taxes (Massachusetts Municipal Obligations).

Yields on municipal securities depend on many factors, including the condition of the general money market and the municipal security market, the size of a particular offering, and the maturity and rating of a particular municipal security. Moody's, S&P's and Fitch's ratings represent their opinions of the quality of a particular municipal security, but these ratings are general and are not absolute quality standards. Therefore, municipal securities with the same maturity, coupon, and rating may have different yields, while municipal securities with

the same maturity and coupon and different ratings may have the same yield. The market value of municipal securities will vary with changes in interest rates and in the ability of their issuers to make interest and principal payments.

Obligations of municipal security issuers are subject to bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors. These obligations also may be subject to future federal or state laws or referenda that extend the time to payment of interest and/or principal, or that constrain the enforcement of these obligations or the power of municipalities to levy taxes. Legislation or other conditions may materially affect the power of a municipal security issuer to pay interest and/or principal when due.

Municipal Leases and Certificates of Participation. The Fund may purchase municipal securities that represent lease obligations and certificates of participation in such leases. These carry special risks because the issuer of the securities may not be obligated to appropriate money annually to make payments under the lease. A municipal lease is an obligation in the form of a lease or installment purchase that is issued by a state or local government to acquire equipment and facilities. Income from such obligations generally is exempt from state and local taxes in the state of issuance. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment or facilities. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and result in a delay in recovering, or the failure to recover fully, the Fund's original investment. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the Fund will only purchase municipal securities representing lease obligations where NAM believes the issuer has a strong incentive to continue making appropriations until maturity.

A certificate of participation represents an undivided interest in an unmanaged pool of municipal leases, an installment purchase agreement or other instruments. The certificates are typically issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. Such certificates provide the Fund with the right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Fund with the right to demand payment, on not more than seven days' notice, of all or any part of the Fund's participation interest in the underlying municipal securities, plus accrued interest.

Municipal Notes. Municipal securities in the form of notes generally are used to provide for short-term capital needs, in anticipation of an issuer's receipt of other revenues or financing, and typically have maturities of up to three years. Such instruments may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, tax and revenue anticipation notes and construction loan notes. Tax anticipation notes are issued to finance the working capital needs of governments. Generally, they are issued in anticipation of various tax revenues, such as income, sales, property, use and business taxes, and are payable from these specific future taxes. Revenue anticipation notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under federal revenue sharing programs. Bond anticipation notes are issued to provide interim financing until long-term bond financing can be arranged. In most cases, the long-term bonds then provide the funds needed for repayment of the bond anticipation notes. Tax and revenue anticipation notes combine the funding sources of both tax anticipation notes and revenue anticipation notes. Construction loan notes are sold to provide construction financing. Mortgage notes insured by the Federal Housing Authority secure these notes; however, the proceeds from the insurance may be less than the economic equivalent of the payment of principal.

and interest on the mortgage note if there has been a default. The anticipated revenues from taxes, grants or bond financing generally secure the obligations of an issuer of municipal notes. An investment in such instruments, however, presents a risk that the anticipated revenues will not be received or that such revenues will be insufficient to satisfy the issuer's payment obligations under the notes or that refinancing will be otherwise unavailable.

Pre-Refunded Municipal Securities. The principal of, and interest on, pre-refunded municipal securities are no longer paid from the original revenue source for the securities. Instead, the source of such payments is typically an escrow fund consisting of U.S. Government securities. The assets in the escrow fund are derived from the proceeds of refunding bonds issued by the same issuer as the pre-refunded municipal securities. Issuers of municipal securities use this advance refunding technique to obtain more favorable terms with respect to securities that are not yet subject to call or redemption by the issuer. For example, advance refunding enables an issuer to refinance debt at lower market interest rates, restructure debt to improve cash flow or eliminate restrictive covenants in the indenture or other governing instrument for the pre-refunded municipal securities. However, except for a change in the revenue source from which principal and interest payments are made, the pre-refunded municipal securities remain outstanding on their original terms until they mature or are redeemed by the issuer.

Private Activity Bonds. Private activity bonds, formerly referred to as industrial development bonds, are issued by or on behalf of public authorities to obtain funds to provide privately operated housing facilities, airport, mass transit or port facilities, sewage disposal, solid waste disposal or hazardous waste treatment or disposal facilities and certain local facilities for water supply, gas or electricity. Other types of private activity bonds, the proceeds of which are used for the construction, equipment, repair or improvement of privately operated industrial or commercial facilities, may constitute municipal securities, although the current federal tax laws place substantial limitations on the size of such issues.

Inverse Floating Rate Securities. Inverse floating rate securities (sometimes referred to as inverse floaters) are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. Generally, inverse floating rate securities represent beneficial interests in a special purpose trust formed by a third party sponsor for the purpose of holding municipal bonds. The special purpose trust typically sells two classes of beneficial interests or securities: floating rate securities (sometimes referred to as short-term floaters or tender option bonds) and inverse floating rate securities (sometimes referred to as inverse floaters or residual interest securities). Both classes of beneficial interests are represented by certificates. The short-term floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees. The holder of the short-term floater effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, the institution granting the tender option will not be obligated to accept tendered short-term floaters in the event of certain defaults or a significant downgrade in the credit rating assigned to the bond issuer. For its inverse floating rate investment, the Fund receives the residual cash flow from the special purpose trust. Because the holder of the short-term floater is generally assured liquidity at the face value of the security, the Fund as the holder of the inverse floater assumes the interest rate cash flow risk and the market value risk associated with the municipal bond deposited into the special purpose trust. The volatility of the interest cash flow and the residual market value will vary with the degree to which the trust is leveraged. This is expressed in the ratio of the total face value of the short-term floaters in relation to the value of the inverse floaters that are issued by the special purpose trust. All voting rights and decisions to be made with respect to any other rights relating to the municipal bonds held in the special purpose trust are passed through to the Fund, as the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, inverse

floaters' value is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than the underlying bonds due to the leveraging effect of this ownership structure. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (*i.e.*, when bond values are falling), but tend to out-perform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Inverse floaters have varying degrees of liquidity based upon the liquidity of the underlying bonds deposited in a special purpose trust.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In NAM's discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of such inverse floater, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate interests. Such agreements may expose the Fund to a risk of loss that exceeds its investment in the inverse floating rate securities. Absent a shortfall and forbearance agreement, the Fund would not be required to make such a reimbursement. If the Fund chooses not to enter into such an agreement, the special purpose trust could be liquidated and the Fund could incur a loss.

The Fund's investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund's inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the "gearing"). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund's anticipated effective leverage ratio.

The Fund will segregate or earmark liquid assets with its custodian in accordance with the 1940 Act to cover its obligations with respect to its investments in special purpose trusts. See also "Segregation of Assets" in the Statement of Additional Information.

The Fund invests in both inverse floating rate securities and floating rate securities (as discussed below) issued by the same special purpose trust.

Floating Rate Securities. The Fund may also invest in floating rate securities, as described above, issued by special purpose trusts. Floating rate securities may take the form of short-term floating rate securities or the option period may be substantially longer. Generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter-term than the final maturity or first call date of the underlying bond deposited in the trust, the Fund as the holder of the floating rate securities relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the trust provide for a liquidation of the municipal bond deposited in the trust and the application of the proceeds to pay off the floating rate securities. The trusts that are

organized to issue both short-term floating rate securities and inverse floaters generally include liquidation triggers to protect the investor in the floating rate securities.

Special Taxing Districts. Special taxing districts are organized to plan and finance infrastructure developments to induce residential, commercial and industrial growth and redevelopment. The bond financing methods such as tax increment finance, tax assessment, special services district and Mello-Roos bonds, are generally payable solely from taxes or other revenues attributable to the specific projects financed by the bonds without recourse to the credit or taxing power of related or overlapping municipalities. They often are exposed to real estate development-related risks and can have more taxpayer concentration risk than general tax-supported bonds, such as general obligation bonds.

Further, the fees, special taxes, or tax allocations and other revenues that are established to secure such financings are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. The bonds could default if development failed to progress as anticipated or if larger taxpayers failed to pay the assessments, fees and taxes as provided in the financing plans of the districts.

Structured Notes. The Fund may utilize structured notes and similar instruments for investment purposes and also for hedging purposes. Structured notes are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but not ordinarily below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending upon a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index or indices or other assets. Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss. These types of investments may generate taxable income.

Portfolio Investments

As used in this prospectus, the term municipal securities includes municipal securities with relatively short-term maturities. Some of these short-term securities may be variable or floating rate securities. The Fund, however, emphasizes investments in municipal securities with long- or intermediate-term maturities. The Fund buys municipal securities with different maturities and intends to maintain an average portfolio maturity of 15 to 30 years, although this may be shortened depending on market conditions. As a result, the Fund's portfolio may include long-term and intermediate-term municipal securities. If the long-term municipal security market is unstable, the Fund may temporarily invest up to 100% of its assets in temporary investments. Temporary investments are high quality, generally uninsured, short-term municipal securities that may either be tax-exempt or taxable. The Fund will buy taxable temporary investments only if suitable tax-exempt temporary investments are not available at reasonable prices and yields. The Fund will invest only in taxable temporary securities that are U.S. Government securities or corporate debt securities rated within the highest grade by Moody's, S&P or Fitch, and that mature within one year from the date of purchase or carry a variable of floating rate of interest. The Fund's policies on securities ratings only apply when the Fund buys a security, and the Fund is not required to sell securities that have been downgraded. See Appendix B to the SAI for a description of securities ratings. The Fund also may invest in taxable temporary investments that are certificates of deposit from U.S. banks with assets of at least \$1 billion, or repurchase agreements. The Fund intends to allocate taxable income on temporary investments, if any, proportionately between common shares and Preferred Stock, including MTP Shares, based on the percentage of total dividends distributed to each class for that year.

RISKS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in MTP Shares. The section below does not describe all of the risks associated with an investment in the Fund. Additional risks and uncertainties may also adversely affect and impact the Fund.

Risks of Investing in MTP Shares

Interest Rate Risk *MTP Shares.* MTP Shares pay dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on intermediate term securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares prior to its term redemption. See *Description of MTP Shares* *Dividends and Dividend Periods* and *Secondary Market Risk*.

Secondary Market and Delayed Listing Risk. Because the Fund has no prior trading history for exchange-listed preferred shares, it is difficult to predict the trading patterns of MTP Shares, including the effective costs of trading MTP Shares. During a period of up to 30 days from the date of this prospectus, the MTP Shares will not be listed on any securities exchange. During this period, the underwriters do not intend to make a market in MTP Shares. Consequently, an investment in MTP Shares during this period will likely be illiquid and holders of MTP Shares may not be able to sell such shares as it is unlikely that a secondary market for MTP Shares will develop during this period. If a secondary market does develop during this period, holders of MTP Shares may be able to sell such shares only at substantial discounts from liquidation preference. Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days from the date of this prospectus, subject to notice of issuance. If the Fund is unable to list MTP Shares on a national securities exchange, holders of MTP Shares may be unable to sell such shares at all, or if they are able to, only at substantial discounts from liquidation preference. Even after the MTP Shares are listed on the New York Stock Exchange as anticipated, there is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features.

Ratings Risk. The Fund expects that, at issuance, the MTP Shares will be rated Aaa, AAA and AAA by Moody's, S&P and Fitch, respectively, and that such ratings will be a requirement of issuance of such shares by the underwriters pursuant to an underwriting agreement. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of MTP Shares. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a Rating Agency (including Moody's, S&P and Fitch) is only the opinion of the entity issuing the rating at that time, and is not a guarantee as to quality, or an assurance of the future performance, of the rated security (in this case, MTP Shares). In addition, the manner in which the Rating Agency obtains and processes information about a particular security may affect the Rating Agency's ability to timely react to changes in an issuer's circumstances (in this case, the Fund) that could influence a particular rating. A Rating Agency could downgrade MTP Shares, which may make MTP Shares less liquid in the secondary market and reduce market prices, though with higher resulting dividend rates than the Fixed Dividend Rate. If a Rating Agency downgrades MTP Shares of the Fund, the Fund is required to pay a higher dividend rate on those shares.

Early Redemption Risk. The Fund may voluntarily redeem MTP Shares or may be forced to redeem MTP Shares to meet regulatory requirements and the asset coverage requirements of the MTP Shares. Such redemptions may be at a time that is unfavorable to holders of MTP Shares. The Fund expects to voluntarily redeem MTP Shares before the Term Redemption Date to the extent that market conditions allow the Fund to issue other preferred shares or debt securities at a rate that is lower than the Fixed Dividend Rate on MTP Shares. For further information, see *Description of MTP Shares* *Redemption* and *Description of MTP Shares* *Asset Coverage*.

Tax Risk. To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund's current and accumulated earnings and profits. The value of MTP Shares may be adversely affected by changes in tax rates and policies. Because dividends from MTP Shares are generally not expected to be subject to regular federal or Massachusetts income taxation, the attractiveness of such shares in relation to other investment alternatives is affected by changes in federal or Massachusetts income tax rates or changes in the tax-exempt treatment of dividends on MTP Shares. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. In addition, the Fund intends to treat MTP Shares as stock in the Fund for federal income tax purposes. Because there is no direct legal authority on the classification of instruments similar to MTP Shares, investors should be aware that the Internal Revenue Service (the "IRS") could assert a contrary position meaning that the IRS could classify MTP Shares as debt. If the IRS prevailed on such a position, the Fund would not be able to pass through tax-exempt income to holders of MTP Shares, and dividends paid on MTP Shares (including dividends already paid) could become taxable. See "Tax Matters." See also the opinion of counsel included as Appendix C to the SAI.

Income Shortfall Risk. The municipal securities held in the Fund's portfolio generally pay interest based on long-term yields. Long-term, as well as intermediate-term and short-term interest rates may fluctuate. If the interest rates paid on the municipal securities held by the Fund fall below the Fixed Dividend Rate, the Fund's ability to pay dividends on MTP Shares could be jeopardized.

Subordination Risk. While holders of MTP Shares will have equal liquidation and distribution rights to any other Preferred Stock that might be issued by the Fund, they will be subordinated to the rights of holders of senior indebtedness, if any, of the Fund. Therefore, dividends, distributions and other payments to holders of MTP Shares in liquidation or otherwise may be subject to prior payments due to the holders of senior indebtedness. In addition, the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of Preferred Stock holders, including holders of MTP Shares. Currently, the Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares. See the SAI, "Investment Restrictions." If the Fund enters into borrowings in accordance with its fundamental investment policies, delayed delivery purchases and/or forward delivery contracts, the rights of lenders and counterparties in those transactions will also be senior to those of holders of MTP Shares.

Credit Crisis and Liquidity Risk. General market uncertainty and extraordinary conditions in the credit markets, including the municipal market, may impact the liquidity of the Fund's investment portfolio, which in turn, during extraordinary circumstances, could impact the Fund's distributions and/or the liquidity of the Term Redemption Liquidity Account (as described under "Description of MTP Shares"). Further, there may be market imbalances of sellers and buyers of MTP Shares during periods of extreme illiquidity and volatility. Such market conditions may lead to periods of thin trading in any secondary market for MTP Shares and may make valuation of MTP Shares uncertain. As a result, the spread between bid and asked prices is likely to increase significantly such that an MTP Shares investor may have greater difficulty selling his or her MTP Shares. Less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.

Inflation Risk. Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or "real") value of an investment in MTP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of MTP Shares and dividends on MTP Shares declines.

Reinvestment Risk MTP Shares. Given the five-year term and potential for early redemption of MTP Shares, holders of MTP Shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of MTP Shares may be lower than the return previously obtained from an investment in MTP Shares.

Other Dividend Risks. In addition to the interest rate risks noted above, the Fund may otherwise be unable to pay dividends on MTP Shares in extraordinary circumstances.

General Risks of Investing in the Fund

Credit Risk. Credit risk is the risk that an issuer of a municipal security held in the Fund's portfolio will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal securities carry a greater degree of credit risk. If Rating Agencies lower their ratings of municipal securities in the Fund's portfolio, the value of those securities could decline, which could jeopardize the Rating Agencies' ratings of MTP Shares. Because the primary source of income for the Fund is the interest and principal payments on the municipal securities in which the Fund invests, defaults by issuers of municipal securities could have a negative impact on the Fund's ability to pay dividends on the MTP Shares and could result in the redemption of some or all of the MTP Shares.

Municipal Securities Market Risk. Investing in the municipal securities market involves certain risks. The municipal market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on NAM's analytical abilities than if the Fund were to invest in stocks or taxable bonds. As noted above the secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them. Municipal securities may contain redemption provisions, which may allow the securities to be called or redeemed prior to their stated maturity, potentially resulting in the distribution of principal and a reduction in subsequent interest distributions.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. If the current national economic recession continues, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected. The taxing power of any government entity may be limited by provisions of state constitutions or laws and an entity's credit will depend on many factors, including the entity's tax base, the extent to which the entity relies on federal or state aid, and other factors which are beyond the entity's control. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

Revenue bonds issued by state or local agencies to finance the development of low-income, multi-family housing involve special risks in addition to those associated with municipal securities generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. These bonds are generally non-recourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Additionally, unusually high rates of default on the underlying mortgage loans may reduce revenues available for the payment of principle or interest on such mortgage revenue bonds.

Interest Rate Risk The Fund. Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change.

Concentration Risk. As described above, the Fund will invest its net assets in a portfolio of municipal securities that are exempt from regular federal and Massachusetts income taxes. The Fund is therefore more susceptible to political, economic or regulatory factors affecting issuers of such securities. Briefly summarized below are important financial concerns relating to the Fund's investments in Massachusetts Municipal Bond Funds. The information set forth below and the related information in Appendix A to this prospectus is derived from sources that are generally available to investors. This information is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the Commonwealth.

It should be noted that the information recorded here primarily is based on the economic and budget forecasts found in the most recent publications issued by the Commonwealth. The accuracy and completeness of those publications have not been independently verified. There may be significant changes in circumstances altering the economic and budget predictions since the time of those publications or after the publication of this prospectus. The dramatic national economic slowdown adversely impacted growth in the Commonwealth during the 2008 and 2009 fiscal years.

The Commonwealth ended the year with a nearly \$1.4 billion structural deficit, defined as an excess of spending and other uses over revenues and other sources, largely due to a drop in tax revenues. The liabilities of the Commonwealth exceeded its assets (the net deficit) at the end of fiscal year 2009 by over \$8.2 billion, which was a drop of more than \$3.5 billion during the fiscal year. Revenues increased by 2.5% from fiscal year 2008. Tax revenues declined by 12.6%, but charges for services increased by 3.8%. Expenses increased by 12.2%, reflecting the need for increased programs and services such as Medicaid and unemployment compensation. Overall, the Commonwealth's financial operations resulted in net asset decreases by over \$3.5 billion in fiscal year 2009 before accounting changes. Net assets of governmental activities decreased by about \$2.8 billion. The decrease in net assets is primarily attributable to three issues; the economic recession resulting in a need for more services totaling about \$1.8 billion, a large drop in pension net assets of about \$667 million, adding to net pension obligations and approximately \$993 million related to under-funding of retiree health care.

For fiscal year 2009, the Commonwealth collected nearly \$18.5 billion in tax revenue, including \$10.5 billion from income taxation, \$3.9 billion from sales, \$1.9 billion from corporations, \$654 million from motor fuels and over \$1.6 billion from other forms of taxation. Grants to the Commonwealth increased largely due to the federal American Recovery and Reinvestment Act (ARRA).

Preliminary tax revenue collections for the first three months of fiscal 2010, ended September 30, 2009, totaled \$4.313 billion, a decrease of \$477 million, or 10%, compared to the same period in fiscal 2009.

The Constitution of Massachusetts limits the ability of the Commonwealth to create debt and requires a balanced budget. The Governor approved the fiscal 2010 budget totaling \$27.411 billion on June 19, 2009 but vetoed appropriations totaling approximately \$147 million. To support anticipated operations for fiscal year 2010, the Commonwealth transferred funds from its Stabilization Fund to its General Fund. The balance of the Stabilization Fund is approximately \$841.3 million. The Commonwealth will continue to receive funds from ARRA in fiscal years 2010 and 2011. The Commonwealth expects to benefit as a result of an increase in the sales and use tax from 5% to 6.25%, effective August 1, 2009.

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other

services and investment income) and appropriations from

other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, local governments have become increasingly reliant on distribution of revenues from the Commonwealth to support local programs and services, although the amount of aid received varies significantly among municipalities. As a result of comprehensive education reform legislation enacted in June 1993, a large portion of local aid general revenue sharing funds is earmarked for public education and distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. There are also several specific local aid programs, such as public libraries, police education incentives, and property tax abatement for certain elderly or disabled residents.

The Commonwealth is authorized to issue three types of debt directly—general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund with a pledge of receipts credited to the Convention Center Fund. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. As of June 30, 2009, the amount of Commonwealth's governmental outstanding debt was approximately \$23.1 billion (excluding unamortized discounts and premiums) exclusive of capital leases. General obligation bonds outstanding, which include college opportunity bonds and debt assumed from former counties, were approximately \$17.2 billion, of which \$13.4 billion, or approximately 79 percent, is fixed-rate debt and \$3.6 billion, or 21 percent, is variable rate debt. As of June 30, 2009, \$1.1 billion of federal grant anticipation notes remained outstanding. All of these notes are fixed-rate obligations. During fiscal year 2009, the Governor approved legislation authorizing the issuance of an additional \$1.1 billion of grant anticipation notes secured by future federal funds.

The foregoing information constitutes only a brief summary of some of the general factors that may impact certain issuers of municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of municipal securities held by the Fund are subject. Additionally, many factors, including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the municipal securities, could affect or could have an adverse impact on the financial condition of the issuers. The Fund is unable to predict whether or to what extent such factors or other factors may affect the issuers of the municipal securities, the market value or marketability of the municipal securities or the ability of the respective issuers of the municipal securities acquired by the Fund to pay interest on or principal of the municipal securities. This information has not been independently verified. See Appendix A to this prospectus for a further discussion of factors affecting municipal securities in Massachusetts.

Inverse Floating Rate Securities Risk. The Fund may invest up to 15% of its net assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal securities. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal.

Inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund's investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In NAM's discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of the trust, upon termination of the trust issuing the inverse floater, the

difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate interests. In such instances, the Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

The Fund's investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund's inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the "gearing"). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund's anticipated effective leverage ratio.

The economic effect of leverage through the Fund's purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a special purpose trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. The leverage attributable to such inverse floating rate securities may be "called away" on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the common shares may be greater for the Fund to the extent that it relies on inverse floating rate securities to achieve a significant portion of its desired effective leverage ratio. The Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

- If the Fund has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;
- If special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding special purpose trusts; and
- If the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the trust) and if additional collateral has not been posted by the Fund.

Taxability Risk. The Fund will invest in municipal securities in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those securities will be excludable from gross income for regular federal income tax purposes, and NAM will not independently verify that opinion. Subsequent to the Fund's acquisition of such a municipal security, however, the security may be determined to pay, or to have paid, taxable income. As a result, the treatment of dividends previously paid or to be paid by the Fund as "exempt-interest dividends" could be adversely affected, subjecting the Fund's shareholders to increased federal income tax liabilities.

Under highly unusual circumstances, the IRS may determine that a municipal bond issued as tax-exempt should in fact be taxable. If the Fund held such a bond, it might have to distribute taxable ordinary income dividends or reclassify as taxable income previously distributed as exempt-interest dividends.

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Distributions of ordinary taxable income (including any net short-term capital gain) will be taxable to shareholders as ordinary income (and not eligible for favorable taxation as qualified dividend income), and

capital gain dividends will be subject to capital gains taxes. In certain circumstances, the Fund will make payments to holders of MTP Shares to offset the tax effects of a taxable distribution. See Tax Matters.

Deflation Risk. Deflation risk is the risk that prices throughout the economy decline over time, which may have an adverse effect on the market valuation of companies, their assets and revenues. In addition, deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund's portfolio.

Insurance Risk. The Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. Many significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such losses have reduced the insurers' capital and called into question their continued ability to perform their obligations under such insurance if they are called upon to do so in the future. As of December 1, 2009, there are no longer any bond insurers rated AAA by all of Moody's, S&P and Fitch and at least one rating agency has placed each insurer on negative credit watch, credit watch evolving, credit outlook developing, or rating withdrawn. Moody's, S&P and Fitch have also withdrawn all ratings for one bond insurer. These events may presage one or more rating reductions for any other insurer in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided by the insurer, the rating of the underlying municipal security will be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and the insurance may not add any value. As concern has increased about the balance sheets of insurers, prices on insured bonds—especially those bonds issued by weaker underlying credits—declined. Most insured bonds are currently being valued according to their fundamentals as if they were uninsured. The insurance feature of a municipal security normally provides that it guarantees the full payment of principal and interest when due through the life of an insured obligation, but does not guarantee the market value of the insured obligation or the net asset value of the common shares represented by such insured obligation.

Counterparty Risk. Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to derivatives, insured municipal securities or other transactions supported by another party's credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have recently incurred significant financial hardships including bankruptcy and losses as a result of exposure to sub-prime mortgages and other lower quality credit investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities' capital and called into question their continued ability to perform their obligations under such transactions. By using such derivatives or other transactions, the Fund assumes the risk that its counterparties could experience similar financial hardships. In the event of insolvency of a counterparty, the Fund may sustain losses or be unable to liquidate a derivatives position.

Call Risk or Prepayment Risk. During periods of declining interest rates or for other purposes, issuers may exercise their option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower-yielding securities. This is known as call or prepayment risk.

Reinvestment Risk the Fund. With respect to the Fund, reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the Fund's portfolio's current earnings rate.

Reliance on Investment Adviser. The Fund is dependent upon services and resources provided by its investment adviser, NAM, and therefore the investment adviser's parent, Nuveen Investments, Inc. (Nuveen Investments). Nuveen Investments, through its own business or the financial support of its affiliates, may not be able to generate sufficient cash flow from operations or ensure that future borrowings will be available in an

amount sufficient to enable it to pay its indebtedness or to fund its other liquidity needs. For additional information on NAM and Nuveen Investments, see Management of the Fund Additional Information Related to the Investment Adviser and Nuveen Investments.

Certain Affiliations. Certain broker-dealers may be considered to be affiliated persons of the Fund, NAM and/or Nuveen Investments. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund generally is precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker, or to utilize affiliated brokers for agency transactions, is subject to restrictions. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

Anti-Takeover Provisions. The Fund's Declaration of Trust and By-laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status.

HOW THE FUND MANAGES RISK

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations are fundamental and may not be changed without the approval of the holders of a majority of the Fund's outstanding common shares and Preferred Stock, including MTP Shares, voting together as a single class, and the approval of the holders of a majority of the outstanding Preferred Stock voting as a separate class.

The Fund may not:

- Invest more than 25% of its total assets in securities of issuers in any one industry, other than municipal securities issued by states and local governments and their instrumentalities or agencies (not including those backed only by the assets and revenues of non-governmental users), and municipal securities issued or guaranteed by the U.S. Government or its instrumentalities or agencies; and
- Invest more than 5% of its total assets in securities of any one issuer (not including securities of the U.S. Government and its agencies, or the investment of 25% of the Fund's total assets).

See the SAI for additional fundamental and non-fundamental policies of the Fund.

In addition, Moody's, S&P and Fitch, in connection with establishing and maintaining ratings on the Fund's MTP Shares, restrict the Fund's ability to borrow money, sell securities short, lend securities, buy and sell futures contracts, and write put or call options. The Fund does not expect that these restrictions will adversely affect its ability to achieve its investment objectives. These restrictions are not fundamental policies and the Fund may change them without shareholder approval.

MANAGEMENT OF THE FUND

Trustees and Officers

The Fund's Board of Trustees is responsible for the management of the Fund, including supervision of the duties performed by NAM. The names and business addresses of the Fund's trustees and officers and their principal occupations and other affiliations during the past five years are set forth under Management of the Fund in the SAI.

Investment Adviser and Portfolio Managers

NAM will be responsible for the Fund's overall investment strategy and its implementation. NAM also is responsible for managing the Fund's business affairs and providing certain clerical, bookkeeping and other administrative services.

NAM, 333 West Wacker Drive, Chicago, Illinois 60606, a registered investment adviser, is a wholly owned subsidiary of Nuveen Investments. Founded in 1898, Nuveen Investments and its affiliates had approximately \$141 billion of assets under management as of September 30, 2009, of which approximately \$68.8 billion was in municipal securities. Regarding this approximately \$68.8 billion of tax-exempt municipal securities, approximately \$35.5 billion, \$16.1 billion, \$15.3 billion and \$1.9 billion represent assets relating to closed-end municipal bond funds, open-end municipal bond funds, retail municipal managed accounts and institutional municipal managed accounts, respectively. At such time as the Fund receives an exemptive order permitting it to do so, or as otherwise permitted by the 1940 Act or the rules thereunder, the Fund may, without obtaining approval of the shareholders, retain an unaffiliated subadviser to perform some or all of the portfolio management functions on the Fund's behalf.

Cathryn P. Steeves, PhD, serves as the portfolio manager of the Fund. She serves as a portfolio manager for several Nuveen East Coast state-specific open-end municipal bond funds, as well as various Midwest and Southeast municipal bond funds. In addition, she manages several of Nuveen's closed-end funds. She joined NAM in 1996 as an analyst covering health care and long-term care, became co-leader of the health care research team in 2000 and assumed certain portfolio management responsibilities in 2004. She manages 45 state-specific Nuveen-sponsored municipal bond funds, with a total of approximately \$7.8 billion under management.

Additional information about the portfolio manager's compensation, other accounts managed by him or her and other information is provided in the SAI. The SAI is available free of charge by calling (800) 257-8787 or by visiting Nuveen's website at www.nuveen.com. The information contained in, or that can be accessed through, the Fund's website is not part of this prospectus or the SAI.

Nuveen Investments

On November 13, 2007, Nuveen Investments was acquired by an investor group led by Madison Dearborn Partners, LLC, a private equity firm based in Chicago, Illinois (the "MDP Acquisition"). The investor group led by Madison Dearborn Partners, LLC includes affiliates of Merrill Lynch Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), which has since been acquired by Bank of America Corporation ("Bank of America"). As a result of the MDP Acquisition, Merrill Lynch currently owns a 32% non-voting equity stake in Nuveen Investments, owns a \$30 million position in the \$250 million revolving loan facility of Nuveen Investments and holds two of ten seats on the board of directors of Nuveen Investments. Because these arrangements may give rise to certain conflicts of interest involving NAM and Bank of America (including Merrill Lynch), NAM has adopted policies and procedures intended to address these potential conflicts. Certain underwriters or their affiliates, including Citigroup Global Markets Inc. and Wells Fargo Securities, LLC also own an interest in Nuveen Investments.

Additional Information Related to the Investment Adviser and Nuveen Investments

The Fund is dependent upon services and resources provided by its adviser NAM and therefore the investment adviser's parent Nuveen Investments. Nuveen Investments significantly increased its level of debt in connection with the MDP Acquisition. As of September 30, 2009, Nuveen Investments had outstanding approximately \$4.0 billion in aggregate principal amount of indebtedness, with approximately \$531.8 million of available cash on hand. Nuveen Investments believes that monies generated from operations and cash on hand will be adequate to fund debt service requirements, capital expenditures and working capital requirements for the foreseeable future; however, Nuveen Investments' ability to continue to fund these items and to service debt may be affected by general economic, financial, competitive, legislative, legal and regulatory factors and by its ability to refinance outstanding indebtedness with scheduled maturities beginning in 2013. The risks, uncertainties and other factors related to Nuveen Investments' business, the effects of which may cause its assets under management, earnings, revenues, and/or profit margins to decline, are described in its filings with the Securities and Exchange Commission, which are publicly available.

Investment Management Agreement

Pursuant to an investment management agreement between NAM and the Fund, the Fund has agreed to pay an annual management fee for the services and facilities provided by NAM, payable on a monthly basis, based on the sum of a fund-level fee and a complex-level fee, as described below, according to the following schedule:

Fund-Level Fee. The fund-level fee shall be applied according to the following schedule:

Fund-Level Average Daily Managed Assets	Fund-Level Fee Rate
For the first \$125 million	0.4500%
For the next \$125 million	0.4375%
For the next \$250 million	0.4250%
For the next \$500 million	0.4125%
For the next \$1 billion	0.4000%
For the next \$3 billion	0.3875%
For net assets of \$5 billion and over	0.3750%

Complex Level Fee. The effective rates of the complex-level fee at various specified complex-wide asset levels are as indicated in the following table:

Complex-Level Asset Breakpoint Level(1)	Effective Rate At Breakpoint Level
\$55 billion	0.2000%
\$56 billion	0.1996%
\$57 billion	0.1989%
\$60 billion	0.1961%
\$63 billion	0.1931%
\$66 billion	0.1900%
\$71 billion	0.1851%
\$76 billion	0.1806%
\$80 billion	0.1773%
\$91 billion	0.1691%
\$125 billion	0.1599%
\$200 billion	0.1505%
\$250 billion	0.1469%
\$300 billion	0.1445%

- (1) Breakpoints apply up to the dollar amounts listed above. The complex-level fee is based on the aggregate daily managed assets (as managed assets is defined in each Nuveen Fund's investment management agreement with NAM, which generally includes assets attributable to any preferred shares that may be outstanding and any borrowings (including the issuance of commercial paper or notes)) of the Nuveen Funds. The complex-level fee was based on approximately \$65.8 billion as of September 30, 2009.

In addition to NAM's management fee, the Fund pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with NAM), custodian, transfer agency and dividend disbursing expenses, legal fees, expenses of its independent registered

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accounting firm, expenses of repurchasing shares, expenses of issuing any MTP Shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, listing fees and taxes, if any. All fees and expenses are accrued daily and deducted before payment of distributions to shareholders.

The basis for the Board of Trustees' continuation of the Fund's investment management agreement will be provided in Annual or Semi-Annual Reports to shareholders for the periods during which such continuations occur.

NET ASSET VALUE

The Fund's custodian calculates the Fund's net asset value. The custodian uses prices for portfolio securities from a pricing service the Fund's Board of Trustees has approved. The pricing service values portfolio securities at the mean between the quoted bid and asked price or the yield equivalent when quotations are readily available. Securities for which quotations are not readily available (which will constitute the majority of the Fund's portfolio securities) are valued at fair value as determined by the Board of Trustees in reliance upon data supplied by the pricing service. The pricing service uses methods that consider yields or prices of municipal securities of comparable quality, type of issue, coupon, maturity, and ratings; dealers' indications of value; and general market conditions. The pricing service may use electronic data processing techniques or a matrix system, or both. The Fund's officers review the pricing service's procedures and valuations, under the general supervision of the Board of Trustees of the Fund.

DESCRIPTION OF BORROWINGS

The Fund's Declaration of Trust authorizes the Fund, without prior approval of holders of common stock or Preferred Stock, including MTP Shares, to borrow money. In this connection, the Fund may issue notes or other evidence of indebtedness (including bank borrowings or commercial paper) and may secure any such borrowings subject to the requirements of the 1940 Act. Any borrowings will rank senior to the Fund's shares of Preferred Stock, including the MTP Shares. The Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares, except for emergency or temporary purposes.

Limitations. Under the requirements of the 1940 Act, the Fund, immediately after issuing any borrowings that are senior securities representing indebtedness (as defined in the 1940 Act), must have an Asset Coverage of at least 300%. With respect to any such borrowings, asset coverage means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of any such borrowings that are senior securities representing indebtedness, issued by the Fund. Certain types of borrowings may also result in the Fund being subject to covenants in credit agreements relating to asset coverages or portfolio composition or otherwise. In addition, the Fund may be subject to certain restrictions imposed by guidelines of one or more rating agencies which may issue ratings for Preferred Stock, including MTP Shares, or indebtedness, if any, such as commercial paper or notes issued by the Fund. Such restrictions may be more stringent than those imposed by the 1940 Act.

Distribution Preference. The rights of lenders to the Fund to receive interest on and repayment of principal of any such borrowings will be senior to those of the holders of Preferred Stock (including MTP Shares), and the terms of any such borrowings may contain provisions which limit certain activities of the Fund, including the payment of dividends to holders of Preferred Stock in certain circumstances.

Voting Rights. The 1940 Act does (in certain circumstances) grant to the lenders to the Fund certain voting rights in the event of default in the payment of interest on or repayment of principal. In the event that such provisions would impair the Fund's status as a regulated investment company under the Code, the Fund, subject to its ability to liquidate its portfolio, intends to repay the borrowings.

DESCRIPTION OF OUTSTANDING SHARES

Common Shares

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The Fund's Declaration of Trust authorizes the issuance of an unlimited number of common shares of beneficial interest. All common shares have equal rights to the payment of dividends and the distribution of assets upon liquidation. Common shares are, when issued, fully paid and non-assessable, and have no pre-emptive or conversion rights except as the trustees may determine or rights to cumulative voting. At any time when Preferred Stock is outstanding, common shareholders will not be entitled to receive any cash distributions

from the Fund unless all accrued dividends on Preferred Stock have been paid, and unless Asset Coverage with respect to Preferred Stock would be at least 200% after giving effect to the distributions. The Fund pays monthly dividends, typically on the first business day of the following month.

The common shares are listed on the New York Stock Exchange. The Fund intends to hold annual meetings of shareholders so long as the Fund's shares are listed on a national securities exchange and such meetings are required as a condition to such listing.

MuniPreferred Shares

The Fund's Declaration of Trust authorizes the issuance of an unlimited number of preferred shares. The Fund currently has outstanding MuniPreferred shares. Each share of Preferred Stock ranks on parity with respect to the payment of dividends and the distribution of assets upon liquidation. Under the 1940 Act, the MTP Shares are considered to be a separate series of the Fund's existing class of Preferred Stock, and are not considered to be a separate class of securities.

The Fund's outstanding MuniPreferred shares have a liquidation preference of \$25,000 per share, plus all accumulated but unpaid dividends (whether or not earned or declared) to the date of final distribution. MuniPreferred shares are, when issued, (i) fully paid and non-assessable, (ii) not convertible into common shares or other capital stock of the Fund, (iii) have no preemptive rights and (iv) not subject to any sinking fund. MuniPreferred shares are subject to optional and mandatory redemption in certain circumstances. MuniPreferred shares are auction rate securities, meaning that auctions in the securities were held on a periodic basis and interest on the shares was paid at the end of each auction period based on a Dutch auction process. In February 2008, the auction market failed and has not since recovered. The failure of the auction rate market has rendered the MuniPreferred shares virtually illiquid.

Prior to the general failure of the auction markets, MuniPreferred shares paid dividends based on a rate set at the auctions, which were normally held weekly. In most instances, dividends were also paid weekly on the day following the end of the rate period. The rate set at the auctions did not exceed a maximum rate. In instances where auctions have failed, the dividend rates for the MuniPreferred shares reset weekly at a maximum rate, which is determined by a formula, and is based on the greater of 110% of short-term municipal bond rates or AA taxable commercial paper.

A detailed description of the Fund's MuniPreferred shares, including a description of the maximum rate formula, is included in the Fund's Amendment and Restatement of Statement Establishing and Fixing the Rights and Preferences of MuniPreferred Shares that is on file with the Securities and Exchange Commission.

CERTAIN PROVISIONS IN THE DECLARATION OF TRUST AND BY-LAWS

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration of Trust contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the trustees. The Declaration of Trust further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The Fund believes that the likelihood of such circumstances is remote.

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The Declaration of Trust and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. The By-Laws require the Board of Trustees elected by the holders of common and Preferred Stock, voting as a single class, be divided into three classes, with the term of one class expiring at each annual meeting of shareholders. See the Statement of Additional Information under Management of the Fund. This provision of the By-Laws could delay for up to two years the replacement of a majority of the Board of Trustees. Holders of Preferred Stock, voting as a separate

class, will be entitled to elect two of the Fund's trustees, serving for a one year term. In addition, the Declaration of Trust requires a vote by holders of at least two-thirds of the common shares and Preferred Stock, voting together as a single class, except as described below, to authorize (1) a conversion of the Fund from a closed-end to an open-end investment company, (2) a merger or consolidation of the Fund, or a series or class of the Fund, with any other corporation, association, trust or other organization or a reorganization or recapitalization of the Fund or a series or class of the Fund, (3) a sale, lease or transfer of all or substantially all of the Fund's assets (other than in the regular course of the Fund's investment activities), (4) in certain circumstances, a termination or liquidation of the Fund, or a series or class of the Fund or (5) a removal of trustees by shareholders, and then only for cause, unless, with respect to (1) through (4), such transaction has already been authorized by the affirmative vote of two-thirds of the total number of trustees fixed in accordance with the Declaration of Trust or the By-Laws, in which case the affirmative vote of the holders of at least a majority of the Fund's common shares and Preferred Stock outstanding at the time, voting together as a single class, is required; provided, however, that where only a particular class or series is affected (or, in the case of removing a trustee, when the trustee has been elected by only one class), only the required vote by the applicable class or series will be required. Approval of shareholders is not required, however, for any transaction, whether deemed a merger, consolidation, reorganization or otherwise whereby the Fund issues shares in connection with the acquisition of assets (including those subject to liabilities) from any other investment company or similar entity. In the case of the conversion of the Fund to an open-end investment company, or in the case of any of the foregoing transactions constituting a plan of reorganization that adversely affects the holders of any outstanding Preferred Stock, the action in question will also require the affirmative vote of the holders of at least two-thirds of the Preferred Stock outstanding at the time, voting as a separate class, or, if such action has been authorized by the affirmative vote of two-thirds of the total number of trustees fixed in accordance with the Declaration of Trust or the By-Laws, the affirmative vote of the holders of at least a majority of the Preferred Stock outstanding at the time, voting as a separate class. None of the foregoing provisions may be amended except by the vote of at least two-thirds of the common shares and Preferred Stock, voting together as a single class. The votes required to approve the conversion of the Fund from a closed-end to an open-end investment company or to approve transactions constituting a plan of reorganization that adversely affects the holders of any outstanding Preferred Stock are higher than those required by the 1940 Act. The Board of Trustees believes that the provisions of the Declaration of Trust relating to such higher votes are in the best interest of the Fund and its shareholders.

The Declaration of Trust provides that the obligations of the Fund are not binding upon the Fund's trustees individually, but only upon the assets and property of the Fund, and that the trustees shall not be liable for errors of judgment or mistakes of fact or law. Nothing in the Declaration of Trust, however, protects a trustee against any liability to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

The provisions of the Declaration of Trust and By-Laws described above could have the effect of depriving the common shareholders of opportunities to sell their common shares at a premium over the then current market price of the common shares by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. They provide, however, the advantage of potentially requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund's investment objectives and policies. The Fund's Board of Trustees has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its shareholders.

Preemptive Rights. The Declaration of Trust provides that common shareholders shall have no right to acquire, purchase or subscribe for any shares or securities of the Fund, other than such right, if any, as the Fund's Board of Trustees in its discretion may determine. As of the date of this prospectus, no preemptive rights have been granted by the Board of Trustees.

Reference should be made to the Declaration of Trust and By-Laws on file with the Securities and Exchange Commission for the full text of these provisions.

REPURCHASE OF FUND SHARES; CONVERSION TO OPEN-END FUND

The Fund is a closed-end investment company and as such its shareholders will not have the right to cause the Fund to redeem shares in the Fund held by such shareholders. Instead, the common shares will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because shares of closed-end investment companies may frequently trade at prices lower than net asset value, the Fund's Board of Trustees has currently determined that, at least annually, it will consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of common shares, which may include the repurchase of such shares in the open market or in private transactions, the making of a tender offer for such shares at net asset value or submitting the conversion of the Fund to an open-end investment company to a vote of shareholders. The Fund cannot assure you that its Board of Trustees will decide to take any of these actions, or that share repurchases or tender offers will actually reduce market discount. The Fund will be unable to repurchase its common shares if it does not meet certain asset coverage requirements relating to outstanding Preferred Stock.

If the Fund converted to an open-end investment company, it would be required to redeem all Preferred Stock including MTP Shares then outstanding (requiring in turn that it liquidate a portion of its investment portfolio), and the common shares and MTP Shares would no longer be listed on the New York Stock Exchange or elsewhere. If approved by the applicable vote of the Fund's Board of Trustees, the conversion to an open-end fund would require the vote of the majority of the outstanding common shares and Preferred Stock voting together and the Preferred Stock voting as a separate class. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by the 1940 Act or the rules thereunder) at their net asset value, less any redemption charge that is in effect at the time of redemption. See the SAI under Repurchase of Fund Shares; Conversion to Open-End Fund for a discussion of the voting requirements applicable to the conversion of the Fund to an open-end investment company.

Before deciding whether to take any action if the common shares trade below net asset value, the Board of Trustees would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund's common shares should trade at a discount, the Board of Trustees of the Fund may determine that, in the interest of the Fund and its shareholders, no action should be taken. See the SAI under Repurchase of Fund Shares; Conversion to Open-End Fund for a further discussion of possible action to reduce or eliminate such discount to net asset value.

TAX MATTERS

The discussion below, and the discussion in the SAI under the caption Tax Matters, is based on the opinion of K&L Gates LLP (Tax Counsel) on the anticipated U.S. federal income tax consequences of acquiring, holding, and disposing of MTP Shares. Tax Counsel's opinions are based on the current provisions and interpretations of the Internal Revenue Code of 1986, as amended (the Code) and the accompanying Treasury regulations and on current judicial and administrative rulings. All of these authorities are subject to change and any change can apply retroactively.

Upon issuance of MTP Shares, and subject to certain assumptions and conditions, and based upon certain representations made by the Fund, including representations regarding the nature of the Fund's assets and the conduct of the Fund's business, Tax Counsel will deliver its opinion concluding that for federal income tax purposes MTP Shares will qualify as stock in the Fund and distributions made with respect to the MTP Shares will qualify as exempt-interest dividends to the extent designated by the Fund and not otherwise limited under Section 852(b)(5)(A) of the Code (under which the total amount of dividends that may be treated as exempt-interest dividends is limited, based on the total amount of tax-exempt income generated by the Fund). The Fund's

qualification and taxation as a regulated investment company depend upon the Fund's ability to meet on a continuing basis, through actual annual operating results, certain requirements in the federal tax laws. Tax Counsel will not review the Fund's compliance with those requirements. Accordingly, no assurance can be given that the actual results of the Fund's operations for any particular taxable year will satisfy such requirements.

The following is intended to be a general summary of the material U.S. federal income tax consequences of investing in MTP Shares. The discussion generally applies only to holders of MTP Shares who are U.S. holders. You will be a U.S. holder if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in MTP Shares. This summary deals only with U.S. holders that hold MTP Shares as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a financial institution, insurance company, regulated investment company, real estate investment trust, investor in pass-through entities, U.S. holder of MTP Shares whose functional currency is not the United States dollar, tax-exempt organization, dealer in securities or currencies, trader in securities or commodities that elects mark to market treatment, person who holds MTP Shares in a qualified tax-deferred account such as an IRA, or person that will hold MTP Shares as a position in a straddle, hedge or as part of a constructive sale for federal income tax purposes. In addition, this discussion does not address the application of the U.S. federal alternative minimum tax. It is not intended to be a complete discussion of all such federal income tax consequences, nor does it purport to deal with all categories of investors. This discussion reflects applicable tax laws of the United States as of the date of this prospectus, which tax laws may change or be subject to new interpretation by the courts or the Internal Revenue Service, possibly with retroactive effect. INVESTORS ARE THEREFORE ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS BEFORE MAKING AN INVESTMENT IN THE FUND.

Federal Income Tax Treatment of the Fund

The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Code. As a regulated investment company, the Fund generally will not be subject to any federal income tax.

The Fund primarily invests in municipal securities issued by States, cities and local authorities and certain possessions and territories of the United States (such as Puerto Rico or Guam) or in municipal securities whose income is otherwise exempt from regular federal income taxes. Thus, substantially all of the Fund's dividends to the holders of common shares and MTP Shares will qualify as exempt-interest dividends. A shareholder treats an exempt-interest dividend as interest on state and local bonds exempt from regular federal income tax. Some or all of an exempt-interest dividend, however, may be subject to federal alternative minimum tax imposed on the shareholder. Different federal alternative tax rules apply to individuals and to corporations. The American Recovery and Reinvestment Act of 2009 provides an exemption from the federal alternative minimum tax applicable to individuals for interest on private activity bonds and, for purposes of calculating a corporate taxpayer's adjusted current earnings, an exemption for interest on all tax-exempt bonds, with both exemptions limited to bonds that are issued after December 31, 2008 and before January 1, 2011, including refunding bonds issued during that period to refund bonds originally issued after December 31, 2003 and before January 1, 2009.

In addition to exempt-interest dividends, the Fund also may distribute amounts that are treated as long-term capital gain or ordinary income to its shareholders. The Fund will allocate distributions to shareholders that are treated as tax-exempt interest and as long-term capital gain and ordinary income, if any, proportionately among the common and MTP Shares. In certain circumstances, the Fund will make payments to holders of MTP Shares to offset the tax effects of a taxable distribution. See "Description of MTP Shares Dividends and Dividend Periods" in this prospectus.

The SAI contains a more detailed summary of the federal tax rules that apply to the Fund and its shareholders. Legislative, judicial or administrative action may change the tax rules that apply to the Fund or its shareholders. Any change may be retroactive for Fund transactions.

Federal Income Tax Treatment of Holders of MTP Shares

Under present law, Tax Counsel is of the opinion that MTP Shares of the Fund will constitute equity of the Fund, and thus distributions with respect to MTP Shares (other than distributions in redemption of MTP Shares subject to Section 302(b) of the Code) will generally constitute dividends to the extent of the Fund's current or accumulated earnings and profits, as calculated for federal income tax purposes. Because the treatment of a corporate security as debt or equity is determined on the basis of the facts and circumstances of each case, and no controlling precedent exists for the MTP Shares, there can be no assurance that the IRS will not question Tax Counsel's opinion and the Fund's treatment of MTP Shares as equity. If the IRS were to succeed in such a challenge, holders of MTP Shares could be characterized as receiving taxable interest income rather than exempt-interest or other dividends, possibly requiring them to file amended income tax returns and retroactively to recognize additional amounts of ordinary income or to pay additional tax, interest, and penalties.

Except in the case of exempt-interest dividends and capital gain dividends, if any, dividends paid by the Fund generally will be taxable to holders at ordinary income tax rates. Dividends derived from net capital gain and designated by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of holders regardless of the length of time such holders have held their shares. Distributions in excess of the Fund's earnings and profits, if any, will first reduce a shareholder's adjusted tax basis in his or her shares and, after the adjusted tax basis is reduced to zero, will constitute capital gains to a holder who holds such shares as a capital asset. A holder of MTP Shares will be required to report the dividends declared by the Fund for each day on which such holder is the shareholder of record. The Fund intends to notify holders of MTP Shares in advance if it will allocate to them income that is not exempt from regular federal income tax. In certain circumstances, the Fund will make payments to holders of MTP Shares to offset the tax effects of the taxable distribution.

The IRS currently requires that a regulated investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gains). Accordingly, the Fund intends to designate dividends made with respect to common shares and Preferred Stock, including MTP Shares, as consisting of particular types of income (e.g., exempt-interest dividends, net capital gain, or ordinary income) in accordance with each class's proportionate share of the total dividends paid by the Fund during the year.

Although dividends generally will be treated as distributed when paid, a distribution will be treated as having been paid on December 31 if it is declared by the Fund in October, November or December with a record date in such months and is paid by the Fund in January of the following year. Accordingly, such distributions will be taxable to shareholders in the calendar year in which the distributions are declared.

Massachusetts Tax Matters

The following is based upon the advice of K&L Gates LLP, special counsel to the Fund.

The Fund's regular monthly dividends will not be subject to Massachusetts personal income taxes to the extent they are paid out of income earned on Massachusetts municipal securities or on certain U.S. government obligations that are exempt from state taxation under federal law. You will be subject to Massachusetts personal income taxes, however, to the extent the Fund distributes any taxable income, or if you sell or exchange Fund shares and realize a capital gain on the transaction.

The treatment of shareholders subject to the Massachusetts corporation business tax differs from that described above. Corporate shareholders should refer to the Statement of Additional Information for more detailed information and are urged to consult their tax advisor.

Shareholders are advised to consult with their own tax advisors concerning Massachusetts state and local tax matters. Please refer to the Statement of Additional Information for more detailed information.

Other State and Local Tax Matters

While exempt-interest dividends are exempt from regular federal and Massachusetts income taxes, they may not be exempt from other state or local income or other taxes. Some states exempt from state income tax that portion of any exempt-interest dividend that is derived from interest a regulated investment company receives on its holdings of securities of that state and its political subdivisions and instrumentalities. Therefore, the Fund will report annually to its shareholders the percentage of interest income the Fund earned during the preceding year on tax-exempt obligations and the Fund will indicate, on a state-by-state basis, the source of this income. You should consult with your tax adviser about state and local tax matters.

Sale of Shares

The sale of MTP Shares by holders will generally be a taxable transaction for federal income tax purposes. A holder of MTP Shares who sells such shares will generally recognize gain or loss in an amount equal to the difference between the net proceeds resulting from the sale and such holder's adjusted tax basis in the shares sold. A portion of any such gain will generally be characterized as dividend income to the extent it is attributable to declared but unpaid dividends. If such MTP Shares are held as a capital asset at the time of the sale, the gain or loss will generally be a capital gain or loss. Similarly, a redemption by the Fund (including a redemption resulting from liquidation of the Fund), if any, of all MTP Shares actually and constructively held by a shareholder generally will give rise to capital gain or loss under Section 302(b) of the Code if the shareholder does not own (and is not regarded under certain federal income tax rules of constructive ownership as owning) any common shares in the Fund, and provided that the redemption proceeds do not represent declared but unpaid dividends. Other redemptions may also give rise to capital gain or loss, but certain conditions imposed by Section 302(b) of the Code must be satisfied to achieve such treatment.

Losses realized by a shareholder on the sale or exchange of shares of the Fund held for six months or less are disallowed to the extent of any distribution of exempt-interest dividends received with respect to such shares, and, if not disallowed, such losses are treated as long-term capital losses to the extent of any distribution of long-term capital gain received (or designated amounts of undistributed capital gain that are treated as received) with respect to such shares.

Any loss realized on a sale or exchange will be disallowed to the extent that substantially identical shares are reacquired within a period of 61 days beginning 30 days before and ending 30 days after the disposition of such shares. In such case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Backup Withholding

The Fund may be required to withhold, for U.S. federal income tax purposes, a portion of all distributions (including redemption proceeds) payable to shareholders who fail to provide the Fund with their correct taxpayer identification number, who fail to make required certifications or who have been notified by the IRS that they are subject to backup withholding (or if the Fund has been so notified). The current rate of backup withholding is 28%. Certain corporate and other shareholders specified in the Code and the regulations thereunder are exempt from backup withholding. Backup withholding is not an additional tax; any amounts withheld may be credited against the shareholder's U.S. federal income tax liability provided the appropriate information is furnished to the IRS.

Investors are advised to consult their own tax advisors with respect to the application to their own circumstances of the above-described general federal income taxation rules and with respect to other federal, state, local or foreign tax consequences to them before making an investment in MTP Shares.

UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Citigroup Global Markets Inc., UBS Securities LLC and Wells Fargo Securities, LLC are acting as representatives, have severally agreed to purchase, and the Fund has agreed to sell to them, severally, the number of MTP Shares indicated below:

Name	Number of MTP Shares
Morgan Stanley & Co. Incorporated	344,470
Banc of America Securities LLC	344,470
Citigroup Global Markets Inc.	344,470
UBS Securities LLC	344,470
Wells Fargo Securities, LLC	344,470
Nuveen Investments, LLC	35,150
Total	1,757,500

The underwriters are offering the MTP Shares subject to their acceptance of the MTP Shares from the Fund and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the MTP Shares offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the MTP Shares offered by this prospectus if any such MTP Shares are taken.

The underwriters initially propose to offer part of the MTP Shares directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of \$0.10 per MTP Share under the public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of \$0.05 per MTP Share to other underwriters or to certain dealers. After the initial offering of the MTP Shares, the offering price and other selling terms may from time to time be varied by the representatives. The underwriting discounts and commissions of \$0.15 per MTP Share are equal to 1.5% of the public offering price. Investors must pay for any MTP Shares purchased on or before January 21, 2010.

The Fund has granted the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 263,600 additional MTP Shares at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the MTP Shares offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional MTP Shares as the number listed next to the underwriter's name in the preceding table bears to the total number of MTP Shares listed in the preceding table. If the underwriters' option is exercised in full, the total price to the public would be \$20,211,000, the total underwriting discounts and commissions would be \$303,165 and total proceeds to the Fund would be \$19,907,835.

The following table shows the underwriting discounts and commissions the Fund will pay in connection with this offering. The information assumes either no exercise or full exercise by the underwriters of their over-allotment option. However, the underwriters are not required to take or pay for the MTP Shares covered by the underwriters over-allotment option described below.

	Per MTP Share	Without Option	With Option
Underwriting discounts and commissions	\$ 0.15	\$ 263,625	\$ 303,165

Application has been made to list the MTP Shares, subject to official notice of issuance, on the New York Stock Exchange under the symbol NMT Pr C. Prior to this offering, there has been no public market for MTP

Shares. It is anticipated that trading on the New York Stock Exchange will begin within 30 days from the date of this prospectus. During such period, the underwriters do not intend to make a market in MTP Shares. Consequently, it is anticipated that, prior to the commencement of trading on the New York Stock Exchange, an investment in MTP Shares will be illiquid and holders of MTP Shares may not be able to sell such shares as it is unlikely that a secondary market for MTP Shares will develop. If a secondary market does develop prior to the commencement of trading on the New York Stock Exchange, holders of MTP Shares may be able to sell such shares only at substantial discounts from liquidation preference.

The Fund and NAM have each agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, the Fund will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any senior securities (as defined in the 1940 Act) or any securities convertible into or exercisable or exchangeable for senior securities; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the MTP Shares,

whether any such transaction described above is to be settled by delivery of MTP Shares or such other securities, in cash or otherwise; or file any registration statement with the Securities and Exchange Commission relating to the offering of any MTP Shares or any securities convertible into or exercisable or exchangeable for MTP Shares.

In order to facilitate the offering of the MTP Shares, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the MTP Shares. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the MTP Shares for their own account. In addition, to cover over-allotments or to stabilize the price of the MTP Shares, the underwriters may bid for, and purchase, MTP Shares in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the MTP Shares in the offering, if the syndicate repurchases previously distributed MTP Shares in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the MTP Shares above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

The Fund anticipates that the representatives and certain other underwriters may from time to time act as brokers and dealers in connection with the execution of its portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as such brokers while they are underwriters. From time to time, Morgan Stanley & Co. Incorporated has provided, and continues to provide, investment banking services to the Fund, NAM and its affiliates for which it has received customary fees and expenses. The underwriters may, from time to time, engage in transactions with or perform services for the Fund, NAM and its affiliates in the ordinary course of business. As a result of the acquisition of Nuveen Investments by Madison Dearborn Partners, LLC, Banc of America Securities LLC is a remote affiliate of NAM (and the Fund), and certain underwriters or their affiliates, including Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, also have an ownership interest in Nuveen Investments. See Management of the Fund Nuveen Investments.

NAM (and not the Fund) has agreed to pay from its own assets to Morgan Stanley & Co. Incorporated a development fee in an amount equal to 0.25% of the price to the public of the MTP Shares issued by the Fund in connection with this offering.

Certain underwriters and their affiliates, including Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Citigroup Global Markets Inc., UBS Securities LLC and Wells Fargo Securities, LLC, currently own or are obligated to repurchase in the future outstanding

MuniPreferred shares. In addition, customers of certain underwriters and their affiliates currently own outstanding MuniPreferred shares. In connection with an inquiry by FINRA into the activities of Nuveen Investments, LLC, a registered broker-dealer affiliate of NAM

that is involved in the offering of the Fund's MTP Shares, in marketing and distributing MuniPreferred shares and FundPreferred shares (the latter being preferred shares issued by certain Nuveen non-municipal closed-end funds), FINRA staff members have notified Nuveen Investments, LLC that they have made a preliminary determination to recommend that disciplinary action be brought against Nuveen Investments, LLC. The potential charges recommended by the FINRA staff in such action would allege that certain MuniPreferred share and FundPreferred share marketing materials provided by Nuveen Investments, LLC were false and misleading from 2006 to 2008, and also would allege failures by Nuveen Investments, LLC relating to its supervisory system with respect to the marketing of MuniPreferred and FundPreferred shares. The FINRA staff has provided Nuveen Investments, LLC an opportunity to make a written submission to FINRA to aid its consideration of whether to revise and/or go forward with the staff's preliminary determination to recommend disciplinary action. Nuveen Investments, LLC is preparing such a submission responding to the potential allegations and asserting its defenses. Nuveen Investments, LLC anticipates continuing to discuss these matters with the FINRA staff. Upon the successful completion of this offering, these outstanding MuniPreferred shares may be redeemed or purchased by the Fund with the net proceeds of the offering as set forth in Use of Proceeds. Although such a redemption or purchase would be done in accordance with the 1940 Act in a manner that did not favor these underwriters, affiliates or customers, the underwriters or their affiliates may nonetheless be deemed to obtain a material benefit from the offering of the MTP Shares due to such redemption or purchase including, for certain of the underwriters and their affiliates, potentially substantial financial relief and/or relief related to legal and regulatory matters associated with currently illiquid MuniPreferred shares.

The Fund, NAM and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933.

The address of Morgan Stanley & Co. Incorporated is 1585 Broadway New York, New York 10036.

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REDEMPTION AND PAYING AGENT

The custodian of the assets of the Fund is State Street Bank and Trust Company (State Street), One Lincoln Street, Boston, Massachusetts 02110. The custodian performs custodial, fund accounting and portfolio accounting services. The Fund's transfer, shareholder services and dividend disbursing agent and redemption and paying agent is also State Street, 250 Royall Street, Canton, Massachusetts 02021. State Street has subcontracted the transfer agency servicing of the Fund to Computershare, Inc.

LEGAL OPINIONS

Certain legal matters in connection with MTP Shares will be passed upon for the Fund by K&L Gates LLP, Washington, DC, and for the Underwriters by Simpson Thacher & Bartlett LLP, New York, New York. K&L Gates LLP and Simpson Thacher & Bartlett LLP may rely as to certain matters of Massachusetts law on the opinion of Bingham McCutchen LLP, Boston, Massachusetts.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audited financial statements of the Fund appearing in the Fund's Annual Report dated May 31, 2009 are incorporated by reference into the Statement of Additional Information. The audited financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. Ernst & Young LLP provides auditing services to the Fund. The principal business address of Ernst & Young LLP is 233 South Wacker Drive, Suite 1700, Chicago, Illinois 60606.

MISCELLANEOUS

To the extent that a holder of MTP Shares is directly or indirectly a beneficial owner of more than 10% of any class of the Fund's outstanding shares (meaning for purposes of holders of MTP Shares, more than 10% of

the Fund's outstanding Preferred Stock), such a 10% beneficial owner would be subject to the short-swing profit rules that are imposed pursuant to Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act) (and related reporting requirements). These rules generally provide that such a 10% beneficial owner may have to disgorge any profits made on purchases and sales, or sales and purchases, of the Fund's Preferred Stock (including MTP Shares) within any six month time period. Investors should consult with their own counsel to determine the applicability of these rules.

AVAILABLE INFORMATION

The Fund is subject to the informational requirements of the Exchange Act and the 1940 Act and is required to file reports, proxy statements and other information with the Securities and Exchange Commission. These documents can be inspected and copied for a fee at the Securities and Exchange Commission's public reference room, 100 F Street, N.E., Washington, D.C. 20549. Reports, proxy statements, and other information about the Fund can be inspected at the offices of the Securities and Exchange Commission.

This prospectus does not contain all of the information in the Fund's Registration Statement, including amendments, exhibits, and schedules. Statements in this prospectus about the contents of any contract or other document are not necessarily complete and in each instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

Additional information about the Fund and MTP Shares can be found in the Fund's Registration Statement (including amendments, exhibits, and schedules) on Form N-2 filed with the Securities and Exchange Commission. The Securities and Exchange Commission maintains a web site (<http://www.sec.gov>) that contains the Fund's Registration Statement, other documents incorporated by reference, and other information the Fund has filed electronically with the Securities and Exchange Commission, including proxy statements and reports filed under the Exchange Act. Additional information may be found on the Internet at <http://www.nuveen.com>. The information contained in, or that can be accessed through, the Fund's website is not part of this prospectus.

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Appendix A Factors Affecting Municipal Securities in Massachusetts

The information set forth below is derived from sources that are generally available to investors. The information is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the Commonwealth of Massachusetts (referred to herein as the Commonwealth, the state, or Massachusetts). Without intending to be complete, the following briefly summarizes some of the factors affecting the financial situation in the Commonwealth. No independent verification has been made of the following information. The information contained herein reflects the latest figures available. The financial statements of the Commonwealth are available at the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> (click on Financial Reports/Audits).

Overview

The Commonwealth of Massachusetts has a highly developed economy with a large service sector, particularly in health care, high technology, financial services and education. The recent economic downturn has resulted in increased unemployment and reduced tax revenue to the Commonwealth.

Massachusetts' economy outperformed the nation's economy as a whole in fiscal year 2009. Per capita net income rose by over 4% for the calendar year of 2008. As of October 2009, the Commonwealth's unemployment rate was less than the national average but still rising. The rate for the Commonwealth rose from 5.2% in July of 2008 to 8.9% in October. Nationwide, the rate has almost continuously risen in the same period from 5.8% in July 2008 to 10.2% in October 2009.

The Commonwealth ended the year with a nearly \$1.4 billion structural deficit, defined as an excess of spending and other uses over revenues and other sources, largely due to a drop in tax revenues. The liabilities of the Commonwealth exceeded its assets (the net deficit) at the end of fiscal year 2009 by over \$8.2 billion, which was a drop of more than \$3.5 billion during the fiscal year. Revenues increased by 2.5% from fiscal year 2008. Tax revenues declined by 12.6%, but charges for services increased by 3.8%. Expenses increased by 12.2%, reflecting the need for increased programs and services such as Medicaid and unemployment compensation. Overall, the Commonwealth's financial operations resulted in net asset decreases by over \$3.5 billion in fiscal year 2009 before accounting changes. Net assets of governmental activities decreased by about \$2.8 billion. The decrease in net assets is primarily attributable to three issues; the economic recession resulting in a need for more services totaling about \$1.8 billion, a large drop in pension net assets of about \$667 million, adding to net pension obligations and approximately \$993 million related to under-funding of retiree health care.

For fiscal year 2009, the Commonwealth collected nearly \$18.5 billion in tax revenue, including \$10.5 billion from income taxation, \$3.9 billion from sales, \$1.9 billion from corporations, \$654 million from motor fuels and over \$1.6 billion from other forms of taxation. Grants to the Commonwealth increased largely due to the federal American Recovery and Reinvestment Act (ARRA). Lottery revenues encompass approximately 62% of the Commonwealth's governmental charges for services. Lottery revenues decreased in fiscal 2009 by approximately \$262 million.

The Legislature enacted the fiscal 2010 budget totaling \$27.411 billion on June 19, 2009, and the Governor approved it on June 29, 2009, but vetoed appropriations totaling approximately \$147 million. To support anticipated operations for fiscal year 2009, four budgetary provisions were passed to draw nearly \$1.3 billion from the Commonwealth's Stabilization Fund. The balance of the Stabilization Fund is approximately \$841.3 million as of fiscal year end of 2009. The Commonwealth will continue to receive funds from ARRA in fiscal years 2010 and 2011. The Commonwealth expects to benefit as a result of an increase in the sales and use tax from 5% to 6.25%, effective August 1, 2009.

Commonwealth Revenues

The Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds.

Major components of state tax revenue are the income tax the sales and use tax and the corporation and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations).

Dedicated portions of the Commonwealth's sales tax revenues are pledged to provide financial support for the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA).

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2 1/2, local governments have become increasingly reliant on distribution of revenues from the Commonwealth to support local programs and services, although the amount of aid received varies significantly among municipalities. As a result of comprehensive education reform legislation enacted in June 1993, a large portion of local aid general revenue sharing funds is earmarked for public education and distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. There are also several specific local aid programs, such as public libraries, police education incentives, and property tax abatement for certain elderly or disabled residents.

The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Beginning July 1, 2004, state finance law has provided that (i) 0.5 percent of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5 percent of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must be transferred to the Stabilization Fund. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10 percent of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15 percent of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund. The fiscal 2009 budget suspended the statutorily required deposit and transferred the projected fiscal 2009 investment earnings of the Stabilization Fund to the General Fund. The fiscal 2010 budget authorizes the transfer of \$199 million from the Stabilization Fund to the General Fund and the transfer of all fiscal 2010 interest earnings. The budget also suspends the statutorily required deposit for fiscal 2010.

Fiscal 2009 Revenues and Estimates for 2010

Tax revenue collections for fiscal 2009 totaled \$18.499 billion, a decrease of 12.6 percent, or nearly \$2.7 billion, compared to fiscal 2008. The fiscal 2009 tax revenue decrease is attributable in large part to decreases of \$2.2 billion in income tax payments, a \$244 million decrease in sales and use tax collections and a \$650 million drop in other forms of taxes offset by a \$417 million increase in corporate taxation.

Contributions from ARRA and other federal grants and participation increased operating and capital grants to \$4.1 billion in fiscal 2009, offsetting the drop in other operating revenues. As of June 30, 2009, ARRA funds received by the Commonwealth were more than \$1.4 billion, of which \$1.3 billion were from either Medicaid or

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State Fiscal Stabilization Fund (SFSF) grants. However, these increases in funding triggered required increases in spending. Medicaid spending rose by nearly \$1.1 billion while unemployment compensation also rose by over \$1.9 billion.

Preliminary tax revenue collections for the first three months of fiscal 2010, ended September 30, 2009, totaled \$4.313 billion, a decrease of \$477 million, or 10%, compared to the same period in fiscal 2009.

The Secretary of Administration and Finance on October 15, 2009 revised the fiscal 2010 revenue estimate downward by \$600 million, from \$18.879 billion to \$18.279 billion. The basis for this revenue revision was a decrease in tax collections from income tax withholding, sales tax, and corporate and business excises that have been below forecast.

The tax revenue estimates assumed in the fiscal 2010 budget provide for an allocation of \$619.4 million to the MSBA, \$767.1 million to the MBTA and approximately \$1.377 billion to the state pension fund. The budget also includes an increase in the sales and use tax rates from 5% to 6.25%, which is estimated to produce an additional \$759 million in fiscal 2010.

Commonwealth Debt

The Commonwealth is authorized to issue three types of debt directly – general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund with a pledge of receipts credited to the Convention Center Fund. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. As of June 30, 2009, the amount of Commonwealth's governmental outstanding debt was approximately \$23.1 billion (excluding unamortized discounts and premiums) exclusive of capital leases. General obligation bonds outstanding, which include college opportunity bonds and debt assumed from former counties, were approximately \$17.2 billion, of which \$13.4 billion, or approximately 79 percent, is fixed-rate debt and \$3.6 billion, or 21 percent, is variable rate debt. As of June 30, 2009, \$1.1 billion of federal grant anticipation notes remained outstanding. All of these notes are fixed-rate obligations. During fiscal year 2009, the Governor approved legislation authorizing the issuance of an additional \$1.1 billion of grant anticipation notes secured by future federal funds.

Exclusive of MSBA, the Commonwealth issued approximately \$2.5 billion in new debt during the fiscal year, and 21% of the Commonwealth's general obligation debt has been issued as variable rate bonds as of June 30, 2009. Included in this variable rate debt were approximately \$402 million in auction rate securities (about 2% of all general obligation debt) as of June 30, 2009. Because of failed auctions that began in February 2008, meaning there were not enough bids from investors to purchase securities being offered for sale by existing holders, the Commonwealth issued general obligation debt that are ostensibly refunding bonds, but have a purpose of refunding leases in two instances. In late November 2008, the Commonwealth issued approximately \$294 million in bonds to retire a capital lease to the Route 3 North Transportation Improvement Association (a discretely presented component unit) that the Association funded by auction rate securities. A few weeks later, the Commonwealth issued approximately \$68 million in general obligation debt to retire a conduit lease through MassDevelopment (also a discretely presented component unit) to the City of Chelsea that was used to finance a Commonwealth data center.

Approximately \$1.1 billion in bond sales were either for general government purposes or unallocated as of year end and assumed to be for general purposes including for construction and equipment purchases. The remaining new issues were for highway and other infrastructure construction (approximately \$1 billion) or for strictly municipal purposes (approximately \$36 million). Included in bond sales are issuances of taxable debt of approximately \$72 million to finance activities that could not be financed through tax exempt means.

The Commonwealth enacted over \$15 billion in bond authorizations, more than doubling the amount of authorized but unissued debt from fiscal year 2008. These acts included amounts for affordable housing, transportation funding, life sciences, higher education infrastructure, Commonwealth-wide broadband Internet services, land preservation, parks and clean energy, information technology, bridge restoration and parkways. Additionally, dormant authorizations were de-authorized. The amounts will be reflected in capital spending and bonding in the coming years.

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as (a) general obligation contract assistance liabilities, (b) budgetary contract assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth. General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Turnpike Authority and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contract assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases, including leases supporting certain bonds issued by the Route 3 North Transportation Improvements Association and other contractual agreements, including a contract supporting certain certificates of participation issued for Plymouth County. Such liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of certain independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth's credit has been or may be pledged, as in the case of certain debt obligations of the MBTA, regional transit authorities, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, and the higher education building authorities. Under legislation approved by the Governor on August 11, 2008, the Commonwealth may provide credit support to the Turnpike Authority in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the state's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from moneys otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority. The fiscal 2010 budget includes a provision authorizing a contract between the Secretary of Administration and Finance, acting on behalf of the Commonwealth, with the concurrence of the Secretary of Transportation and Public Works, and the Turnpike Authority providing for the Commonwealth to make payments to the Turnpike Authority or the Massachusetts Department of Transportation (MassDOT), as appropriate, in the amount of \$100 million in each fiscal year for the purpose of defraying costs, including debt service on bonds issued by the Turnpike Authority or MassDOT to finance or refinance improvements to the Metropolitan Highway System. The term of the contract extends until fiscal 2039.

The Commonwealth incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. The state currently has liquidity support for a \$1 billion tax-exempt commercial paper program for general obligation notes, through five \$200 million credit lines due to expire in January, 2010, June, 2010, December, 2010 (two lines) and September, 2011, respectively. The Commonwealth periodically makes several cash flow borrowings for operating purposes. The pattern of the Commonwealth's cash flow borrowings is largely the result of temporary cash imbalances caused by quarterly local aid payments

to cities and towns, which total approximately \$1 billion on the last day of each calendar quarter. All commercial paper of the Commonwealth issued for operating purposes in a fiscal year is required by state finance law to be paid not later than June 30 of such year.

Health Care Reform

In April 2006, the Commonwealth enacted health care reform legislation designed to expand health insurance coverage to virtually all of its residents. The legislation is based on a framework of shared responsibility for expanding health coverage. It requires individuals 18 years and older who can afford health insurance to maintain coverage. The law reformed state health insurance markets and created the Commonwealth Health Insurance Connector Authority (the Connector Authority) to offer individuals a greater choice of affordable private health insurance plans. It also provides low-income adults and children with new opportunities to enroll in affordable, government-subsidized coverage through expanded eligibility for Medicaid and the newly created Commonwealth Care program. Under the health care reform law, businesses with 11 or more full-time employees must either contribute to health insurance coverage for their employees or pay an assessment and must allow their employees to pay their share of the costs of health insurance coverage on a pre-tax basis (known as a Section 125, or cafeteria plan option).

The health care reform legislation expanded eligibility for MassHealth, restored certain MassHealth benefits and services that had been cut during prior fiscal crises and created new MassHealth programs. Additionally, the health care reform legislation provided for rate increases for acute care hospitals, physicians and managed care organizations. To reflect the need to maintain support for safety net institutions after the sun-setting of previous mechanisms for making supplemental payments to these health systems, Section 122 of the health care reform legislation requires the Commonwealth to make transitional supplemental payments to certain safety net providers through fiscal 2009.

The health care reform legislation created the Connector Authority to administer the new Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300 percent of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006. As of March 1, 2009, over 165,000 residents with incomes up to 300 percent of the federal poverty level were enrolled in Commonwealth Care.

The Division of Health Care Finance and Policy administers the Health Safety Net (formerly the Uncompensated Care Pool), which reimburses acute care hospitals and community health centers in Massachusetts for eligible services provided to low-income uninsured and underinsured residents of the Commonwealth.

Many parts of health care reforms are funded through the Commonwealth Care Trust Fund and the Health Safety Net Trust Fund. Total spending on Commonwealth Care Trust Fund was \$403.8 million in fiscal 2007, \$974.8 million in fiscal 2008 and \$1.146 billion in fiscal 2009. The fiscal 2010 budget currently includes \$723 million for Commonwealth Care. Health Safety Net Trust Fund spending totaled \$665 million in 2007, \$415.6 million in fiscal 2008 and \$406 million in fiscal 2009. The fiscal 2010 budget includes \$390 million in dedicated resources for the Health Safety Net.

Projected Budget Shortfall

On October 15, 2009, the Secretary of Administration and Finance advised the Governor of a probable deficiency of state tax revenues of approximately \$600 million with respect to the appropriations approved to date for fiscal 2010. On October 29, 2009, the Governor filed legislation containing proposed solutions to the projected \$600 million tax revenue shortfall, including \$277 million in spending reductions across executive branch agencies. As part of the \$277 million in executive branch cuts, the Governor has directed agencies to reduce personnel positions to achieve an additional \$35 million in savings and is requiring managers within the

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executive branch to take up to nine furlough days through the remainder of fiscal 2010. In addition, the Governor is seeking expanded authority to make \$75 million in spending reductions in non-executive branch agencies, including the Legislature, other constitutional officers, the judiciary, sheriffs and district attorneys. The Governor's plan also assumed the use of a projected fiscal 2009 surplus of \$60 million, as well as \$62 million in available federal funds under ARRA. The Governor's plan did not rely on the use of any of the current balance in the Commonwealth's Stabilization Fund. The legislation also included several proposals that are designed to improve the efficiency of state government and give agencies the ability to better manage their budgets.

The Executive Office for Administration and Finance is currently managing up to \$575 million in potential fiscal 2010 spending pressures driven largely by increased utilization in certain caseload-driven accounts, including MassHealth, the emergency assistance shelter program and the Commonwealth's public defender program. Also included is the potential need for additional snow and ice funding and costs associated with holding a special election to fill the Commonwealth's vacant U.S. Senate seat (in addition to the funding included in the recently enacted fiscal 2009 supplemental legislation).

Capital Investment Plan

The Executive Office for Administration and Finance develops and manages a multi-year capital investment plan. This plan coordinates capital expenditures by state agencies and authorities that are funded by Commonwealth debt, certain operating revenues, third-party payments and federal grants. The Executive Office for Administration and Finance sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the bond cap, is to keep Commonwealth debt within affordable levels. The stated annual bond cap for fiscal 2004 through 2008 was \$7.3 billion, plus unexpended amounts carried forward from prior years. It should be noted, however, that Commonwealth debt for the Central Artery/Ted Williams Tunnel (CA/T) project, the Boston and Springfield convention center projects and the Massachusetts School Building Authority's school building assistance program was issued in excess of the bond cap during the last several fiscal years. On October 7, 2009, the Governor released a five-year capital investment plan for fiscal 2010 through fiscal 2014, totaling nearly \$17 billion. With the release of the five-year capital investment plan, the Governor announced that the bond cap will be \$1.5 billion for fiscal 2010, plus \$150 million in unused bond cap from fiscal 2009 which has been carried forward to support spending in fiscal 2010. The bond cap for fiscal 2011 is projected to be \$1.625 billion, and is projected to increase by \$125 million in each subsequent fiscal year through fiscal 2014. Reflecting changed economic conditions, the total bond cap projected in the fiscal 2010 through fiscal 2014 five-year plan is \$1.1 billion less than the total bond cap projected in the first five-year plan published by the Executive Office for Administration and Finance in July, 2007.

The largest single component of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel Project, a major construction project, substantial completion of which occurred in January 2006. The total cost of the Central Artery/Ted Williams Tunnel Project was most recently estimated to be \$14.798 billion. The federal government has capped its contribution to the project, and the Commonwealth projects a funding shortfall of \$210 million, payment of which will be shared by the Commonwealth and the Massachusetts Turnpike Authority. A series of events have raised concerns relating to the quality of the CA/T Project. Water infiltration in the project's tunnels became a focus of public concern following a slurry wall breach on September 15, 2004. On July 10, 2006 panels in the ceiling of the eastbound I-90 Connector Tunnel that leads to the Ted Williams Tunnel fell, causing the death of an automobile passenger. As a result, project cost increases are anticipated. The Commonwealth and the Massachusetts Turnpike Authority anticipate additional recoverable costs, although the amount of such recovery is unknown at this time. On July 10, 2007 the National Transportation Safety Board released its findings pertaining to the collapse of the ceiling panels, citing failure in the epoxy anchoring system. Subsequent to the collapse a full inspection of the tunnel project was conducted, and continues, inspecting all aspects of the project's design, construction and life safety systems.

The Attorney General entered into a global resolution of criminal and civil claims with the joint venture of Bechtel/Parsons Brinckerhoff, Bechtel Infrastructure Corp. and PB Americas, Inc., f/k/a Parsons Brinckerhoff Quade and Douglas, Inc. (Bechtel/Parsons Brinckerhoff), the management consultant to the CA/T project. Bechtel/Parsons Brinckerhoff agreed to pay over \$407 million to resolve its criminal and civil liabilities in connection with the collapse of part of the I-90 Connector Tunnel ceiling (described above) and defects in the slurry walls of the Tip O'Neill Tunnel. In addition, 24 section design consultants, other contractors who worked on various parts of the project, agreed to pay an additional \$51 million to resolve certain cost-recovery issues associated with the design of the CA/T project. In total, the United States and the Commonwealth will recover \$458 million, including interest. These settlements followed an earlier settlement with Aggregate Industries Northeast Region for \$42.7 million relating to cost recovery issues with the CA/T project. In total, the United States and the Commonwealth will recover \$500.7 million, including interest from all of these settlements. The Commonwealth has received \$413.8 million to date, including interest, of which \$17 million has been deposited in the Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (TIF). This settlement does not release the defendants from future catastrophic events having an aggregate cost of greater than \$50 million, but the liability of Bechtel/Parsons Brinckerhoff for such a future catastrophic event is capped at \$100 million. The settlement agreement and recently passed legislation require that the settlement amounts and certain other cost recovery amounts be deposited in a trust fund and dedicated to non-routine maintenance of the CA/T project and reimbursement of certain costs incurred by the Commonwealth and the Turnpike Authority to repair components of the project. All other cost recoveries, insurance proceeds and certain real estate proceeds will be deposited in the TIF for purposes of paying costs of the CA/T project or reimbursing the Commonwealth for payment of such costs.

On June 25, 2009 the Governor approved legislation designed to reform the Commonwealth's transportation system. The legislation creates a new authority to be called the Massachusetts Department of Transportation (MassDOT), to be governed by a five-member board appointed by the Governor. MassDOT will have an office of planning and programming and four divisions: one for highways, one for mass transit, one for aeronautics and one for the Registry of Motor Vehicles which will share administrative functions. The board of MassDOT is authorized to begin exercising its powers on November 1, 2009.

The transportation reform legislation provides for the dissolution of the Massachusetts Turnpike Authority and the transfer of its assets, liabilities, obligations and debt to MassDOT, which will have a separate legal existence from the Commonwealth. MassDOT is to assume the rights, powers and duties of the Turnpike Authority upon the transfer on November 1, 2009. The legislation maintains the separate existence of the Massachusetts Bay Transportation Authority, but its governing board is abolished, to be replaced by a new five-member board appointed the Governor. It is expected that the Governor will appoint the same individuals to the governing boards of MassDOT and the MBTA. The Massachusetts Port Authority will remain an independent authority, but the legislation provides that the Tobin Memorial Bridge, a tolled bridge which is currently owned and operated by the Port Authority, is to be transferred to MassDOT on January 1, 2010. All regional transit authorities in the Commonwealth are mandated to shift to a forward-funded budgeting system no later than fiscal 2012.

The legislation establishes a Massachusetts Transportation Trust Fund within MassDOT, into which all bridge, tunnel and highway tolls, as well as transit fares, will be deposited. Moneys in the Central Artery and Statewide Road and Bridge Infrastructure Fund are also expected to be transferred to the Massachusetts Transportation Trust Fund. The Trust Fund is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, including MBTA assets and assets of the Turnpike Authority transferred pursuant to the legislation, as well as debt service on outstanding Turnpike Authority debt. MassDOT will be authorized to issue special obligation debt secured by moneys in the Trust Fund to refinance Turnpike Authority debt issued before July 1, 2009. MassDOT debt will not be debt of the Commonwealth. The legislation contemplates that the Legislature will continue to make capital appropriations for transportation improvements and that such appropriations will continue to be funded through the issuance by the State Treasurer of Commonwealth debt. Currently outstanding capital spending authorizations are to be made available to MassDOT by the Secretary of Administration and Finance.

Legal Matters

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to her knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

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Nuveen Massachusetts Premium Income Municipal Fund

EPR-NMT-0110D

NUVEEN MASSACHUSETTS PREMIUM INCOME MUNICIPAL FUND

STATEMENT OF ADDITIONAL INFORMATION

Nuveen Massachusetts Premium Income Municipal Fund (the Fund) is a diversified, closed-end management investment company.

This Statement of Additional Information relating to MuniFund Term Preferred Shares, 2.65% Series 2015 (Series 2015 MTP Shares) of the Fund (MTP Shares) does not constitute a prospectus, but should be read in conjunction with the Fund's prospectus relating thereto dated January 15, 2010 (the Prospectus). This Statement of Additional Information does not include all information that a prospective investor should consider before purchasing MTP Shares. Investors should obtain and read the Fund's Prospectus prior to purchasing such shares. A copy of the Fund's Prospectus, annual and semi-annual reports to shareholders when available, and other information about the Fund may be obtained without charge by calling (800) 257-8787, by writing to the Fund or from the Fund's website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the Fund's website is not part of the Fund's Prospectus or this Statement of Additional Information. You may also obtain a copy of the Fund's Prospectus on the Securities and Exchange Commission's website (<http://www.sec.gov>). Capitalized terms used but not defined in this Statement of Additional Information have the meanings ascribed to them in the Prospectus.

This Statement of Additional Information is dated January 15, 2010.

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INVESTMENT OBJECTIVES AND POLICIES

The Fund's primary investment objective is current income exempt from both regular federal income taxes and Massachusetts personal income taxes, and its secondary investment objective is the enhancement of portfolio value relative to the Massachusetts municipal bond market through investments in tax-exempt Massachusetts Municipal Obligations that, in the opinion of the Fund's investment adviser, are underrated or undervalued or that represent municipal market sectors that are undervalued.

By purchasing such tax-exempt Massachusetts Municipal Obligations (as defined in the Fund's prospectus), the Fund seeks to realize above-average capital appreciation in a rising market, and to experience less than average capital losses in a declining market. Any capital appreciation realized by the Fund will generally result in the distribution of taxable gains to Fund shareholders, including holders of MTP Shares. See Tax Matters. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax.

Except as described below, the Fund seeks to achieve its investment objectives by investing substantially all of its assets in tax-exempt Massachusetts Municipal Obligations rated at the time of purchase within the four highest grades (Baa/BBB or better), except that up to 20% of the Fund's assets may be invested in unrated Massachusetts Municipal Obligations that, in the opinion of the Fund's investment adviser, have credit characteristics equivalent to, and are of comparable quality to, Massachusetts Municipal Obligations which are so rated. A general description of NRSRO (i.e., Moody's, S&P and Fitch) ratings of municipal securities is set forth in Appendix B to this Statement of Additional Information.

Underrated municipal securities are those municipal securities whose ratings do not, in NAM's opinion, reflect their true value. They may be underrated because of the time that has elapsed since their last ratings, or because rating agencies have not fully taken into account positive factors, or for other reasons. Undervalued municipal securities are those securities that, in NAM's opinion, are worth more than their market value. They may be undervalued because there is a temporary excess of supply in that particular sector (such as hospital bonds, or bonds of a particular municipal issuer). NAM may buy such a security even if the value of that security is consistent with the value of other securities in that sector. Municipal securities also may be undervalued because there has been a general decline in the market price of municipal securities for reasons that do not apply to the particular municipal securities that NAM considers undervalued. NAM believes that the prices of these municipal securities should ultimately reflect their true value.

The Fund also may invest up to 15% of its net assets in inverse floating rate securities. The economic effect of leverage through the Fund's purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

During temporary defensive periods and in order to keep the Fund's cash fully invested, the Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax exempt or taxable. The Fund intends to invest in taxable short-term investments only in the event that suitable tax-exempt short-term investments are not available at reasonable prices and yields. Investment in taxable short-term investments would result in a portion of your dividends being subject to regular federal income taxes.

The Fund cannot change its investment objectives without the approval of the holders of a majority of the outstanding shares of common shares and Preferred Stock, voting together, and of the holders of a majority of the outstanding Preferred Stock, voting separately. For this purpose, a majority of the outstanding shares means the vote of (1) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy; or (2) more than 50% of the shares, whichever is less.

A general description of the ratings of S&P, Moody's and Fitch of municipal securities is set forth in Appendix B to this Statement of Additional Information.

A more complete description of the Fund's investment objectives and policies is set forth in the Fund's Prospectus.

INVESTMENT RESTRICTIONS

Except as described below, the Fund, as a fundamental policy, may not, without the approval of the holders of a majority of the outstanding shares of common shares and Preferred Stock, voting together, and of the holders of a majority of the outstanding Preferred Stock, voting separately:

- (1) Issue senior securities, as defined in the 1940 Act, other than Preferred Shares, except to the extent such issuance might be involved with respect to borrowings described under subparagraph (3) below or with respect to transactions involving futures contracts or the writing of options within the limits described in Certain Trading Strategies of the Fund Financial Futures and Options Transactions and Description of MuniPreferred Asset Maintenance MuniPreferred Basic Maintenance Amount ;
- (2) Make short sales of securities or purchase any securities on margin (except for such short-term credits as are necessary for the clearance of transactions), or write or purchase put or call options, except to the extent that the purchase of a stand-by commitment may be considered the purchase of a put, and except for transactions involving options that represent no more than 10% of the Fund's total assets and are otherwise within the limits described in Certain Trading Strategies of the Fund Financial Futures and Options Transactions and Description of MuniPreferred Asset Maintenance MuniPreferred Basic Maintenance Amount ;
- (3) Borrow money, except from banks for temporary or emergency purposes or for repurchase of its shares, and then only in an amount not exceeding one-third of the value of the Fund's total assets including the amount borrowed. While any such borrowings exceed 5% of the Fund's total assets, no additional purchases of investment securities will be made;
- (4) Underwrite any issue of securities, except to the extent that the purchase of Municipal Obligations in accordance with its investment objectives, policies and limitations may be deemed to be an underwriting;
- (5) Invest more than 25% of its total assets in securities of issuers in any one industry; *provided, however*, that such limitation shall not be applicable to Municipal Obligations other than those Municipal Obligations backed only by the assets and revenues of non-governmental users, nor shall it apply to Municipal Obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
- (6) Purchase or sell real estate, but this shall not prevent the Fund from investing in Municipal Obligations secured by real estate or interests therein or foreclosing upon and selling such security;
- (7) Purchase or sell commodities or commodities contracts, except for transactions involving futures contracts that represent no more than 10% of the Fund's total assets and are otherwise within the limits described in Certain Trading Strategies of the Fund Financial Futures and Options Transactions and Description of MuniPreferred Asset Maintenance MuniPreferred Basic Maintenance Amount ;
- (8) Make loans, other than by entering into repurchase agreements and through the purchase of Municipal Obligations or temporary investments in accordance with its investment objectives, policies and limitations;
- (9) Invest in securities other than Massachusetts Municipal Obligations and temporary investments as described in Investment Objectives and Policies Portfolio Investments, and purchase financial futures and options except for futures and options that represent no more than 10% of the Fund's total assets and are otherwise within the limits described in Certain Trading Strategies of the Fund Financial Futures and Options Transactions and Description of MuniPreferred Asset Maintenance MuniPreferred Basic Maintenance Amount ;

- (10) Invest more than 5% of its total assets in securities of any one issuer, except that this limitation shall not apply to securities of the U.S. government, its agencies and instrumentalities or to the investment of 25% of its total assets;
- (11) Pledge, mortgage or hypothecate its assets, except that, to secure borrowings permitted by subparagraph (3) above, it may pledge securities having a market value at the time of pledge not exceeding 20% of the value of the Fund's total assets;
- (12) Invest more than 10% of its total assets in repurchase agreements maturing in more than seven days; and
- (13) Purchase or retain the securities of any issuer other than the securities of the Fund if, to the Fund's knowledge, those trustees of the Fund, or those officers and directors of the Adviser, who individually own beneficially more than $\frac{1}{2}$ of 1% of the outstanding securities of such issuer, together own beneficially more than 5% of such outstanding securities.

For the purpose of applying the limitation set forth in subparagraph (10) above, a governmental issuer shall be deemed the single issuer of a security when its assets and revenues are separate from other governmental entities and its securities are backed only by its assets and revenues. Similarly, in the case of a non-governmental issuer, if the security is backed only by the assets and revenues of the non-governmental issuer, then such non-governmental issuer would be deemed to be the single issuer. Where a security is also backed by the enforceable obligation of a superior or unrelated governmental or other entity (other than a bond insurer), it shall also be included in the computation of securities owned that are issued by such governmental or other entity. Where a security is guaranteed by a governmental entity or some other facility, such as a bank guarantee or letter of credit, such a guarantee or letter of credit would be considered a separate security and would be treated as an issue of such government, other entity or bank. When a municipal security is insured by bond insurance, it shall not be considered a security that is issued or guaranteed by the insurer; instead, the issuer of such municipal security will be determined in accordance with the principles set forth above. The foregoing restrictions do not limit the percentage of the Fund's assets that may be invested in municipal securities insured by any given insurer.

In addition to the foregoing fundamental investment policies, the Fund is also subject to the following non-fundamental restrictions and policies, which may be changed by the Board of Trustees. The Fund may not:

1. Purchase securities when borrowings exceed 5% of its total assets if and so long as preferred shares are outstanding.
2. Purchase securities of companies for the purpose of exercising control, except that the Fund may invest up to 5% of its net assets in tax-exempt or taxable fixed-income securities or equity securities for the purpose of acquiring control of an issuer whose municipal bonds (a) the Fund already owns and (b) have deteriorated or are expected shortly to deteriorate significantly in credit quality, provided NAM determines that such investment should enable the Fund to better maximize the value of its existing investment in such issuer.

The restrictions and other limitations set forth above will apply only at the time of purchase of securities and will not be considered violated unless an excess or deficiency occurs or exists immediately after and as a result of an acquisition of securities.

The Fund may be subject to certain restrictions imposed by either guidelines of one or more NRSROs that may issue ratings for Preferred Stock, including MTP Shares or, if issued, commercial paper or notes, or, if the Fund borrows from a lender, by the lender. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. If these restrictions were to apply, it is not anticipated that these covenants or guidelines would impede NAM from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies. A copy of the current Rating Agency Guidelines will be provided to any holder of MTP Shares promptly upon request therefor made by such holder to the Fund by writing the Fund at 333 West Wacker Dr., Chicago, Illinois 60606.

PORTFOLIO COMPOSITION

In addition to and supplementing the Prospectus, the Fund's portfolio will be composed principally of the investments described below.

The term "municipal securities" includes municipal securities with relatively short-term maturities. Some of these short-term securities may be variable or floating rate securities. The Fund, however, emphasizes investments in municipal securities with long- or intermediate-term maturities. The Fund buys municipal securities with different maturities and intends to maintain an average portfolio maturity of 15 to 30 years, although this may be shortened depending on market conditions. As a result, the Fund's portfolio may include long-term and intermediate-term municipal securities. If the long-term municipal bond market is unstable, the Fund may temporarily invest up to 100% of its assets in temporary investments. Temporary investments are high quality, generally uninsured, short-term municipal securities that may either be tax-exempt or taxable. The Fund will buy taxable temporary investments only if suitable tax-exempt temporary investments are not available at reasonable prices and yields. The Fund will invest only in taxable temporary securities that are U.S. Government securities or corporate debt securities rated within the highest grade by Moody's or S&P, and that mature within one year from the date of purchase or carry a variable or floating rate of interest. The Fund's policies on securities ratings only apply when the Fund buys a security, and the Fund is not required to sell securities that have been downgraded. See Appendix B to this Statement of Additional Information for a description of securities ratings. The Fund also may invest in taxable temporary investments that are certificates of deposit from U.S. banks with assets of at least \$1 billion, or repurchase agreements. The Fund intends to allocate taxable income on temporary investments, if any, proportionately between common shares and Preferred Stock, based on the percentage of total dividends distributed to each class for that year.

MUNICIPAL SECURITIES

Included within the general category of municipal securities described in the Prospectus are participations in lease obligations or installment purchase contract obligations (hereinafter collectively called "Municipal Lease Obligations") of municipal authorities or entities. Although Municipal Lease Obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged, a Municipal Lease Obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the Municipal Lease Obligation. However, certain Municipal Lease Obligations contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a "non-appropriation" lease, the Fund's ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. The Fund seeks to minimize these risks by only investing in those "non-appropriation" Municipal Lease Obligations where (a) the nature of the leased equipment or property is such that its ownership or use is essential to a governmental function of the municipality, (b) the lease payments will commence amortization of principal at an early date that results in an average life of seven years or less for the Municipal Lease Obligation, (c) appropriate covenants will be obtained from the municipal obligor prohibiting the substitution or purchase of similar equipment if lease payments are not appropriated, (d) the lease obligor has maintained good market acceptability in the past, (e) the investment is of a size that will be attractive to institutional investors and (f) the underlying leased equipment has elements of portability or use, or both, that enhance its marketability in the event foreclosure on the underlying equipment were ever required.

Certain municipal securities may carry variable or floating rates of interest whereby the rate of interest is not fixed but varies with changes in specified market rates or indexes, such as a bank prime rate or a tax-exempt money market index. As used in the Prospectus and in this Statement of Additional Information, the term municipal securities also includes obligations, such as tax-exempt notes, municipal commercial paper and Municipal Lease Obligations, having relatively short-term maturities, although the Fund emphasizes investments in municipal securities with long-term maturities.

Obligations of issuers of municipal securities are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Bankruptcy Reform Act of 1978, as amended. In addition, Congress, state legislatures or referenda may in the future enact laws affecting the obligations of these issuers by extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations or upon municipalities to levy taxes. There is also the possibility that, as a result of legislation or other conditions, the power or ability of any issuer to pay, when due, the principal of and interest on its Municipal Obligations may be materially affected.

The Fund has no intention to file a voluntary application for relief under federal bankruptcy law or any similar application under state law for so long as the Fund is solvent and does not foresee becoming insolvent.

FINANCIAL FUTURES AND OPTIONS TRANSACTIONS

The Fund may attempt to hedge all or a portion of its investment portfolio against market risk by engaging in transactions in financial futures contracts, options on financial futures or options that either are based on an index of long-term municipal securities (i.e., those with remaining maturities averaging 20-30 years) or relate to debt securities whose prices NAM anticipates to correlate with the prices of the municipal securities the Fund owns. To accomplish such hedging, the Fund may take an investment position in a futures contract or in an option which is expected to move in the opposite direction from the position being hedged. Hedging may be utilized to reduce the risk that the value of securities the Fund owns may decline on account of an increase in interest rates and to hedge against increases in the cost of the securities the Fund intends to purchase as a result of a decline in interest rates. The use of futures and options for hedging purposes can be expected to result in taxable income or gain. The Fund currently intends to allocate any taxable income or gain proportionately between its Common Shares and its Preferred Stock. See Tax Matters.

The sale of financial futures or the purchase of put options on financial futures or on debt securities or indexes is a means of hedging against the risk of rising interest rates, whereas the purchase of financial futures or of call options on financial futures or on debt securities or indexes is a means of hedging the Fund's portfolio against an increase in the price of securities such Fund intends to purchase. Writing a call option on a futures contract or on debt securities or indexes may serve as a hedge against a modest decline in prices of municipal securities held in the Fund's portfolio, and writing a put option on a futures contract or on debt securities or indexes may serve as a partial hedge against an increase in the value of municipal securities the Fund intends to acquire. The writing of these options provides a hedge to the extent of the premium received in the writing transaction.

The Fund will not purchase futures unless it has segregated cash, government securities or high grade liquid debt equal to the contract price of the futures less any margin on deposit, or unless the purchase of a put option covers the long futures position. The Fund will not sell futures unless the Fund owns the instruments underlying the futures or owns options on such instruments or owns a portfolio whose market price may be expected to move in tandem with the market price of the instruments or index underlying the futures. If the Fund engages in transactions involving the purchase or writing of put and call options on debt securities or indexes, the Fund will not purchase these options if more than 5% of its assets would be invested in the premiums for these options and it will only write covered or secured options, where the Fund holds the securities or cash required to be delivered upon exercise, with such cash being maintained in a segregated account. These requirements and limitations may limit the Fund's ability to engage in hedging transactions. So long as any Rating Agency is rating the Fund's Preferred Stock, the Fund will only engage in futures or options transactions in accordance with the then-current guidelines of such rating agencies, and only after it has received written confirmation from Moody's and S&P, as appropriate, that these transactions would not impair the ratings then assigned by Moody's and S&P to such shares.

Description of Financial Futures and Options. A futures contract is a contract between a seller and a buyer for the sale and purchase of specified property at a specified future date for a specified price. An option is a

contract that gives the holder of the option the right, but not the obligation, to buy (in the case of a call option) specified property from, or to sell (in the case of a put option) specified property to, the writer of the option for a specified price during a specified period prior to the option's expiration. Financial futures contracts and options cover specified debt securities (such as U.S. Treasury securities) or indexes designed to correlate with price movements in certain categories of debt securities. At least one exchange trades futures contracts on an index designed to correlate with the long-term municipal bond market. Financial futures contracts and options on financial futures contracts are traded on exchanges regulated by the CFTC. Options on certain financial instruments and financial indexes are traded on securities markets regulated by the SEC. Although futures contracts and options on specified financial instruments call for settlement by delivery of the financial instruments covered by the contracts, in most cases positions in these contracts are closed out in cash by entering into offsetting liquidating or closing transactions. Index futures and options are designed for cash settlement only.

Risks of Futures and Options Transactions. There are certain risks associated with the use of financial futures and options to hedge investment portfolios. There may be an imperfect correlation between price movements of the futures and options and price movements of the portfolio securities being hedged. Losses may be incurred in hedging transactions, which could reduce the portfolio gains that might have been realized if the hedging transactions had not been entered into. The ability to close out positions in futures and options depends upon the existence of a liquid secondary market, which may not exist for all futures and options at all times. If the Fund engages in futures transactions or in the writing of options on futures, it will be required to maintain initial margin and maintenance margin and may be required to make daily variation margin payments in accordance with applicable rules of the exchanges and the CFTC. If the Fund purchases a financial futures contract or a call option or writes a put option in order to hedge the anticipated purchase of municipal securities, and if the Fund fails to complete the anticipated purchase transaction, the Fund may have a loss or a gain on the futures or options transaction that will not be offset by price movements in the municipal securities that were the subject of the anticipatory hedge. The cost of put options on debt securities or indexes effectively increases the cost of the securities subject to them, thereby reducing the yield otherwise available from these securities. If the Fund decides to use futures contracts or options on futures contracts for hedging purposes, the Fund will be required to establish an account for such purposes with one or more CFTC-registered futures commission merchants. A futures commission merchant could establish initial and maintenance margin requirements for the Fund that are greater than those which would otherwise apply to the Fund under applicable rules of the exchanges and the CFTC.

Repurchase Agreements. The Fund may buy repurchase agreements as temporary investments. A repurchase agreement is a contract in which the seller of securities (U.S. government securities or municipal bonds) agrees to repurchase the same securities from the buyer at a specified price on a future date. The repurchase price determines the yield during the Fund's holding period. Repurchase agreements are considered to be loans whose collateral is the underlying security that is the subject of the repurchase agreement. Income from repurchase agreements is taxable and required to be allocated between common shares and Preferred Stock. See Tax Matters. The Fund will enter into repurchase agreements only with registered securities dealers or domestic banks that, in NAM's opinion, present minimal credit risks. The risk to the Fund is limited to the ability of the other party to pay the agreed-upon repurchase price on the delivery date; however, although the value of the underlying collateral at the time of the transaction always equals or exceeds the repurchase price, if the value of the collateral declines there is a risk of loss of principal and interest. If the other party defaults, the collateral may be sold, but the Fund may lose money if the value of the collateral declines and may have to pay the costs of the sale or experience delays in selling the collateral. If the seller files for bankruptcy, the Fund may not be able to sell the collateral quickly or at all. NAM will monitor the value of the collateral at the time the Fund enters into a repurchase agreement and during the term of the repurchase agreement to determine that at all times that value of the collateral equals or exceeds the repurchase price. If the value of the collateral is less than the repurchase price, NAM will demand additional collateral from the other party to increase the value of the collateral to at least the redemption price plus interest.

SEGREGATION OF ASSETS

As a closed-end investment company registered with the Securities and Exchange Commission, the Fund is subject to the federal securities laws, including the 1940 Act, the rules thereunder, and various interpretive provisions of the Securities and Exchange Commission and its staff. In accordance with these laws, rules and positions, the Fund must set aside (often referred to as asset segregation) liquid assets, or engage in other Securities and Exchange Commission or staff-approved measures, to cover open positions with respect to certain kinds of derivatives instruments. In the case of forward currency contracts that are not contractually required to cash settle, for example, the Fund must set aside liquid assets equal to such contracts' full notional value while the positions are open. With respect to forward currency contracts that are contractually required to cash settle, however, the Fund is permitted to set aside liquid assets in an amount equal to the Fund's daily marked-to-market net obligations (*i.e.*, the Fund's daily net liability) under the contracts, if any, rather than such contracts' full notional value. The Fund reserves the right to modify its asset segregation policies in the future to comply with any changes in the positions from time to time articulated by the Securities and Exchange Commission or its staff regarding asset segregation.

The Fund generally will use its assets to cover its obligations as required by the 1940 Act, the rules thereunder, and applicable positions of the Securities and Exchange Commission and its staff. As a result of their segregation, such assets may not be used for other operational purposes. NAM will monitor the Fund's use of derivatives and will take action as necessary for the purpose of complying with the asset segregation policy stated above. Such actions may include the sale of the Fund's portfolio investments.

The Fund may invest in inverse floating rate securities issued by special purpose trusts. With respect to such investments, the Fund will segregate or earmark assets in an amount equal to at least 100% of the face amount of the floating rate securities issued by such trust.

SHORT-TERM INVESTMENTS

Short-Term Taxable Fixed Income Securities. For temporary defensive purposes or to keep cash on hand fully invested, the Fund may invest up to 100% of its net assets in cash equivalents and short-term taxable fixed-income securities, although the Fund intends to invest in taxable short-term investments only in the event that suitable tax-exempt short-term investments are not available at reasonable prices and yields. Short-term taxable fixed income investments are defined to include, without limitation, the following:

(1) U.S. government securities, including bills, notes and bonds differing as to maturity and rates of interest that are either issued or guaranteed by the U.S. Treasury or by U.S. government agencies or instrumentalities. U.S. government agency securities include securities issued by (a) the Federal Housing Administration, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, and the Government National Mortgage Association, whose securities are supported by the full faith and credit of the United States; (b) the Federal Home Loan Banks, Federal Intermediate Credit Banks, and the Tennessee Valley Authority, whose securities are supported by the right of the agency to borrow from the U.S. Treasury; (c) the Federal National Mortgage Association, whose securities are supported by the discretionary authority of the U.S. government to purchase certain obligations of the agency or instrumentality; and (d) the Student Loan Marketing Association, whose securities are supported only by its credit. While the U.S. government provides financial support to such U.S. government-sponsored agencies or instrumentalities, no assurance can be given that it always will do so since it is not so obligated by law. The U.S. government, its agencies, and instrumentalities do not guarantee the market value of their securities. Consequently, the value of such securities may fluctuate.

(2) Certificates of Deposit issued against funds deposited in a bank or a savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Under current Federal Deposit Insurance Company regulations, the

(3) Repurchase agreements, which involve purchases of debt securities. At the time the Fund purchases securities pursuant to a repurchase agreement, it simultaneously agrees to resell and redeliver such securities to the seller, who also simultaneously agrees to buy back the securities at a fixed price and time. This assures a predetermined yield for the Fund during its holding period, since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such actions afford an opportunity for the Fund to invest temporarily available cash. The Fund may enter into repurchase agreements only with respect to obligations of the U.S. government, its agencies or instrumentalities; certificates of deposit; or bankers' acceptances in which the Fund may invest. Repurchase agreements may be considered loans to the seller, collateralized by the underlying securities. The risk to the Fund is limited to the ability of the seller to pay the agreed-upon sum on the repurchase date; in the event of default, the repurchase agreement provides that the Fund is entitled to sell the underlying collateral. If the value of the collateral declines after the agreement is entered into, and if the seller defaults under a repurchase agreement when the value of the underlying collateral is less than the repurchase price, the Fund could incur a loss of both principal and interest. NAM monitors the value of the collateral at the time the action is entered into and at all times during the term of the repurchase agreement. NAM does so in an effort to determine that the value of the collateral always equals or exceeds the agreed-upon repurchase price to be paid to the Fund. If the seller were to be subject to a federal bankruptcy proceeding, the ability of the Fund to liquidate the collateral could be delayed or impaired because of certain provisions of the bankruptcy laws.

(4) Commercial paper, which consists of short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations. Master demand notes are direct lending arrangements between the Fund and a corporation. There is no secondary market for such notes. However, they are redeemable by the Fund at any time. NAM will consider the financial condition of the corporation (e.g., earning power, cash flow, and other liquidity measures) and will continuously monitor the corporation's ability to meet all of its financial obligations, because the Fund's liquidity might be impaired if the corporation were unable to pay principal and interest on demand. Investments in commercial paper will be limited to commercial paper rated in the highest categories by a major rating agency and which mature within one year of the date of purchase or carry a variable or floating rate of interest.

Short-Term Tax-Exempt Municipal Securities. Short-term tax-exempt municipal securities are securities that are exempt from regular federal income tax and mature within three years or less from the date of issuance. Short-term tax-exempt municipal income securities are defined to include, without limitation, the following:

Bond Anticipation Notes (BANs) are usually general obligations of state and local governmental issuers which are sold to obtain interim financing for projects that will eventually be funded through the sale of long-term debt obligations or bonds. The ability of an issuer to meet its obligations on its BANs is primarily dependent on the issuer's access to the long-term municipal bond market and the likelihood that the proceeds of such bond sales will be used to pay the principal and interest on the BANs.

Tax Anticipation Notes (T A N S) are issued by state and local governments to finance the current operations of such governments. Repayment is generally to be derived from specific future tax revenues. TANs are usually general obligations of the issuer. A weakness in an issuer's capacity to raise taxes due to, among other things, a decline in its tax base or a rise in delinquency

Notes to the Consolidated Financial Statements

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Consolidated Balance Sheets

As of September 30, 2005 and as of December 31, 2004

		September 30, 2005	December 31, 2004
	Note	mn	mn
ASSETS			
Intangible assets	4	15,465	15,147
Investments in associated enterprises and joint ventures		3,470	5,757
Investments	5	276,177	248,327
Loans and advances to banks	6	150,048	181,543
Loans and advances to customers	7	193,179	195,680
Financial assets carried at fair value through income	8	235,097	240,574
Cash and cash equivalents		24,093	15,628
Amounts ceded to reinsurers from reserves for insurance and investment contracts	9	23,533	22,310
Deferred tax assets		15,242	14,139
Other assets		52,894	51,213
Total assets		989,198	990,318

		September 30, 2005	December 31, 2004
	Note	mn	mn
SHAREHOLDERS EQUITY AND LIABILITIES			
Shareholders' equity	10	48,588	37,691
Participation certificates and subordinated liabilities	11	14,547	13,230
Reserves for insurance and investment contracts	12	356,489	326,380
Liabilities to banks	13	147,998	191,347
Liabilities to customers	14	159,907	157,137
Certificated liabilities	15	58,645	57,752
Financial liabilities carried at fair value through income	16	141,085	145,137
Other accrued liabilities	17	13,797	13,984
Other liabilities	18	29,154	31,271
Deferred tax liabilities		15,544	14,350
Deferred income		3,444	2,039
Total shareholders' equity and liabilities		989,198	990,318

Table of Contents**Consolidated Income Statements**

for the three months and nine months ended September 30, 2005 and 2004

	Note	Three months ended September 30,		Nine months ended September 30,	
		2005	2004	2005	2004
		mn	mn	mn	mn
Premiums earned (net)	19	13,994	13,830	42,292	41,829
Interest and similar income	20	5,282	5,181	16,597	15,773
Income from investments in associated enterprises and joint ventures (net)	21	80	68	962	707
Other income from investments	22	1,008	783	3,487	4,137
Income from financial assets and liabilities carried at fair value through income (net)	23	617	346	1,099	1,305
Fee and commission income, and income from service activities	24	2,074	1,616	5,989	4,962
Other income	25	408	678	1,679	1,791
Total income		23,463	22,502	72,105	70,504
Insurance and investment contract benefits (net)	26	(13,375)	(12,318)	(40,194)	(38,860)
Interest and similar expenses	27	(1,387)	(1,460)	(4,700)	(4,234)
Other expenses from investments	28	(310)	(651)	(925)	(2,102)
Loan loss provisions	29	132	(51)	88	(273)
Acquisition costs and administrative expenses (net)	30	(6,141)	(5,806)	(17,598)	(17,286)
Amortization of goodwill			(297)		(885)
Other expenses	31	(724)	(730)	(2,707)	(2,770)
Total expenses		(21,805)	(21,313)	(66,036)	(66,410)
Earnings from ordinary activities before taxes		1,658	1,189	6,069	4,094
Taxes	32	(530)	(497)	(1,541)	(1,240)
Minority interests in earnings		(334)	(224)	(1,020)	(884)
Net income		794	468	3,508	1,970
Basic earnings per share	33	2.03	1.28	9.11	5.37
Diluted earnings per share	33	2.02	1.27	9.06	5.35

Table of Contents**Consolidated Statements of Changes in Shareholders' Equity**

for the nine months ended September 30, 2005 and 2004

	Paid in capital	Revenue reserves	Foreign currency translation adjustments	Unrealized gains and losses (net)	Shareholders equity before minority interests	Minority interests in shareholders equity	Shareholders equity
	mn	mn	mn	mn	mn	mn	mn
Balance as of December 31, 2003, as previously reported	19,347	6,914	(1,916)	4,247	28,592	8,367	36,959
Effect of implementation of new accounting standards (Note 2)		(2,821)	23	2,199	(599)	(1,101)	(1,700)
Balance as of December 31, 2003, as adjusted	19,347	4,093	(1,893)	6,446	27,993	7,266	35,259
Foreign currency translation adjustments			99	17	116	15	131
Changes in the group of consolidated companies		(22)	14	5	(3)		(3)
Treasury shares		43			43		43
Unrealized gains and losses (net)				(704)	(704)	39	(665)
Net income		1,970			1,970	884	2,854
Dividends paid		(551)			(551)	(432)	(983)
Miscellaneous		104			104	(433)	(329)
Balance as of September 30, 2004	19,347	5,637	(1,780)	5,764	28,968	7,339	36,307
Balance as of December 31, 2004, as previously reported	19,433	8,478	(2,680)	5,597	30,828	9,531	40,359
Effect of implementation of new accounting standards (Note 2)		(2,585)	46	1,706	(833)	(1,835)	(2,668)
Balance as of December 31, 2004, as adjusted	19,433	5,893	(2,634)	7,303	29,995	7,696	37,691
Foreign currency translation adjustments			1,428	44	1,472	34	1,506
Changes in the group of consolidated companies		(195)	2	(13)	(206)	106	(100)
Capital paid in	2,064				2,064		2,064
Treasury shares		1,640			1,640		1,640
Unrealized gains and losses (net)				2,191	2,191	466	2,657
Net income		3,508			3,508	1,020	4,528
Dividends paid		(674)			(674)	(594)	(1,268)
Miscellaneous		(172)			(172)	42	(130)
Balance as of September 30, 2005	21,497	10,000	(1,204)	9,525	39,818	8,770	48,588

Table of Contents**Consolidated Statements of Cash Flows****for the nine months ended September 30, 2005 and 2004**

	2005	2004
	mn	mn
Nine months ended September 30,		
Operating activities		
Net income	3,508	1,970
Change in unearned premiums	1,712	1,469
Change in aggregate policy reserves (without aggregate policy reserves for life insurance products in accordance with SFAS 97)	12,283	10,912
Change in reserve for loss and loss adjustment expenses	2,759	2,091
Change in other insurance reserves (without change in the reserve for latent premium refunds from unrealized investment gains and losses)	2,745	1,714
Change in deferred acquisition costs	(1,716)	(544)
Change in funds held by others under reinsurance business assumed	(10)	457
Change in funds held under reinsurance business ceded	(1,240)	477
Change in accounts receivable/payable on reinsurance business	(84)	(49)
Change in trading securities (including trading liabilities)	8,513	(22,059)
Change in loans and advances to banks and customers	34,657	(38,888)
Change in liabilities to banks and customers	(40,857)	47,255
Change in certificated liabilities	797	2,397
Change in other receivables and liabilities	(1,388)	5,392
Change in deferred tax assets/liabilities (without change in deferred tax assets/liabilities from unrealized investment gains and losses)	(52)	164
Non-cash investment income/expenses	(4,470)	(3,024)
Amortization of goodwill		885
Other	1,518	(1,958)
Net cash flow provided by operating activities	18,675	8,661
Investing activities		
Change in securities available-for-sale	(19,716)	(9,648)
Change in investments held-to-maturity	200	(607)
Change in real estate	(53)	(1,457)
Change in other investments	3,124	861
Change in cash and cash equivalents from the acquisition of consolidated affiliated companies		(1,293)
Other	(284)	(1,528)
Net cash flow used in investing activities	(16,729)	(13,672)
Financing activities		
Change in participation certificates and subordinated liabilities	1,311	1,232
Change in investments held on account and at risk of life insurance policyholders	(8,916)	(6,177)
Change in aggregate policy reserves for life insurance products according to SFAS 97	10,404	4,365
Cash inflow from capital increases	2,064	
Dividend payouts	(1,268)	(983)
Other from shareholders capital and minority interests (without change in revenue reserve from unrealized investment gains and losses)	2,862	1,830
Net cash flow provided by financing activities	6,457	267

Effect of exchange rate changes on cash and cash equivalents	62	14
Change in cash and cash equivalents	8,465	(4,730)
Cash and cash equivalents at beginning of period	15,628	25,528
Cash and cash equivalents at end of period	24,093	20,798

The data for the Allianz Group's consolidated statements of cash flows was prepared in accordance with International Financial Reporting Standards (IFRS).

Outflows for taxes on income amounted to 969 mn (2004: 885 mn).

Table of Contents**Notes to the Consolidated Financial Statements****1 Basis of presentation**

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) as adopted under European Union (EU) regulations in accordance with clause 315a of the German Commercial Code (HGB). EU regulations require full compliance with IFRS with the exception of the IAS 39 carve-out rules. Nevertheless, the endorsement by the EU, i.e. the elimination of the carve-out-rule, is expected before year-end 2005 and thus the fair value option for liabilities is already applied. Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board. Already approved standards continue to be cited as International Accounting Standards (IAS). All standards currently applicable have been adopted in the preparation of these consolidated financial statements.

For years through 2004, IFRS did not provide specific guidance concerning the reporting of insurance and reinsurance contracts. Therefore, as envisioned in the IFRS Framework, the provisions embodied under accounting principles generally accepted in the United States of America (U.S. GAAP) have been applied. See Note 2 regarding changes to IFRS effective January 1, 2005. The financial statements are presented in Euros (€).

In certain cases, prior reporting period figures were reclassified in the consolidated balance sheet and in the consolidated income statement to make them comparable with the presentation of the current reporting period. These reclassifications had no impact on income.

2 Recently adopted accounting pronouncements**Effects of accounting pronouncements adopted prior to July 1, 2005**

Effective January 1, 2005, the Allianz Group adopted IAS 32 revised, Financial Instruments: Disclosure and Presentation (IAS 32 revised) and IAS 39 revised, Financial Instruments: Recognition and Measurement (IAS 39 revised).

IAS 39 revised prohibits reversals of impairment losses on equity securities. According to the Allianz Group's previous accounting policy, if the amount of an impairment previously recorded on an equity security decreases, the impairment was reversed. IAS 39 revised required retrospective application of this change; therefore, the Allianz Group's previously issued consolidated financial statements were required to be restated to include the effects of this change. As a result of the adoption of this provision of IAS 39 revised, the Allianz Group recorded the following effects in its consolidated income statements:

Three months ended September 30,	Nine months ended September 30,
2004	2004

(Debit) Credit

	<u>mn</u>	<u>mn</u>
Other income from investments	(15)	(262)
Insurance and investment contract benefits (net)	(27)	93
Other expenses from investments	34	100
Taxes	5	18
Minority interests in earnings	(1)	(5)
	<u> </u>	<u> </u>
Net impact on previously reported net income	(4)	(56)
	<u> </u>	<u> </u>

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In accordance with IAS 32 revised, a financial instrument qualifies as a financial liability of the issuer if it gives the holder the right to put the instrument back to the issuer for cash or another financial asset (a puttable instrument). The classification as a financial liability is independent of considerations such as when the right is exercisable, how the amount payable or receivable upon exercise of the right is determined, and whether the puttable instrument has a fixed maturity. As a result of the adoption of IAS 32 revised, the Allianz Group was required to reclassify the minority interests in shareholders' equity of certain consolidated investment funds to liabilities. These liabilities are required to be recorded at redemption amount with changes recorded in the consolidated income statement.

Further, IAS 39 revised created a new category, designated at fair value through income, for financial assets. Financial assets designated at fair value through income are recognized at fair value with changes recognized in net income. As a result of being required to record the liabilities related to the previously mentioned consolidated investment funds at the redemption amount due to the adoption of IAS 32 revised, the Allianz Group reclassified the related investments from securities available-for-sale to financial assets designated at fair value through income. IAS 39 revised required retrospective application of these changes.

As a result of the adoption of these provisions of IAS 32 revised and IAS 39 revised, the Allianz Group recorded the following effects in its consolidated income statements:

	Three months ended September 30, 2004	Nine months ended September 30, 2004
(Debit) Credit	mn	mn
Interest and similar income	(9)	(38)
Other income from investments	(54)	(130)
Income from financial assets and liabilities carried at fair value through income (net)	38	125
Insurance and investment contract benefits (net)	10	(33)
Other expenses from investments	27	82
Taxes	(4)	(2)
Minority interests in earnings	(7)	2
Net impact on previously reported net income	1	6

In addition, as a result of the adoption of IAS 39 revised, the Allianz Group reclassified certain securities available-for-sale to loans and advances to banks and loans and advances to customers. As a result of the adoption of this provision of IAS 39 revised, the Allianz Group recorded the following effects in its consolidated income statements:

	Three months ended September 30, 2004	Nine months ended September 30, 2004
(Debit) Credit	mn	mn

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Other income from investments	11	8
Other income	(11)	(8)
Other expenses from investments	33	45
Other expenses	(33)	(45)
Net impact on previously reported net income		

Effective January 1, 2005, the Allianz Group adopted IFRS 2, Share Based Payments (IFRS 2). In accordance with IFRS 2, share based compensation plans are required to be classified as equity settled or cash settled plans. Equity settled plans are measured at fair value on the grant date with changes recognized in the income statement and shareholders' equity over the vesting period. Cash settled plans are measured at fair value at each reporting date and recognized as liabilities. Changes in the fair value of cash settled plans are recognized as expense in the income statement.

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A company is considered to have a cash settled plan if the shares issued are redeemable, either mandatorily or at the counter-party's option. In this respect, IFRS 2 has incorporated the "puttable instrument" concept of IAS 32 revised, which requires that such instruments be classified as liabilities rather than equity instruments. As a result of the adoption of IFRS 2, the PIMCO LLC Class B Unit Purchase Plan ("Class B Plan") is considered a cash settled plan as the equity instruments issued are puttable at the counter-party's option. According to the Allianz Group's previous accounting policy, the Class B Plan was considered an equity settled plan.

Further, IFRS 2 requires that equity settled plans include a best estimate of the number of equity instruments that are expected to vest in determining the amount of expense to be recognized. The Allianz Group's previous accounting policy required that forfeitures of equity instruments be recognized when incurred.

As a result of the adoption of IFRS 2, the Allianz Group recorded the following effects in its consolidated income statements:

	Three months ended September 30, 2004	Nine months ended September 30, 2004
(Debit) Credit	mn	mn
Acquisition and administrative expenses (net)	(60)	(206)
Taxes	12	50
Minority interests in earnings	29	84
Net impact on previously reported net income	(19)	(72)

Effective January 1, 2005, the Allianz Group adopted IFRS 3, Business Combinations ("IFRS 3"). In accordance with IFRS 3, a company must cease the amortization of goodwill and intangible assets with an indefinite life and rather test for impairment on an annual basis in addition to whenever there is an indication that the carrying value is not recoverable. As a result of the adoption on IFRS 3 on January 1, 2005, the Allianz Group ceased amortization of goodwill and brand names.

Effective January 1, 2005, the Allianz Group adopted IFRS 4, Insurance Contracts ("IFRS 4"). IFRS 4 represents the completion of phase I and is a transitional standard until the IASB has more fully addressed the recognition and measurement of insurance contracts. IFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts. Contracts with significant insurance risk are considered insurance contracts. IFRS 4 permits a company to continue with its previously adopted accounting policies with regard to recognition and measurement of insurance contracts. Only in case of presentation of more reliable figures a change in accounting policy shall be carried out. As a result, the Allianz Group principally continues to apply the provisions of US GAAP for the recognition and measurement of insurance contracts. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with IAS 39 revised. As a result of the adoption of IFRS 4, certain contracts were reclassified as investment contracts. This change did not have a material effect on the Allianz Group's shareholders' equity as of December 31, 2003.

Further, the Allianz Group reclassified the assets related to unit-linked insurance and investment contracts to financial assets designated at fair value through income and the related liabilities to financial liabilities designated at fair value through income as allowed under the EU insurance directives.

As a result of this reclassification, the Allianz Group recorded the following effects in its consolidated income statements:

	Three months ended September 30, 2004	Nine months ended September 30, 2004
(Debit) Credit	mn	mn
Income from financial assets and liabilities carried at fair value through income (net)	12	(105)
Insurance and investment contract benefits (net)	(12)	105
Net impact on previously reported net income		

As previously disclosed, the retrospective application of adoption of these new standards, resulted in a decrease in shareholders' equity of 2,631 mn and 1,700 mn as of December 31, 2004 and 2003, respectively.

Effects of accounting pronouncements adopted subsequent to June 30, 2005

Impairments of equity securities

IAS 39 revised requires a change to the Allianz Group's impairment criteria for available-for-sale equity securities. An equity security is considered to be impaired if there is objective evidence that the cost of the equity security may not be recovered. IAS 39 revised requires that a significant or prolonged decline in the fair value of an equity security below cost is considered to be objective evidence of impairment. The Allianz Group established, beside the existing qualitative impairment criteria, new quantitative impairment criteria for equity securities to define significant or prolonged decline. To satisfy the significant criteria, the Allianz Group

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has established a policy that an equity security is considered impaired if the fair value is below the weighted-average cost by more than 20%. To satisfy the prolonged criteria, the Allianz Group established a policy that an equity security is considered impaired if the fair value is below the weighted-average cost for greater than nine months. Each of these policies is applied independently at the subsidiary level.

In addition, IAS 39 revised does not allow an adjusted cost basis to be established upon impairment of an equity security. Rather, each reporting period, if the fair value is less than the original cost basis of the equity security, the security is analyzed for impairment based upon the Allianz Group's impairment criteria. At each reporting date, for equity securities that are determined to be impaired based upon the Allianz Group's impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments. According to the Allianz Group's previously applied accounting policy, upon the recognition of an impairment of an equity security, an adjusted cost basis was established. Therefore, at each reporting period, if the fair value was less than the adjusted cost basis of the equity security, the security was analyzed for impairment based upon the Allianz Group's impairment criteria.

IAS 39 revised required retrospective application of these changes; therefore, the Allianz Group's previously issued consolidated financial statements were required to be restated to include the effects of these changes. During the three months ended September 30, 2005, the Allianz Group adopted these provisions of IAS 39. The Allianz Group did not adopt these provisions prior to the three months ended September 30, 2005, as it was in discussions with accounting standard setters to determine if the adoption of IAS 39 revised would result in a difference to accounting principles generally accepted in the United States (US GAAP). These discussions were concluded in the third quarter 2005 and will result in a difference in accounting under US GAAP after January 1, 2005, as the Allianz Group is not allowed to retrospectively apply these provisions under US GAAP. The Allianz Group continues to monitor the discussions by the IFRIC regarding clarification of the timing of impairment testing (quarterly versus annually).

As a result, the Allianz Group recorded the following effects in the consolidated income statements:

	Three months ended September 30, 2004	Nine months ended September 30, 2004	Three months ended March 31, 2005	Three months ended June 30, 2005
(Debit) Credit	mn	mn	mn	mn
Other income from investments	111	742	307	38
Insurance and investment contract benefits (net)	17	(138)	(179)	(7)
Other expenses from investments	(157)	(199)	56	(11)
Taxes	(15)	(70)	(31)	(3)
Minority interests in earnings	(3)	(68)	(10)	(3)
Net impact on previously reported net income	(47)	267	143	14

Further, as a result of these provisions of IAS 39, the Allianz Group recorded the following effects in shareholders' equity:

Increase (Decrease)

	As of December 31, 2003	As of December 31, 2004
	mn	mn
Revenue reserves	(2,105)	(1,655)
Unrealized gains and losses (net)	2,105	1,655
Net impact on previously reported shareholders' equity		

Fair value option for financial liabilities

IAS 39 revised created a new category, designated at fair value through income, for financial assets and liabilities. Both, financial assets and liabilities designated at fair value through income are recognised at fair value with changes recognised in net income. The Allianz Group already implemented this new rule for financial assets as of January 1, 2005. The implementation of this regulation with regard to financial liabilities was not allowed because the EU did not endorse it based on the revised IAS 39. In June 2005 the IASB adjusted the fair value regulation and considered the concerns raised by the EU. It is expected that the EU will endorse the new rules in the fourth quarter 2005. Thus, the Allianz Group already applied the fair value option for financial liabilities retrospectively in the third quarter due to the forthcoming EU endorsement.

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As a result, the Allianz Group recorded the following effects in the consolidated income statements:

	Three months ended March 31, 2005	Three months ended June 30, 2005
<u>(Debit) Credit</u>	<u>mn</u>	<u>mn</u>
Interest and similar income	(15)	(17)
Income from financial assets and liabilities carried at fair value through income	(9)	4
Interest and similar expenses	15	13
Taxes	3	
Net impact on previously reported net income	(6)	

Further, as a result of this change, the Allianz Group recorded the following effect in shareholders' equity:

	As of December 31, 2003	As of December 31, 2004
<u>Increase (Decrease)</u>	<u>mn</u>	<u>mn</u>
Revenue reserves	(12)	(23)
Net impact on previously reported shareholders' equity	(12)	(23)

Discretionary participating features

IFRS 4 contains specific guidance for contracts with discretionary participation features (DPF). These include other contracts that have additional payments where the timing or amount is at the discretion of the company. Based on this definition the Allianz Group recognised retrospectively a deferred premium refund for specific contracts for the Swiss business.

As a result, the Allianz Group recorded the following effects in the consolidated income statements:

<u>(Debit) Credit</u>	Three months ended March 31, 2005	Three months ended June 30, 2005
	<u>mn</u>	<u>mn</u>

Insurance and investment contract benefits (net)	(17)
Taxes	5
Minority interests in earnings	4
Net impact on previously reported net income	(8)

Further, as a result of this change, the Allianz Group recorded the following effects in shareholders' equity:

	As of December 31, 2003	As of December 31, 2004
	mn	mn
Increase (Decrease)		
Revenue reserves	24	5
Unrealized gains and losses (net)	(15)	(13)
Minority interests in shareholders' equity	3	(6)
Net impact on previously reported shareholders' equity	12	(14)

Accounting for business combinations

During the three months ended September 30, 2005, the Allianz Group revised its accounting policy for accounting of business combinations for acquisitions of companies already under control of the Allianz Group. IFRS 3 does not include any regulations on minority acquisition accounting. Thus, the Allianz Group introduced the pure equity transaction approach to cover this accounting gap. According to the pure equity transaction approach, the acquisition of a minority does not result in further revaluations of assets and liabilities. Instead the excess amount of the purchase price over the carrying amount of the minority will directly reduce the equity. The Allianz Group has to retrospectively apply this rule as of January 1, 2005 because since then minorities have to be presented in the equity according to the revised IAS 27.

As a result, the Allianz Group recorded the following effects in the consolidated income statements:

	Three months ended March 31, 2005	Three months ended June 30, 2005
	mn	mn
(Debit) Credit		
Income from investments in associated enterprises and joint ventures (net)		(15)
Other income from investments	(1)	(13)
Interest and similar expenses	4	1
Taxes	1	5
Minority interests in earnings	(1)	11

Net impact on previously reported net income	3	(11)
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In addition, during the three months ended March 31, 2005 and six months ended June 30, 2005, the Allianz Group recorded 2 mn and 199 mn of previously capitalized goodwill directly in equity as a result of this provision.

Table of Contents**3 Segment reporting****Business Segment Information Consolidated Balance Sheets**

As of September 30, 2005 and as of December 31, 2004

	Property-Casualty		Life/Health		Banking		Asset Management		Consolidation Adjustments		G
	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005
	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
s	2,230	2,185	4,012	4,075	2,541	2,526	6,682	6,362		(1)	15,46
	48,231	48,359	4,038	5,532	2,764	3,037	3	3	(51,566)	(51,174)	3,47
	86,612	81,245	173,886	154,920	16,672	17,736	800	529	(1,793)	(6,103)	276,17
ks	13,632	7,424	56,984	56,699	81,281	119,025	274	144	(2,123)	(1,749)	150,04
	2,006	6,224	27,658	28,808	171,348	168,346	85	29	(7,918)	(7,727)	193,17
	3,285	1,137	61,708	46,668	169,914	192,746	307	131	(117)	(108)	235,09
	2,336	1,665	1,574	968	20,054	13,097	588	431	(459)	(533)	24,09
to											
	14,561	12,337	10,827	16,382					(1,855)	(6,409)	23,53
	7,597	6,816	3,849	3,451	3,588	3,679	202	187	6	6	15,24
	21,579	20,045	23,501	20,362	10,131	15,341	3,407	2,942	(5,724)	(7,477)	52,89
	202,069	187,437	368,037	337,865	478,293	535,533	12,348	10,758	(71,549)	(81,275)	989,19
RS											
	Property-Casualty		Life/Health		Banking		Asset Management		Consolidation Adjustments		G
	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005
	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn

	7,307	5,497	140	141	7,308	7,815			(208)	(223)	14,54
	86,931	83,095	271,574	249,854	4	4			(2,020)	(6,573)	356,48
	2,605	1,358	1,082	1,241	144,644	189,187	41	7	(374)	(446)	147,99
	5,080	5,336	74	165	161,718	158,127	500	294	(7,465)	(6,785)	159,90
	9,668	11,405	4	68	49,610	47,041	4	4	(641)	(766)	58,64
d	1,252	530	56,679	44,776	83,277	99,934			(123)	(103)	141,08
	6,032	5,960	856	1,016	5,115	5,783	1,794	1,225			13,79
	13,652	12,352	16,371	21,280	4,482	8,859	1,290	709	(6,641)	(11,929)	29,15
	8,310	7,894	5,172	4,539	1,989	1,860	73	57			15,54
e	124	161	124	139	3,170	1,737	26	2			3,44
	140,961	133,588	352,076	323,219	461,317	520,347	3,728	2,298	(17,472)	(26,825)	940,61
											48,58
											989,19

*) Shareholders equity and minority interests in shareholders equity.

Table of Contents**Business Segment Information Consolidated Income Statements**

for the three months ended September 30, 2005 and 2004

	Property-Casualty		Life/Health		Banking		Asset Management		Consolidation Adjustments		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Three months ended September 30,	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
Premiums earned (net)	9,788	9,840	4,206	3,990							13,994	13,830
Interest and similar income	906	932	2,846	2,693	1,643	1,751	23	16	(136)	(211)	5,282	5,181
Income from associated enterprises and joint ventures (net)	152	72	54	82	54	29			(180)	(115)	80	68
Other income from investments	329	207	639	443	44	130	1		(5)	3	1,008	783
Income from financial assets and liabilities carried at fair value through income (net)	(65)	3	291	103	375	244	16	(1)		(3)	617	346
Fee and commission income, and income from service activities	451	243	53	52	772	701	968	778	(170)	(158)	2,074	1,616
Other income	176	281	211	387	35	42	5	6	(19)	(38)	408	678
Total income	11,737	11,578	8,300	7,750	2,923	2,897	1,013	799	(510)	(522)	23,463	22,502
Insurance and investment contract benefits (net)	(7,247)	(6,853)	(6,128)	(5,465)							(13,375)	(12,318)
Interest and similar expenses	(243)	(369)	(102)	(212)	(1,165)	(1,092)	(11)	(3)	134	216	(1,387)	(1,460)
Other expenses from investments	(74)	(319)	(187)	(275)	(49)	(56)		(1)			(310)	(651)
Loan loss provisions	(3)	2	6	(1)	129	(54)				2	132	(51)
Acquisition costs and administrative expenses (net)	(2,799)	(2,654)	(1,077)	(1,199)	(1,558)	(1,440)	(891)	(657)	184	144	(6,141)	(5,806)
Amortization of goodwill		(96)		(40)		(65)		(96)				(297)
Other expenses	(505)	(337)	(149)	(176)	(57)	(177)	(25)	(95)	12	55	(724)	(730)
Total expenses	(10,871)	(10,626)	(7,637)	(7,368)	(2,700)	(2,884)	(927)	(852)	330	417	(21,805)	(21,313)
Earnings from ordinary activities before taxes	866	952	663	382	223	13	86	(53)	(180)	(105)	1,658	1,189
Taxes	(277)	(452)	(147)	(186)	(74)	134	(34)	9	2	(2)	(530)	(497)
Minority interests in earnings	(181)	(132)	(140)	(71)	(26)	(22)	(12)	(13)	25	14	(334)	(224)
Net income	408	368	376	125	123	125	40	(57)	(153)	(93)	794	468

Table of Contents**Business Segment Information Consolidated Income Statements**

for the nine months ended September 30, 2005 and 2004

	Property-Casualty		Life/Health		Banking		Asset Management		Consolidation Adjustments		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Nine months ended September 30,	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
Premiums earned (net)	28,522	28,827	13,770	13,002							42,292	41,829
Interest and similar income	3,067	3,076	8,786	8,383	5,100	4,878	67	47	(423)	(611)	16,597	15,773
Income from associated enterprises and joint ventures (net)	1,305	1,560	724	283	238	116			(1,305)	(1,252)	962	707
Other income from investments	1,143	1,647	2,082	1,931	596	515	6	7	(340)	37	3,487	4,137
Income from financial assets and liabilities carried at fair value through income (net)	(166)	(22)	291	168	953	1,160	21	2		(3)	1,099	1,305
Fee and commission income, and income from service activities	1,266	672	136	154	2,412	2,310	2,661	2,283	(486)	(457)	5,989	4,962
Other income	817	650	669	971	249	195	22	23	(78)	(48)	1,679	1,791
Total income	35,954	36,410	26,458	24,892	9,548	9,174	2,777	2,362	(2,632)	(2,334)	72,105	70,504
Insurance and investment contract benefits (net)	(19,884)	(20,575)	(20,285)	(18,285)					(25)		(40,194)	(38,860)
Interest and similar expenses	(1,125)	(1,121)	(340)	(542)	(3,615)	(3,162)	(37)	(10)	417	601	(4,700)	(4,234)
Other expenses from investments	(270)	(912)	(498)	(672)	(137)	(364)		(2)	(20)	(152)	(925)	(2,102)
Loan loss provisions	(3)	(1)	3	(2)	88	(271)				1	88	(273)
Acquisition costs and administrative expenses (net)	(8,305)	(7,928)	(3,055)	(3,331)	(4,336)	(4,446)	(2,427)	(2,010)	525	429	(17,598)	(17,286)
Amortization of goodwill		(287)		(119)		(194)		(285)				(885)
Other expenses	(1,985)	(1,412)	(499)	(630)	(207)	(513)	(84)	(319)	68	104	(2,707)	(2,770)
Total expenses	(31,572)	(32,236)	(24,674)	(23,581)	(8,207)	(8,950)	(2,548)	(2,626)	965	983	(66,036)	(66,410)
Earnings from ordinary activities before taxes	4,382	4,174	1,784	1,311	1,341	224	229	(264)	(1,667)	(1,351)	6,069	4,094
Taxes	(909)	(1,069)	(282)	(442)	(308)	225	(51)	42	9	4	(1,541)	(1,240)
Minority interests in earnings	(724)	(725)	(394)	(283)	(77)	(104)	(34)	(40)	209	268	(1,020)	(884)
Net income	2,749	2,380	1,108	586	956	345	144	(262)	(1,449)	(1,079)	3,508	1,970

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The following table sets forth the total revenues, operating profit and IFRS net income for each of our business segments for the three months and nine months ended September 30, 2005 and 2004, as well as IFRS consolidated net income of the Allianz Group.

	Property-Casualty		Life/Health		Banking		Asset Management		Consolidation Adjustments		Total Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Three months ended September 30,	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
Total revenues ^{*)}	10,472	10,432	11,116	10,841	1,542	1,527	708	564	(63)	(228)	23,775	23,136
Operating profit	696	1,138	478	378	250	136	299	217			1,723	1,869
Earnings from ordinary activities before taxes	866	952	663	382	223	13	86	(53)	(180)	(105)	1,658	1,189
Taxes	(277)	(452)	(147)	(186)	(74)	134	(34)	9	2	(2)	(530)	(497)
Minority interests in earnings	(181)	(132)	(140)	(71)	(26)	(22)	(12)	(13)	25	14	(334)	(224)
Net income (loss)	408	368	376	125	123	125	40	(57)	(153)	(93)	794	468
Nine months ended September 30,												
Total revenues ^{*)}	34,439	34,646	34,942	31,946	4,611	4,948	1,933	1,664	(192)	(612)	75,733	72,592
Operating profit	3,090	2,898	1,283	1,048	759	567	785	578			5,917	5,091
Earnings from ordinary activities before taxes	4,382	4,174	1,784	1,311	1,341	224	229	(264)	(1,667)	(1,351)	6,069	4,094
Taxes	(909)	(1,069)	(282)	(442)	(308)	225	(51)	42	9	4	(1,541)	(1,240)
Minority interests in earnings	(724)	(725)	(394)	(283)	(77)	(104)	(34)	(40)	209	268	(1,020)	(884)
Net income (loss)	2,749	2,380	1,108	586	956	345	144	(262)	(1,449)	(1,079)	3,508	1,970

^{*)} Total revenues comprise property-casualty segment's gross premiums written, life/health segment's statutory premiums, banking segment's operating revenues, and asset management segment's operating revenues.

Table of Contents**Property-Casualty Insurance Segment**

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Gross premiums written	10,472	10,432	34,439	34,646
Premiums earned (net) ¹⁾	9,788	9,840	28,522	28,827
Current income from investments (net) ²⁾	776	721	2,622	2,387
Insurance benefits (net) ³⁾	(7,225)	(6,803)	(19,845)	(20,249)
Net acquisition costs and administrative expenses ⁴⁾	(2,648)	(2,540)	(7,954)	(7,619)
Other operating income/(expenses)(net)	5	(80)	(255)	(448)
Operating profit	696	1,138	3,090	2,898
Net capital gains and impairments on investments ⁵⁾	296	(112)	1,040	982
Net trading income/(expenses) ⁶⁾	(108)	(1)	(269)	(36)
Intra-group dividends and profit transfer	143	96	1,207	1,145
Interest expense on external debt	(160)	(199)	(630)	(654)
Amortization of goodwill ⁷⁾		(96)		(287)
Restructuring charges	(1)		(56)	
Other non-operating income/(expenses) (net)		126		126
Earnings from ordinary activities before taxes	866	952	4,382	4,174
Taxes	(277)	(452)	(909)	(1,069)
Minority interests in earnings	(181)	(132)	(724)	(725)
Net income	408	368	2,749	2,380
Loss ratio ⁸⁾ in %	72.9	66.4	68.2	68.2
Expense ratio ⁹⁾ in %	24.1	24.5	24.8	25.0
Combined ratio in %	97.0	90.9	93.0	93.2

¹⁾ Net of earned premiums ceded to reinsurers of 1,614 million and 4,071 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 1,518 million and 9M 2004: 4,079 million).

²⁾ Net of investment management expenses of 88 million and 257 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 79 million and 9M 2004: 244 million), and interest expenses of 21 million and 136 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 99 million and 9M 2004: 341 million).

³⁾ Comprises net claims incurred of 7,130 million and 19,456 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 6,529 million and 9M 2004: 19,655 million), net expenses from changes in other net underwriting provisions of 44 million and 130 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 212 million and 9M 2004: 398 million), and net expenses for premium refunds of 51 million and 259 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 62 million and 9M 2004: 196 million). Net expenses for premium refunds were adjusted for income of 6 million and 24 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: million and 9M 2004: 220 million), related to policyholders' participation of net capital gains and impairments on investments, as well as net trading income/(expenses), that were excluded from the determination of operating profit.

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- 4) Comprises net acquisition costs of 1,426 million and 4,277 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 1,435 million and 9M 2004: 4,314 million), administrative expenses of 937 million and 2,799 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 977 million and 9M 2004: 2,885 million), and expenses for service agreements of 285 million and 878 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 128 million and 9M 2004: 420 million). Net acquisition costs and administrative expenses do not include expenses for the management of investments and, accordingly, do not reconcile to the acquisition costs and administrative expenses as presented in the consolidated financial statements.
- 5) Comprises net realized gains on investments of 280 million and 1,068 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 88 million and 9M 2004: 1,517 million), and net impairments on investments of 16 million and 28 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 200 million and 9M 2004: 535 million). These amounts are net of policyholders' participation.
- 6) Net trading income/(expenses) are net of policyholders' participation.
- 7) Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
- 8) Represents ratio of net claims incurred to net premiums earned.
- 9) Represents ratio of net acquisition costs and administrative expenses as presented in the consolidated financial statements to net premiums earned.

Table of Contents**Life/Health Insurance Segment**

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Statutory premiums ¹⁾	11,116	10,841	34,942	31,946
Gross premiums written	4,508	4,465	14,643	14,579
Premiums earned (net) ²⁾	4,206	3,990	13,770	13,002
Current income from investments (net) ³⁾	2,764	2,597	8,547	8,156
Insurance benefits (net) ⁴⁾	(5,697)	(5,254)	(18,005)	(17,136)
Net acquisition costs and administrative expenses ⁵⁾	(955)	(1,083)	(2,705)	(2,989)
Net trading income/(expenses)	163	69	(185)	62
Other operating income/(expenses) (net)	(3)	59	(139)	(47)
Operating profit	478	378	1,283	1,048
Net capital gains and impairments on investments ⁶⁾	183	42	431	315
Intra-group dividends and profit transfer	20	2	88	67
Amortization of goodwill ⁷⁾		(40)		(119)
Restructuring charges	(18)		(18)	
Earnings from ordinary activities before taxes	663	382	1,784	1,311
Taxes	(147)	(186)	(282)	(442)
Minority interests in earnings	(140)	(71)	(394)	(283)
Net income	376	125	1,108	586
Statutory expense ratio ⁸⁾ in %	8.5	10.1	7.7	9.6

- ¹⁾ Under the Allianz Group's accounting policies for life insurance contracts, for which we have adopted U.S. GAAP accounting standards, gross written premiums include only the cost- and risk-related components of premiums generated from unit-linked and other investment-oriented products, but do not include the full amount of statutory premiums written on these products. Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
- ²⁾ Net of earned premiums ceded to reinsurers of 259 million and 780 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 463 million and 9M 2004: 1,519 million).
- ³⁾ Net of investment management expenses of 117 million and 332 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 102 million and 9M 2004: 309 million), and interest expenses of 2 million and (-) million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 24 million and 9M 2004: (35) million).
- ⁴⁾ Net insurance benefits were adjusted for income of 428 million and 2,279 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 212 million and 9M 2004: 1,152 million), related to policyholders' participation of net capital gains and impairments on investments that were excluded from the determination of operating profit.
- ⁵⁾ Comprises net acquisition costs of 598 million and 1,617 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 712 million and 9M 2004: 1,959 million), administrative expenses of 323 million and 993 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 342 million and 9M 2004: 941 million), and expenses for service agreements of 34 million and 95 million for the three and nine months ended September 30, 2005, respectively (3Q

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2004: 29 million and 9M 2004: 89 million). Net acquisition costs and administrative expenses do not include expenses for the management of investments and, accordingly, do not reconcile to the acquisition costs and administrative expenses as presented in the consolidated financial statements.

- 6) Comprises net realized gains on investments of 191 million and 510 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 139 million and 9M 2004: 423 million), and net impairments on investments of 8 million and 79 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 97 million and 9M 2004: 108 million). These amounts are net of policyholders' participation.
- 7) Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.
- 8) Represents ratio of net acquisition costs and administrative expenses as presented in the consolidated financial statements to net premiums earned (statutory).

Table of Contents**Banking Segment**

	Three months ended September 30,				Nine months ended September 30,			
	2005		2004		2005		2004	
	Banking Segment	Dresdner Bank	Banking Segment	Dresdner Bank	Banking Segment	Dresdner Bank	Banking Segment	Dresdner Bank
	mn	mn	mn	mn	mn	mn	mn	mn
Net interest income	532	517	685	655	1,641	1,588	1,815	1,753
Net fee and commission income	635	599	598	569	2,017	1,909	1,974	1,858
Net trading income	375	358	244	250	953	916	1,159	1,165
Operating revenues	1,542	1,474	1,527	1,474	4,611	4,413	4,948	4,776
Administrative expenses	(1,421)	(1,373)	(1,337)	(1,293)	(3,940)	(3,786)	(4,110)	(3,969)
Net loan loss provisions	129	130	(54)	(54)	88	84	(271)	(271)
Operating profit	250	231	136	127	759	711	567	536
Net capital gains and impairments on investments	(5) ¹⁾	(4)	78 ₁₎	77	541 ₁₎	542	170 ₁₎	161
Restructuring charges	(5)	(5)	(11)	(11)	(10)	(10)	(127)	(127)
Other non-operating income/(expenses)(net)	(17)	(25)	(125)	(119)	51	43	(192)	(182)
Amortization of goodwill ²⁾			(65)	(65)			(194)	(194)
Earnings from ordinary activities before taxes	223	197	13	9	1,341	1,286	224	194
Taxes	(74)	(65)	134	129	(308)	(294)	225	235
Minority interests in earnings	(26)	(19)	(22)	(18)	(77)	(60)	(104)	(56)
Net income	123	113	125	120	956	932	345	373
Cost-income ratio ³⁾ in %	92.2	93.1	87.6	87.7	85.4	85.8	83.1	83.1

¹⁾ Comprises primarily net realized gains on investments of 29 million and 649 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 145 million and 9M 2004: 511 million), and net impairments on investments of 34 million and 112 million for the three and nine months ended September 30, 2005, respectively (3Q 2004: 71 million and 9M 2004: 371 million). For the three and nine months ended September 30, 2005, net impairments on investments includes 9 million and 28 million, respectively, (3Q 2004: 12 million and 9M 2004: 23 million) of scheduled depreciation of real estate used by third parties.

²⁾ Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

³⁾ Represents ratio of administrative expenses to operating revenues.

Table of Contents**Asset Management Segment**

	Three months ended September 30,				Nine months ended September 30,			
	2005		2004		2005		2004	
	Asset Management Segment	Allianz Global Investors	Asset Management Segment	Allianz Global Investors	Asset Management Segment	Allianz Global Investors	Asset Management Segment	Allianz Global Investors
	mn	mn	mn	mn	mn	mn	mn	mn
Operating revenues	708	698	564	558	1,933	1,906	1,664	1,658
Operating expenses	(409)	(403)	(347)	(346)	(1,148)	(1,129)	(1,086)	(1,085)
Operating profit	299	295	217	212	785	777	578	573
Acquisition-related expenses thereof:	(213)	(213)	(174)	(174)	(556)	(556)	(557)	(557)
Deferred purchases of interests in PIMCO ¹⁾	(213)	(213)	(111)	(111)	(519)	(519)	(364)	(364)
Retention payments for management and employees of PIMCO and Nicholas Applegate			(31)	(31)	(12)	(12)	(98)	(98)
Amortization charges relating to capitalized bonuses for PIMCO management			(32)	(32)	(25)	(25)	(95)	(95)
Amortization of goodwill ²⁾			(96)	(96)			(285)	(285)
Earnings from ordinary activities before taxes	86	82	(53)	(58)	229	221	(264)	(269)
Taxes	(34)	(32)	9	9	(51)	(49)	42	42
Minority interests in earnings	(12)	(12)	(13)	(13)	(34)	(32)	(40)	(40)
Net income (loss)	40	38	(57)	(62)	144	140	(262)	(267)
Cost-income ratio ³⁾ in %	57.8	57.7	61.5	62.0	59.4	59.2	65.3	65.4

¹⁾ Effective January 1, 2005, and applied retrospectively, under IFRS, the PIMCO LLC Class B Unit Purchase Plan (Class B Plan) is considered a cash settled plan, resulting in changes in the fair value of the shares issued to be recognized as expense.

²⁾ Effective January 1, 2005, under IFRS, and on a prospective basis, goodwill is no longer amortized.

³⁾ Represents ratio of operating expenses to operating revenues.

Table of Contents**Supplementary Information to the Consolidated Balance Sheets****4 Intangible assets**

	September 30, 2005	December 31, 2004
	mn	mn
Goodwill	12,097	11,677
Present value of future profits	1,398	1,522
Software	1,030	972
Brand names	740	740
Loyalty bonuses		33
Other	200	203
Total	15,465	15,147

Changes in goodwill for the nine months ended September 30, 2005, were as follows:

	mn
Cost as of December 31, 2004	11,901
Accumulated impairments as of December 31, 2004	(224)
Carrying value as of December 31, 2004	11,677
Additions	57
Disposals	(45)
Foreign currency translation adjustments	408
Carrying value as of September 30, 2005	12,097
Accumulated impairments as of September 30, 2005	224
Cost as of September 30, 2005	12,321

Additions include goodwill from

- _ increasing the interest in GamePlan Financial Marketing LLC, Woodstock, by 60.0% to 100.0%,
- _ the acquisition of 100.0% interest in Bettercare Group Limited, Kingston upon Thames.

Disposals include goodwill from

_ reducing the interest in Cadence Capital Management Inc., Delaware, by 100.0% to 0.0%.

5 Investments

	September 30, 2005	December 31, 2004
	mn	mn
Securities held-to-maturity	4,986	5,179
Securities available-for-sale	258,797	230,919
Real estate used by third parties	10,781	10,628
Funds held by others under reinsurance contracts assumed	1,613	1,601
Total	276,177	248,327

Table of Contents**Securities available-for-sale**

	Amortized cost		Unrealized gains		Unrealized losses		Fair values	
	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004
	mn	mn	mn	mn	mn	mn	mn	mn
Equity securities	35,671	32,106	17,293	12,488	(212)	(394)	52,752	44,200
Government bonds	115,136	106,155	7,470	5,375	(346)	(235)	122,260	111,295
Corporate bonds	77,986	69,083	4,344	3,629	(197)	(95)	82,133	72,617
Other	1,483	2,721	170	90	(1)	(4)	1,652	2,807
Total	230,276	210,065	29,277	21,582	(756)	(728)	258,797	230,919

Nine months ended September 30,	Gross realized gains		Gross realized losses	
	2005	2004	2005	2004
	mn	mn	mn	mn
Equity securities	2,383	2,997	(257)	(408)
Debt securities	789	849	(226)	(241)
Other	24	26	(8)	(43)
Total	3,196	3,872	(491)	(692)

6 Loans and advances to banks

	September 30, 2005	December 31, 2004
	mn	mn
Loans	67,429	59,543
Reverse repurchase agreements and collateral paid for securities borrowing transactions	66,334	103,406
Short-term investments and certificates of deposit	9,248	7,729
Other	7,282	11,096
Loans and advances to banks	150,293	181,774

Loan loss allowance	(245)	(231)
Total	150,048	181,543

7 Loans and advances to customers

	September 30, 2005	December 31, 2004
	mn	mn
Loans	116,514	119,832
Reverse repurchase agreements and collateral paid for securities borrowing transactions	61,425	70,459
Other	16,869	9,293
Loans and advances to customers	194,808	199,584
Loan loss allowance	(1,629)	(3,904)
Total	193,179	195,680

8 Financial assets carried at fair value through income

	September 30, 2005	December 31, 2004
	mn	mn
Financial assets held for trading	170,569	194,439
Financial assets for unit linked contracts	51,663	41,409
Financial assets designated at fair value through income	12,865	4,726
Total	235,097	240,574

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Financial assets held for trading comprised the following:

	September 30, 2005	December 31, 2004
	mn	mn
Fixed-income securities	124,382	153,858
Equities	25,725	20,033
Derivative financial instruments	20,462	20,548
Total	170,569	194,439

9 Amounts ceded to reinsurers from reserves for insurance and investment contracts

	September 30, 2005	December 31, 2004
	mn	mn
Unearned premiums	1,607	1,238
Aggregate policy reserves	9,134	10,276
Reserves for loss and loss adjustment expenses	12,688	10,684
Other insurance reserves	104	112
Total	23,533	22,310

10 Shareholders' equity

	September 30, 2005	December 31, 2004
	mn	mn
Issued capital	1,037	988
Capital reserve	20,460	18,445
Revenue reserves	10,063	10,498
Treasury shares	(63)	(4,605)
Foreign currency translation adjustments	(1,204)	(2,634)
Unrealized gains and losses (net)	9,525	7,303
Shareholders' equity before minority interests	39,818	29,995

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Minority interests in shareholders' equity	8,770	7,696
Total	48,588	37,691

On February 18, 2005, the Allianz Group issued a subordinated bond with 11.2 mn detachable warrants, which allow the holder to purchase a share of Allianz AG. The warrants are exercisable at any time during their 3 year term and have an exercise price of \$92 per share. The warrants were recorded in capital reserve at the premium received of \$174 mn on their issuance date. As a result of the exercise of 9 mn warrants during the third quarter 2005, the consideration received of \$828 mn was recorded in issued capital, \$23 mn, and capital reserve, \$805 mn. During the third quarter 2005, the Allianz Group issued 10,116,850 shares for proceeds of \$1,062 mn, which was recorded in issued capital, \$26 mn, and capital reserve \$1,036 mn.

Minority interests in shareholders' equity are comprised of the following:

	September 30, 2005	December 31, 2004
	mn	mn
Unrealized gains and losses (net)	1,685	1,206
Share of earnings	1,020	1,168
Other equity components	6,065	5,322
Total	8,770	7,696

The primary subsidiaries of the Allianz Group included in minority interests in shareholders' equity are AGF Group, Paris and RAS Group, Milan.

11 Participation certificates and subordinated liabilities

	September 30, 2005	December 31, 2004
	mn	mn
Allianz AG^(*)		
Subordinated bonds	6,188	4,775
Participation certificates	85	85
Subtotal	6,273	4,860
Banking subsidiaries		
Subordinated liabilities	4,179	4,779
Hybrid equity	1,599	1,500
Participation certificates	1,520	1,526

Subtotal	7,298	7,805
All other subsidiaries		
Subordinated liabilities	931	520
Hybrid equity	45	45
Subtotal	976	565
Total	14,547	13,230

*) Includes subordinated bonds issued by Allianz Finance II B.V. and guaranteed by Allianz AG.

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On February 18, 2005, the Allianz Group issued a subordinated bond with a principal amount of 1,400 mn. The subordinated bond is perpetual, however, the Allianz Group has the right to call the bond after 12 years. The subordinated bond has a coupon rate of 4.375%.

On January 27, 2005, the AGF Group issued a subordinated bond with a principal amount of 400 mn. The subordinated bond is perpetual and has a coupon rate of 4.625%.

12 Reserves for insurance and investment contracts

	September 30, 2005	December 31, 2004
	mn	mn
Unearned premiums	14,478	12,050
Aggregate policy reserves	244,286	229,873
Reserves for loss and loss adjustment expenses	68,176	62,331
Reserves for premium refunds	28,741	21,237
Other insurance reserves	808	889
Total	356,489	326,380

Reserves for loss and loss adjustment expenses are comprised of the following:

	September 30, 2005	December 31, 2004
	mn	mn
Property-Casualty	61,133	55,536
Life/Health	7,043	6,795
Total	68,176	62,331

Changes in the reserves for loss and loss adjustment expenses for the Property-Casualty insurance segment for the nine months ended September 30, 2005, were as follows:

2005

	mn
Gross reserves for loss and loss adjustment expenses as of January 1,	55,536
Amount ceded to reinsurers	(10,029)
Net reserves for loss and loss adjustment expenses as of January 1,	45,507
Loss and loss adjustment expenses incurred (net)	
Current year	19,846
Prior years	(593)
Subtotal	19,253
Loss and loss adjustment expenses paid (net)	
Current year	(7,599)
Prior years	(9,277)
Subtotal	(16,876)
Foreign currency translation adjustments	1,369
Net reserves for loss and loss adjustment expenses as of September 30,	49,253
Amount ceded to reinsurers	11,880
Gross reserves for loss and loss adjustment expenses as of September 30,	61,133

Asbestos and Environmental (A&E) Reserves

In the United States, the planned external review of the asbestos & environmental (or A&E) liability reserves at Fireman's Fund had no net impact at the Allianz Group level as a result of already sufficient reserves, absent a \$ 56 mn loss caused by the increase in provisions for uncollectible reinsurance recoverables.

Table of Contents**13 Liabilities to banks**

	September 30, 2005	December 31, 2004
	mn	mn
Payable on demand	16,775	14,003
Repurchase agreements and collateral received from securities lending transactions	51,262	78,675
Term deposits and certificates of deposit	77,339	96,736
Other	2,622	1,933
Total	147,998	191,347

14 Liabilities to customers

	September 30, 2005	December 31, 2004
	mn	mn
Savings deposits	2,313	2,410
Home loan savings deposits	3,292	3,214
Payable on demand	53,336	50,946
Repurchase agreements and collateral received from securities lending transactions	43,900	49,276
Term deposits and certificates of deposit	55,130	49,124
Other	1,936	2,167
Total	159,907	157,137

15 Certificated liabilities

	September 30, 2005	December 31, 2004
	mn	mn
Allianz AG^(*)		
Senior bonds	4,776	5,741
Exchangeable bonds	2,316	2,742
Money market securities	1,202	1,428

Subtotal	8,294	9,911
Banking subsidiaries		
Certificated liabilities	25,705	25,140
Money market securities	23,831	21,693
Subtotal	49,536	46,833
All other subsidiaries		
Certificated liabilities	415	458
Money market securities	400	550
Subtotal	815	1,008
Total	58,645	57,752

*) Includes senior bonds, exchangeable bonds and money market securities issued by Allianz Finance B.V., Allianz Finance II B.V. and Allianz Finance Corporation and guaranteed by Allianz AG.

On February 18, 2005, the Allianz Group issued a senior exchangeable bond, Basket Index Tracking Equity Linked Securities (BITES), with a principal amount of 1,262 mn. The redemption value of the BITES is linked to the performance of the DAX Index. The BITES were issued at a DAX reference level of 4,205.115. The Allianz Group will redeem the BITES with shares of BMW AG, Munich Re and/or Siemens AG. The BITES have a term of 3 years, however, the Allianz Group has the right to redeem the BITES at anytime during their term. The holders of the BITES have the right to exchange the BITES during their term at the redemption value. An outperformance premium is paid annually equal to 0.75% of the average DAX Index during the reference period prior to the payment date. Upon redemption of the BITES by the Allianz Group or at maturity, the holders of the BITES receive a redemption premium of 1.75% of the redemption value. The Allianz Group has recorded an embedded derivative related to this transaction in financial liabilities carried at fair value through income of 253 mn as of September 30, 2005.

On March 23, 2005, the Allianz Group repaid in cash a senior exchangeable bond with a face amount of 1,700 mn.

On August 26, 2005, the Allianz Group repaid a senior bond with a face amount of CHF 1,500 mn.

Table of Contents**16 Financial liabilities carried at fair value through income**

	September 30, 2005	December 31, 2004
	mn	mn
Financial liabilities held for trading	87,084	102,141
Financial liabilities for unit linked contracts	51,663	41,409
Liabilities for puttable equity instruments	2,112	1,386
Financial liabilities designated at fair value through income	226	201
Total	141,085	145,137

Financial liabilities held for trading are comprised of the following:

	September 30, 2005	December 31, 2004
	mn	mn
Obligations to deliver securities	55,310	72,804
Derivative financial instruments	23,357	23,018
Other trading liabilities	8,417	6,319
Total	87,084	102,141

17 Other accrued liabilities

	September 30, 2005	December 31, 2004
	mn	mn
Reserves for pensions and similar obligations	5,788	5,738
Accrued taxes	1,440	1,408
Miscellaneous accrued liabilities	6,569	6,838
Total	13,797	13,984

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Of the accrued taxes, 1,304 mn (2004: 1,278 mn) is attributed to taxes on income.

18 Other liabilities

	September 30, 2005	December 31, 2004
	mn	mn
Funds held under reinsurance business ceded	7,541	8,706
Accounts payable on direct insurance business	7,233	8,199
Accounts payable on reinsurance business	1,649	1,694
Other liabilities	12,731	12,672
Total	29,154	31,271

Table of Contents**Supplementary Information to the Consolidated Income Statements****19 Premiums earned (net)**

	Property-Casualty			Life/Health			Total
	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}	Group ^{*)}
	mn	mn	mn	mn	mn	mn	mn
Three months ended September 30,							
2005							
Premiums written							
Direct	9,357		9,357	4,447		4,447	13,804
Assumed	1,115	(58)	1,057	61		61	1,118
Subtotal	10,472	(58)	10,414	4,508		4,508	14,922
Ceded	(1,493)		(1,493)	(258)	58	(200)	(1,693)
Net	8,979	(58)	8,921	4,250	58	4,308	13,229
Premiums earned							
Direct	10,285		10,285	4,406		4,406	14,691
Assumed	1,116	(59)	1,057	59		59	1,116
Subtotal	11,401	(59)	11,342	4,465		4,465	15,807
Ceded	(1,613)		(1,613)	(259)	59	(200)	(1,813)
Net	9,788	(59)	9,729	4,206	59	4,265	13,994
2004							
Premiums written							
Direct	9,351		9,351	4,391		4,391	13,742
Assumed	1,081	(207)	874	74	(7)	67	941
Subtotal	10,432	(207)	10,225	4,465	(7)	4,458	14,683
Ceded	(1,323)	7	(1,316)	(462)	207	(255)	(1,571)
Net	9,109	(200)	8,909	4,003	200	4,203	13,112
Premiums earned							
Direct	10,273		10,273	4,380		4,380	14,653
Assumed	1,084	(207)	877	74	(5)	69	946
Subtotal	11,357	(207)	11,150	4,454	(5)	4,449	15,599
Ceded	(1,517)	5	(1,512)	(464)	207	(257)	(1,769)
Net	9,840	(202)	9,638	3,990	202	4,192	13,830

*) After elimination of intra-Allianz Group transactions between segments.

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	Property-Casualty			Life/Health			Total
	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}	Group ^{*)}
	mn	mn	mn	mn	mn	mn	mn
Nine months ended September 30,							
2005							
Premiums written							
Direct	31,656		31,656	14,467		14,467	46,123
Assumed	2,783	(171)	2,612	176	(1)	175	2,787
Subtotal	34,439	(171)	34,268	14,643	(1)	14,642	48,910
Ceded	(4,364)	1	(4,363)	(782)	171	(611)	(4,974)
Net	30,075	(170)	29,905	13,861	170	14,031	43,936
Premiums earned							
Direct	29,954		29,954	14,375		14,375	44,329
Assumed	2,638	(169)	2,469	175	(1)	174	2,643
Subtotal	32,592	(169)	32,423	14,550	(1)	14,549	46,972
Ceded	(4,070)	1	(4,069)	(780)	169	(611)	(4,680)
Net	28,522	(168)	28,354	13,770	168	13,938	42,292
2004							
Premiums written							
Direct	31,835		31,835	14,162		14,162	45,997
Assumed	2,811	(568)	2,243	416	(12)	404	2,647
Subtotal	34,646	(568)	34,078	14,578	(12)	14,566	48,644
Ceded	(4,362)	12	(4,350)	(1,516)	568	(948)	(5,298)
Net	30,284	(556)	29,728	13,062	556	13,618	43,346
Premiums earned							
Direct	30,149		30,149	14,106		14,106	44,255
Assumed	2,756	(572)	2,184	416	(13)	403	2,587
Subtotal	32,905	(572)	32,333	14,522	(13)	14,509	46,842
Ceded	(4,078)	13	(4,065)	(1,520)	572	(948)	(5,013)
Net	28,827	(559)	28,268	13,002	559	13,561	41,829

^{*)} After elimination of intra-Allianz Group transactions between segments.

Table of Contents**20 Interest and similar income**

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Securities held-to-maturity	66	44	192	204
Securities available-for-sale	2,343	2,090	7,557	6,879
Real estate used by third parties	225	237	770	690
Lending, money market transactions and loans	2,586	2,605	7,889	7,438
Leasing agreements	17	12	63	35
Other interest-bearing instruments	45	193	126	527
Total	5,282	5,181	16,597	15,773

Net interest income from the banking segment

	Segment	Consolidation adjustments	Group ^{*)}
	mn	mn	mn
Three months ended September 30, 2005			
Interest and similar income	1,643	(10)	1,633
Interest expense	(1,165)	19	(1,146)
Net interest income	478	9	487
Loan loss provisions	129		129
Net interest income after loan loss provisions	607	9	616
Three months ended September 30, 2004			
Interest and similar income	1,751	(7)	1,744
Interest expense	(1,092)	22	(1,070)
Net interest income	659	15	674
Loan loss provisions	(54)		(54)
Net interest income after loan loss provisions	605	15	620

^{*)} After elimination at intra-Allianz Group transactions between segments.

	Segment	Consolidation adjustments	Group ^{*)}
	mn	mn	mn
Nine months ended September 30, 2005			
Interest and similar income	5,100	(26)	5,074
Interest expense	(3,615)	58	(3,557)
Net interest income	1,485	32	1,517
Loan loss provisions	88		88
Net interest income after loan loss provisions	1,573	32	1,605
Nine months ended September 30, 2004			
Interest and similar income	4,878	(18)	4,860
Interest expense	(3,162)	50	(3,112)
Net interest income	1,716	32	1,748
Loan loss provisions	(271)		(271)
Net interest income after loan loss provisions	1,445	32	1,477

*) After elimination at intra-Allianz Group transactions between segments.

21 Income from investments in associated enterprises and joint ventures (net)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Income				
Current income	64	60	211	219
Reversal of impairments		2		2
Realized gains from investments in associated enterprises and joint ventures	22	48	810	727
Subtotal	86	110	1,021	948
Expenses				
Impairments		(32)	(39)	(53)
Realized losses from investments in associated enterprises and joint ventures	(3)	(8)	(13)	(181)
Miscellaneous expenses	(3)	(2)	(7)	(7)
Subtotal	(6)	(42)	(59)	(241)
Total	80	68	962	707

Table of Contents**22 Other income from investments**

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Realized gains from investments				
Securities available-for-sale	874	699	3,196	3,872
Real estate used by third parties	132	72	282	183
Subtotal	1,006	771	3,478	4,055
Reversals of impairments from investments				
Securities held-to-maturity			2	
Securities available-for-sale	2	15	7	75
Real estate used by third parties		(3)		7
Subtotal	2	12	9	82
Total	1,008	783	3,487	4,137

23 Income from financial assets and liabilities carried at fair value through income (net)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Income from financial assets and liabilities held for trading:				
Banking segment ^{*)}	380	247	964	1,160
Other segments ^{*)}	62	65	(440)	24
Subtotal	442	312	524	1,184
Income from financial assets and liabilities designated at fair value through income	175	34	575	121
Total	617	346	1,099	1,305

^{*)} After elimination of intra-Allianz Group transactions between segments.

Income from financial assets and liabilities held for trading of the Banking segment^{*)} comprises:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Trading in interest products	204	208	359	665
Trading in equity products	131	50	126	177
Foreign exchange/precious metals trading	64	(8)	188	101
Other trading activities	(19)	(3)	291	217
Total	380	247	964	1,160

Income from financial assets and liabilities held for trading for the nine months ended September 30, 2005, includes expenses of 465 mn (2004: 288 mn) from derivative financial instruments used by the Property-Casualty and Life/Health insurance segments for which hedge accounting is not applied. This includes expenses from derivative financial instruments embedded in exchangeable bonds of 376 mn (2004: 10 mn), income from derivative financial instruments which economically hedge the exchangeable bonds, however which do not qualify for hedge accounting, of 191 mn (2004: 16 mn) and expenses from other derivative financial instruments of 280 mn (2004: 294 mn).

24 Fee and commission income, and income from service activities

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Banking segment ^{*)}	690	622	2,182	2,081
Asset Management ^{*)}	939	752	2,578	2,219
Other segments ^{*)}	445 ₁₎	242 ₁₎	1,229 ₂₎	662 ₂₎
Total	2,074	1,616	5,989	4,962

¹⁾ Includes fee revenue from Four Seasons Health Care Ltd., Wilmslow and Bettercare Group Limited, Kingston upon Thames of 268 mn and mn for the three months ended September 30, 2005 and September 30, 2004, respectively.

²⁾ Includes fee revenue from Four Seasons Health Care Ltd., Wilmslow and Bettercare Group Limited, Kingston upon Thames of 419 mn and 39 mn for the nine months ended September 30, 2005 and September 30, 2004, respectively.

^{*)} After elimination of intra-Allianz Group transactions between segments.

Table of Contents**Net fee and commission income from the Banking segment^(*)**

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Fee and commission income	690	622	2,182	2,081
Fee and commission expenses	(125)	(96)	(373)	(312)
Net fee and commission income	565	526	1,809	1,769

Net fee and commission income from Allianz Group's banking segment^(*), by type of business comprised the following:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Securities business	262	160	819	707
Underwriting business	15	15	50	69
Mergers and acquisitions advisory	53	33	155	123
Foreign commercial business	17	16	47	47
Payment transactions (domestic and foreign)	88	93	266	279
Other	130	209	472	544
Net fee and commission income	565	526	1,809	1,769

25 Other income

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn

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Foreign currency transaction gains	60	(22)	457	227
Fees	94	251	307	525
Release of miscellaneous accrued liabilities	46	12	230	108
Income from assets held for disposal	7		17	
Income from reinsurance business	28	50	95	163
Release of allowance for doubtful accounts	7	8	50	44
Income from other assets	15		19	19
Realized gains from sales of loans and advances	20	15	99	4
Other	131	364	405	701
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	408	678	1,679	1,791
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

*) After elimination of intra-Allianz Group transactions between segments.

Table of Contents**26 Insurance and investment contract benefits (net)****Property-Casualty**

	Three months ended September 30,						Nine months ended September 30,					
	2005			2004			2005			2004		
	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}
	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
GROSS												
Claims												
Claims paid	(6,421)	82	(6,339)	(6,513)	159	(6,354)	(19,270)	201	(19,069)	(20,054)	461	(19,593)
Change in loss reserves	(2,793)	(3)	(2,796)	(796)	(9)	(805)	(3,520)	1	(3,519)	(1,877)	3	(1,874)
Subtotal	(9,214)	79	(9,135)	(7,309)	150	(7,159)	(22,790)	202	(22,588)	(21,931)	464	(21,467)
Change in other reserves												
Aggregate policy reserves	(37)	(11)	(48)	(221)	53	(168)	(125)	(46)	(171)	(380)	119	(261)
Other	(8)		(8)	(59)	3	(56)	(22)	(1)	(23)	(147)	4	(143)
Subtotal	(45)	(11)	(56)	(280)	56	(224)	(147)	(47)	(194)	(527)	123	(404)
Expenses for premium refunds	(66)		(66)	(72)	1	(71)	(308)		(308)	(442)	1	(441)
Total	(9,325)	68	(9,257)	(7,661)	207	(7,454)	(23,245)	155	(23,090)	(22,900)	588	(22,312)
CEDED REINSURANCE												
Claims												
Claims paid	714	(5)	709	672	(1)	671	2,200	(7)	2,193	2,219	(4)	2,215
Change in loss reserves	1,369	5	1,374	108	(1)	107	1,133	9	1,142	57		57
Subtotal	2,083		2,083	780	(2)	778	3,333	2	3,335	2,276	(4)	2,272
Change in other reserves												
Aggregate policy reserves	(3)		(3)	16		16	2		2	21		21
Other	(11)		(11)	1		1	1		1	2		2
Subtotal	(14)		(14)	17		17	3		3	23		23
Expenses for premium refunds	9		9	11		11	25		25	26		26

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Total	2,078	2,078	808	(2)	806	3,361	2	3,363	2,325	(4)	2,321
NET											
Claims											
Claims paid	(5,707)	77	(5,630)	(5,841)	158	(5,683)	(17,070)	194	(16,876)	(17,835)	457 (17,378)
Change in loss reserves	(1,424)	2	(1,422)	(688)	(10)	(698)	(2,387)	10	(2,377)	(1,820)	3 (1,817)
Subtotal	(7,131)	79	(7,052)	(6,529)	148	(6,381)	(19,457)	204	(19,253)	(19,655)	460 (19,195)
Change in other reserves											
Aggregate policy reserves	(40)	(11)	(51)	(205)	53	(152)	(123)	(46)	(169)	(359)	119 (240)
Other	(19)		(19)	(58)	3	(55)	(21)	(1)	(22)	(145)	4 (141)
Subtotal	(59)	(11)	(70)	(263)	56	(207)	(144)	(47)	(191)	(504)	123 (381)
Expenses for premium refunds	(57)		(57)	(61)	1	(60)	(283)		(283)	(416)	1 (415)
Total	(7,247)	68	(7,179)	(6,853)	205	(6,648)	(19,884)	157	(19,727)	(20,575)	584 (19,991)

*) After elimination of intra-Allianz Group transactions between segments.

Table of Contents**Life/Health**

	Three months ended September 30,						Nine months ended September 30,					
	2005			2004			2005			2004		
	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}
	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
GROSS												
Benefits paid	(4,125)	5	(4,120)	(3,940)	2	(3,938)	(13,413)	7	(13,406)	(13,047)	4	(13,043)
Change in reserves												
Aggregate policy reserves	(1,297)		(1,297)	(1,320)		(1,320)	(3,470)		(3,470)	(3,253)		(3,253)
Other	138	(5)	133	(41)	(1)	(42)	168	(9)	159	(112)	(1)	(113)
Subtotal	(5,284)		(5,284)	(5,301)	1	(5,300)	(16,715)	(2)	(16,717)	(16,412)	3	(16,409)
Expenses for premium refunds	(1,106)		(1,106)	(532)		(532)	(4,410)	(25)	(4,435)	(3,252)		(3,252)
Total	(6,390)		(6,390)	(5,833)	1	(5,832)	(21,125)	(27)	(21,152)	(19,664)	3	(19,661)
CEDED REINSURANCE												
Benefits paid	264	(81)	183	352	(159)	193	821	(200)	621	1,226	(461)	765
Change in reserves												
Aggregate policy reserves	37	11	48	100	(53)	47	(10)	46	36	147	(119)	28
Other	(45)	2	(43)	(87)	6	(81)	13	(1)	12	(4)	(6)	(10)
Subtotal	256	(68)	188	365	(206)	159	824	(155)	669	1,369	(586)	783
Expenses for premium refunds	6		6	3		3	16		16	10	(1)	9
Total	262	(68)	194	368	(206)	162	840	(155)	685	1,379	(587)	792
NET												
Benefits paid	(3,861)	(76)	(3,937)	(3,588)	(157)	(3,745)	(12,592)	(193)	(12,785)	(11,821)	(457)	(12,278)
Change in reserves												
Aggregate policy reserves	(1,260)	11	(1,249)	(1,220)	(53)	(1,273)	(3,480)	46	(3,434)	(3,106)	(119)	(3,225)
Other	93	(3)	90	(128)	5	(123)	181	(10)	171	(116)	(7)	(123)
Subtotal	(5,028)	(68)	(5,096)	(4,936)	(205)	(5,141)	(15,891)	(157)	(16,048)	(15,043)	(583)	(15,626)
Expenses for premium refunds	(1,100)		(1,100)	(529)		(529)	(4,394)	(25)	(4,419)	(3,242)	(1)	(3,243)

Total	(6,128)	(68)	(6,196)	(5,465)	(205)	(5,670)	(20,285)	(182)	(20,467)	(18,285)	(584)	(18,869)
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*) After elimination of intra-Allianz Group transactions between segments.

Table of Contents**27 Interest and similar expenses**

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Deposits	(718)	(541)	(1,875)	(1,604)
Certificated liabilities	(464)	(322)	(1,544)	(912)
Subtotal	(1,182)	(863)	(3,419)	(2,516)
Other interest expenses	(205)	(597)	(1,281)	(1,718)
Total	(1,387)	(1,460)	(4,700)	(4,234)

28 Other expenses from investments

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Realized losses from investments				
Securities held-to-maturity				(1)
Securities available-for-sale	(169)	(139)	(491)	(692)
Real estate used by third parties	(3)	(13)	(13)	(42)
Subtotal	(172)	(152)	(504)	(735)
Impairments from investments				
Securities held-to-maturity	(1)	(1)	(2)	(3)
Securities available-for-sale	(88)	(302)	(193)	(644)
Real estate used by third parties	15	(134)	(30)	(547)
Subtotal	(74)	(437)	(225)	(1,194)
Depreciation of real estate used by third parties	(64)	(62)	(196)	(173)
Total	(310)	(651)	(925)	(2,102)

29 Loan loss provisions

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Additions to allowances including direct impairments	(59)	(249)	(628)	(1,039)
Amounts released	147	170	639	664
Recoveries on loans previously impaired	44	28	77	102
Total	132	(51)	88	(273)

Table of Contents**30 Acquisition costs and administrative expenses (net)**

	2005			2004		
	Segment	Consolidation adjustments	Group*)	Segment	Consolidation Adjustments	Group*)
	mn	mn	mn	mn	mn	mn
Three months ended September 30,						
PROPERTY-CASUALTY						
Acquisition costs						
Payments	(1,558)		(1,558)	(1,612)		(1,612)
Less commissions and profit received on reinsurance business ceded	210		210	198	(1)	197
Change in deferred acquisition costs	(79)		(79)	(21)		(21)
Total acquisition costs (net)	(1,427)		(1,427)	(1,435)	(1)	(1,436)
Administrative expenses	(936)	4	(932)	(977)	16	(961)
Underwriting costs (net)	(2,363)	4	(2,359)	(2,412)	15	(2,397)
Expenses for management of investments	(151)	7	(144)	(114)	6	(108)
Expenses from service agreements	(285)	5	(280)	(128)	2	(126)
Total acquisition costs and administrative expenses (net)	(2,799)	16	(2,783)	(2,654)	23	(2,631)
LIFE/HEALTH						
Acquisition costs						
Payments	(911)		(911)	(1,031)		(1,031)
Less commissions and profit received on reinsurance business ceded	27	(4)	23	27	(16)	11
Change in deferred acquisition costs	285		285	292		292
Total acquisition costs (net)	(599)	(4)	(603)	(712)	(16)	(728)
Administrative expenses	(322)		(322)	(342)	1	(341)
Underwriting costs (net)	(921)	(4)	(925)	(1,054)	(15)	(1,069)
Expenses for management of investments	(123)	38	(85)	(115)	31	(84)
Expenses from service agreements	(33)	7	(26)	(30)	(7)	(37)
Total acquisition costs and administrative expenses (net)	(1,077)	41	(1,036)	(1,199)	9	(1,190)
BANKING						
Personnel expenses	(897)		(897)	(803)		(803)
Operating expenses	(526)	9	(517)	(535)	25	(510)
Fee and commission expenses	(135)	10	(125)	(102)	6	(96)
Total acquisition costs and administrative expenses	(1,558)	19	(1,539)	(1,440)	31	(1,409)
ASSET MANAGEMENT						
Personnel expenses	(465)		(465)	(357)		(357)

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Operating expenses	(139)	5	(134)	(69)	5	(64)
Fee and commission expenses	(287)	103	(184)	(231)	76	(155)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total acquisition costs and administrative expenses	(891)	108	(783)	(657)	81	(576)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

*) After elimination of intra-Allianz Group transactions between segments.

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	2005			2004		
	Segment	Consolidation adjustments	Group ^{*)}	Segment	Consolidation adjustments	Group ^{*)}
	mn	mn	mn	mn	mn	mn
Nine months ended September 30,						
PROPERTY-CASUALTY						
Acquisition costs						
Payments	(5,085)		(5,085)	(5,096)		(5,096)
Less commissions and profit received on reinsurance business ceded	648	(1)	647	631	(2)	629
Change in deferred acquisition costs	159		159	151	4	155
Total acquisition costs (net)	(4,278)	(1)	(4,279)	(4,314)	2	(4,312)
Administrative expenses	(2,798)	32	(2,766)	(2,885)	60	(2,825)
Underwriting costs (net)	(7,076)	31	(7,045)	(7,199)	62	(7,137)
Expenses for management of investments	(351)	21	(330)	(309)	15	(294)
Expenses from service agreements	(878)	12	(866)	(420)	4	(416)
Total acquisition costs and administrative expenses (net)	(8,305)	64	(8,241)	(7,928)	81	(7,847)
LIFE/HEALTH						
Acquisition costs						
Payments	(2,761)		(2,761)	(2,879)		(2,879)
Less commissions and profit received on reinsurance business ceded	111	(32)	79	192	(64)	128
Change in deferred acquisition costs	1,032		1,032	728		728
Total acquisition costs (net)	(1,618)	(32)	(1,650)	(1,959)	(64)	(2,023)
Administrative expenses	(992)	1	(991)	(941)	2	(939)
Underwriting costs (net)	(2,610)	(31)	(2,641)	(2,900)	(62)	(2,962)
Expenses for management of investments	(350)	112	(238)	(342)	87	(255)
Expenses from service agreements	(95)	22	(73)	(89)	20	(69)
Total acquisition costs and administrative expenses (net)	(3,055)	103	(2,952)	(3,331)	45	(3,286)
BANKING						
Personnel expenses	(2,346)		(2,346)	(2,489)		(2,489)
Operating expenses	(1,596)	51	(1,545)	(1,621)	48	(1,573)
Fee and commission expenses	(394)	21	(373)	(336)	24	(312)
Total acquisition costs and administrative expenses	(4,336)	72	(4,264)	(4,446)	72	(4,374)
ASSET MANAGEMENT						
Personnel expenses	(1,243)		(1,243)	(1,078)		(1,078)
Operating expenses	(390)	18	(372)	(252)	13	(239)
Fee and commission expenses	(794)	268	(526)	(680)	218	(462)
Total acquisition costs and administrative expenses	(2,427)	286	(2,141)	(2,010)	231	(1,779)

*) After elimination of intra-Allianz Group transactions between segments.

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Acquisition costs and administrative expenses in the Property-Casualty and Life/Health insurance segments include the personnel and operating expenses of the Property-Casualty and Life/Health insurance segments allocated to the functional areas acquisition of insurance policies, administration of insurance policies and management of investments. Other personnel and operating expenses of the Property-Casualty and Life/Health insurance segments are included in insurance and investment contract benefits (net) (claims settlement expenses) and other expenses.

All personnel and operating expenses of the Banking segment are reported under acquisition costs and administrative expenses.

31 Other expenses

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn
Corporate expenses	(238)	(266)	(600)	(657)
Restructuring charges	(2)	(6)	(85)	(133)
Foreign currency transaction losses	(110)	18	(597)	(258)
Expense of transferring or increasing miscellaneous or accrued liabilities	(136)	(62)	(409)	(243)
Bad debt expense	4	(16)	(85)	(100)
Fees	(31)	(50)	(128)	(141)
Expenses resulting from reinsurance business	7	1	(5)	(36)
Amortization of intangible assets	(18)	(29)	(66)	(92)
Direct charge to policy reserve	(16)	(21)	(57)	(59)
Amortization of capitalized loyalty bonuses to senior management of PIMCO Group		(32)	(25)	(95)
Fire protection tax	(30)	(20)	(90)	(92)
Interest on accumulated policyholder dividends	(24)	(25)	(75)	(78)
Expenses for assistance to victims under joint and several liability and road casualties	(24)	(25)	(78)	(77)
Other	(106)	(197)	(407)	(709)
Total	(724)	(730)	(2,707)	(2,770)

32 Taxes

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	mn	mn	mn	mn

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Current taxes	(595)	(372)	(1,536)	(1,027)
Deferred taxes	78	(120)	29	(186)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total income taxes	(517)	(492)	(1,507)	(1,213)
Other taxes	(13)	(5)	(34)	(27)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	(530)	(497)	(1,541)	(1,240)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Other Information

33 Other information

Number of employees

The Allianz Group had a total of 178,462 (176,501^{*)}) employees as of September 30, 2005. 73,178 (75,667) of these were employed in Germany and 105,284 (100,834^{*)}) in other countries. The number of employees undergoing training decreased by 440 to 4,466.

^{*)} increase of 14,321 reflects changes in scope of consolidation in 2004

Personnel expenses

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>
Salaries and wages	2,269	2,104	6,632	6,404
Social security contributions and employee assistance	374	329	1,079	1,050
Expenses for pensions and other post-retirement benefits	163	124	505	445
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	2,806	2,557	8,216	7,899
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**Earnings per share**

Basic earnings per share is computed by dividing the Allianz Group's consolidated net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the effect of potentially dilutive securities. As of September 30, 2005, 1,175,554 (2004: 1,175,554) participation certificates issued by Allianz AG were outstanding which can potentially be converted to 1,469,443 (2004: 1,469,443) Allianz shares and therefore have a dilutive effect.

The Allianz Group's share-based compensation plans and warrants issued by Allianz AG with potentially dilutive securities of 1,195,053 are included in the calculation of diluted earnings per share for the nine months ended September 30, 2005.

	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
	mn	mn	mn	mn
Numerator for basic earnings per share (net income)	794	468	3,508	1,970
Effect of dilutive securities	2	1	2	2
Numerator for diluted earnings per share (net income after assumed conversion)	796	469	3,510	1,972
Denominator for basic earnings per share (weighted-average shares excluding treasury shares held by the Allianz Group)	390,716,685	366,815,372	384,869,124	366,792,461
Potential dilutive securities	2,629,010	1,469,443	2,664,496	1,469,443
Denominator for diluted earnings per share (weighted-average shares after assumed conversion)	393,345,695	368,284,815	387,533,620	368,261,904
 Basic earnings per share	 2.03	 1.28	 9.11	 5.37
Diluted earnings per share	2.02	1.27	9.06	5.35

The weighted average number of shares does not include 2,758,450 (2004: 17,926,289) treasury shares held by the Allianz Group for the nine months ended September 30, 2005. The potential settlement of the equity-linked borrowing has not been included in the calculation of diluted earnings per share as it is anti-dilutive.

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34 Subsequent events

Merger of Allianz AG and RAS and conversion to SE

On September 11, 2005, Allianz AG and Riunione Adriatica di Sicurtà S.p.A. (RAS) announced their intention to merge. On October 13, 2005, Consob, the Italian financial markets authority, approved Allianz AG's tender offer document relating to the voluntary offer to purchase all ordinary and savings shares, it does not already own, of RAS. The offer period began on October 20, 2005. The acceptance period will close on November 23 and the payment date is expected for November 30, 2005.

The offer represents a preparatory step of a broad repositioning plan for the Allianz Group and its Italian operations, the general terms of which were approved by the boards of Allianz AG and RAS. The cornerstone of this repositioning plan is the ultimate merger of RAS into Allianz AG, with Allianz AG converting into a European Company (Societas Europaea or SE). Additionally, RAS will contribute its insurance and other financial services business, with the exception of the participations in certain foreign subsidiaries, to a newly incorporated, wholly owned Italian subsidiary that will continue the corporate name RAS S.p.A. .

Based on full acceptance of the voluntary tender offer, the cost of the entire transaction will be approximately 5.7 billion. However, this amount may vary, depending upon the acceptance rate of the voluntary tender offer and the exchange ratio between Allianz AG shares and RAS ordinary and savings shares, which will be determined in mid-December 2005.

Approximately 2.2 billion, in aggregate, was secured in the third quarter 2005 from equity-based financing and an equity-linked borrowing. In this context, approximately 1.1 billion was placed out of authorized capital without pre-emptive rights and a 1.1 billion equity-linked borrowing was executed with a variable redemption amount linked to the share price of Allianz AG, which can be settled, at the Allianz Group's option, in cash or 10.7 million Allianz AG shares. The remaining amount will be financed through internal funds, as well as hybrid debt and senior debt.

Hurricane Wilma

As a result of hurricane Wilma in October 2005, the Allianz Group currently estimates its loss, net of reinsurance, at approximately 124 mn. The Allianz Group will continue to monitor this development through the fourth quarter 2005 and may make adjustments to this estimate accordingly.

Munich, November 11, 2005

Allianz Aktiengesellschaft

The Board of Management

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Allianz AG

Koeniginstraße 28

D-80802 Munich

Telephone +49 89 38 00 00

Telefax +49 89 34 99 41

www.allianz.com

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 15, 2005

ALLIANZ AKTIENGESELLSCHAFT

By /s/ Dr. Joerg Weber

Name: Dr. Joerg Weber

Title: Head of Group Management Reporting

By /s/ Jonathan Wismer

Name: Jonathan A. Wismer

Title: Group Management Reporting