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SET OF RULES FOR IDENTIFICATION, VERIFICATION AND FRAUD DETECTION

Process



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Version History

Version	Author	Approved by	Approval Date	Change Summary
1.0	Ruslan Gaba CEO	Ruslan Gaba CEO	24 October 2022	Initial version <i>Gub</i>
2.0	Ruslan Gaba CEO	Ruslan Gaba CEO	19 June 2023	Initial version <i>Gub</i>
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PAYNOOM - INTERNAL USE

1. Purpose of this set of rules

The purpose of this set of rules is to present a set of rules and steps the compliance team does in accordance with AML policies for providing a virtual currency exchange service and for virtual currency wallet service. The purpose is to establish controls and clear processes to ensure compliance with all regulations and to ensure that all business conducted by Paynoom Sp. z o.o. ("PAYNOOM" and / "or Company") is done in a compliant manner.

2. Normal due diligence

Account registration

1st step

Only 18+ persons, citizens from the list of supported countries can open an account. The updated list of supported and prohibited countries is available on <https://paynoom.com/user-agreement>. Clients must use a valid name and surname and valid email. One email address can be used only for one email account. The activity log is logged on the client's account.

Tools used: Tools to detect clients IP are used to determine the country of origin. Entry field validation to detect false email or false name surname.

Tools used to prevent DDOS attacks and use of malicious scripts.

Data collected: Name, Surname, Email address

Processed by: System and agent manually.

Control: Admin controls the enabled countries. Client accounts cannot be added manually.

2nd step

To continue with account registration, the client needs to verify his email, by clicking on a unique link sent to the email used when registering.

The activity log is logged on the client account.

Tools used: Email sending, IP monitoring,

Data collected: IP, Email status (sent, delivered, opened, clicked),

Control: Client accounts emails cannot be verified manually.

KYC and background check

1st step - Identity record and document check

Client needs to submit a high-resolution color photo of his identity document such as the full double-page of passport or both pages of identity card, with a minimum 1 month to the expiration date, all 4 corners of the document must be visible. Client needs to make sure the identity document is not damaged, has a photo of the face, has the signature and all data is clearly visible. We analyze the files and do not accept screenshots and processed photos.

We collect the data from the document and perform an international identity validation check, which searches for records that link the full name with the given address and date of birth.

The check verifies the likelihood the document provided is genuine and, if applicable, cross-references the information written on the document with the validated identity.

Check automatically declines clients below 18 years, duplicates, blacklisted clients, clients on sanctions lists.

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Tools used: technology provided by 3rd party partner, Sum and Substance Ltd. (<https://sumsub.com/>)

Data collected: Full name, address and postcode, Date of birth, document details, Check status/outcome and related tracking information, identity document and information describing the identity document

Processed by: System processes automatically and in case of edge cases agent manually.

2nd step – Proof of address check

Client needs to upload:

Utility bill or Bank Statement, not older than 3 month;

Paper versions or electronic versions are allowed;

No modifications are allowed to the documents.

3rd step - Video liveness check

Client needs to use a web camera on his computer or mobile to pass the video liveness check. That creates a live 3D print of the face (51+ micro expressions detection) and performs a biometric check that compares the face displayed on an identity document with the face from liveness check, to verify that they are the same.

Using liveness check we ensure the check is performed real-time, no dark-web purchased KYC details can be used to open fake accounts.

Tools used: technology provided by 3rd party partner, Sum and Substance Ltd

Data collected: photo, video of the face.

Processed by: System processes automatically. It cannot be passed manually.

4th step - Watchlist and background check

Takes the Client's full name and searches the international PEPs and Sanctions lists. Legal enforcement data gives the details of who people are, or who have been, wanted by national or international law enforcement in relation to criminal activity. Regulatory enforcement data lists regulatory actions taken against firms and individuals.

The main source is Comply Advantage <https://complyadvantage.com/> (provider of sanction screening tool).

Compromised persons are declined from the usage of the service.

Tools used: technology provided by 3rd party partner, Sum and Substance Ltd. (<https://sumsub.com/>)

Data collected: possible hits from data sources.

Processed by: System processes automatically. It cannot be passed manually.

Video interview

The video interview is conducted in the following cases:

- During any fiat money or virtual currency deposit from a customer registered outside the European Economic Area;
- When a total sum of outgoing payments relating to a transaction or a service contract exceeds 30,000 euros per calendar month or, in the case of a customer who is a legal person, 50,000 euros per calendar month.

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- During EDD, optionally when decided by CO;
- Upon transaction monitoring - optionally when decided by CO, for first transactions over 250K.

Tools used: technology provided by 3rd party partner, Sum and Substance Ltd. (<https://sumsub.com/>) or via other suitable solutions (Google Meet, Microsoft Teams, Zoom etc.)

Data collected: interview and answers to specific questions saved as video file.

Processed by: agent, manually.

Ongoing Watchlist and background monitoring and screening

Using FATF based methodology we perform an ongoing daily screening of all verified clients. The check includes more than 10.000 data sources and covers more than 200 countries.

In case of a positive match, the client account is automatically disabled. After client successfully passes the normal due diligence, he gets access to:

- All digital currency wallets and deposit/withdraw options,
- Payment's methods available in his country,
- Details for EUR deposit,
- Basic limit of 25.000 EUR daily and 250.000 EUR monthly deposits with bank transfers,
- Limit 500 EUR daily and 5.000 EUR monthly for other instant payment methods (Visa, Mastercard, Skrill, Neteller).

General rules for EUR transactions

Minimum deposit

The minimum amount deposited for all payment methods is 100 EUR. In the case of lower deposits, those are rejected and returned. In case of deposits in value less than 5 EUR deposits are ignored as processing those does not cover transaction fees

Tools used: Internal systems

No 3rd party transactions

With bank deposits, we process and accept only transactions where the name and surname of the bank account owner match the name and surname of the Paynoom account holder. Same rules apply to other payment methods.

Third-party transactions are automatically declined.

In case of joint bank accounts (two or more people own the account), the client needs to provide a document, to prove he is authorized to use the account.

Tools used: IP detecting, internal systems

Cash transactions

Paynoom clients cannot use cash transactions.

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EUR withdrawals only to verified IBAN accounts

EUR Withdrawals are possible only to the verified bank accounts. Those are accounts clients have previously already made successful deposit transactions.

Tools used: IP detecting, internal systems, Iban.com

Rejected transactions

Payment's processing team has the right to decline every transaction that they consider suspicious or potentially fraudulent.

Tools used: Internal systems

On hold transactions

Client transactions can be held on hold for a maximum of 5 working days. The day when the transaction was imported to the Paynoom system is day 0. Once the period passes the transaction is rejected and returned to the sender's account. Possible transaction costs are charged to the client.

If a transaction is on hold due to EDD check, Transaction monitoring check, transaction IDCP (ID confirmation photo) or other reason and the case is not resolved in 5 working days, the transaction is rejected, and the check is marked as failed.

3. Enhanced due diligence

Basis for EDD

Enhanced DD measures must be taken

- In cases where the risk level of the Client or Transaction is higher (e.g. European Union cross-border Transactions, Transactions where the Client has no apparent need for it);
- When the client reaches 15.000 EUR in total transactions.
- When financial institutions partners presents a justified reason for the check.

The compliance team shall also apply enhanced DD measures in the following situations:

- When suspicion arises regarding truthfulness of the provided data and/or of the authenticity of the identification documents regarding the Client or its Beneficial Owners;
- The Client is a PEP (excluding local PEPs, if there are no relevant circumstances, leading to the higher risks);
- In the case of unusually large Transactions and unusual patterns of transactions, which have no apparent economic or lawful purpose;
- In case of any circumstances, which signals possible money laundering, terrorist financing or sanctions breach;

The process

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Once the deposit enters the system for processing and that would cause clients to reach 15.000 EUR in total deposits the deposit cannot be confirmed, but can only enter the EDD pool where it stays until confirmed.

An email is sent to the client within the explanation of the next steps. From email, the client is directed to personalized web questionnaire where he:

- Must agree with the terms to share sensitive financial information with us,
- Enters his registration email and name,
- Selects the Source of funds from a multiple select dropdown menu - Salaries, Savings, Pension, Heritage, Loans, Investment/Shares, Cryptocurrency trading, Other (can enter other SOF)
- Selects the annual income from dropdown menu - under 200.000 EUR, between 200.000 and 1.000.000 EUR, over 1.000.000 EUR
- Selects the net worth
- Selects the current employment status
- Selects the latest employment position
- Provides details of the last company/organization client was employed at.
- Provide the SOF supporting documents to prove the statement about SOF. We accept at least a 3 months bank account statement where income is stated (salaries, pension, rent) -PDF with bank details and your account details clearly visible; Work contracts, investment contracts/trading statements; loan contracts; inheritance statement; Yearly statement of savings accounts; Tax return application. We do not accept bank transfer statements for your transfer, XML, CSV, Excel files, screenshots showing just account balances.
- Specify place of residence - Street, Street line 2 (optional), Building number, City, Postcode, Country
- Provide the place of residence supporting documents to prove the statement. We accept Utility bill, Electricity bill, Bank statement, Tax return/council tax. The document should not be older than 3 months
- Enters the bank account details his last transaction came from
- Provide the bank account ownership supporting documents to prove the statement.

Compliance team needs to determine what is the SOF of the last transaction. If that is regular monthly income, then need to see if the pending transaction is proportionate with the yearly income.

Compliance and payments team can ask for additional documents and explanations from the client.

If the result EDD check is negative, clients deposit is rejected, and the client is declined the future usage of the service.

Tools used: IP detecting, internal systems, photo/attachments analysis tool (checks the photo for processing photos, screenshots), when possible Sum and Substance tools to match the data with client KYC profile.

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4. Blockchain AML tools

We use industry-leading Blockchain analytics and AML tool Crystal Blockchain B.V. to monitor and score blockchain transactions to and from our platform. The tool enables us to make real-time risk scoring of blockchain wallets and produce reports using the risk evaluation model supporting almost 300 different risk evaluation scenarios. This way we can monitor the transactions and follow the regulatory compliance as per FATF travel rule and AMLD 6 guidelines.

Users can deposit cryptocurrencies to their wallets and exchange them for euro, they can make withdrawal to a verified bank account. We process only the transactions where the risk score on a scale from 0 (low risk) to 100 (high risk) is between 0 and 35. If the risk score is higher than 35, transactions are rejected.

Tools used: technology provided by 3rd party partner, Crystal Blockchain B.V.

Data collected: wallet address, past transactions, values, relation to other wallets, simple report, or enhanced report

Processed by: agent, manually / automatically.

5. Ongoing transaction monitoring

Once a client passes the EDD he is marked with a tag, depending on his yearly income and net worth (savings, heritage, investments). Based on the tag, the payment processing team needs to check the following transactions.

Tag	Max value of the transaction to be processed without	Next transactions check
Income up to 50.000	2.000 EUR per month	Every tx over 4.000 EUR
Income up to 100.000	4.000 EUR per month	Every tx over 6.000 EUR
Income up to 250.000	10.000 EUR per month	Every tx over 15.000 EUR
Income up to 500.000	20.000 EUR per month	Every tx over 35.000 EUR
Net worth up to 100.000	10.000 EUR per month	Every tx over 15.000 EUR
Net worth up to 250.000	20.000 EUR per month	Every tx over 30.000 EUR
Net worth up to 500.000	50.000 EUR per month	Every tx over 35.000 EUR

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Net worth up top 1 million	100.000 EUR per month	Every tx over 100.000
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Tools used: Internal systems

Credit card fraud

Based on discovered patterns we have defined a set of rules upon failure of which we automatically reject transactions:

- Every transaction must be a 3D secure transaction,
- We only accept card cards where card issuer uses 3D secure and the liability in case of the chargeback is on the side of the card issuer.
- One client can use a maximum of 4 different cards,
- Daily limit is 15 000 EUR per client, after that limits compliance automatically request SOF,
- One card can be used only by one client,
- Client can make only 3 mistakes when entering credit card details,
- Client can make only 3 failed attempts (insufficient funds, declined by bank, etc...),
- If failed transaction reason is Stolen or Lost card, client account is automatically disabled.

All the rules are set to work automatically. All transactions are manually checked once per week and in case fraudulent patterns are detected, client accounts are disabled until cleared.

Tools used: IP detecting, internal systems, partner fraud detecting systems, credit card scheme reporting

6. Upcoming additional AML, fraud detection and prevention measures

We will continue learning and improving our system. We plan to test and use tools that will help us build a safe environment for our clients and help us with the client scoring. A combination of numerous imports will create dynamic client scoring, that will be the basis for client enabled actions, limits and actions done by the compliance team.

7. Reporting for financial partners and authorities

Upon request of partners where there the request is based on a contractual obligation or based on legal ground Paynoom can share use data as:

- Client profile - personal details, account details, balances, limits, transaction history, client account access history (IP, city, country, device), agent comments and logs.
- Verification report,

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- Background check report
- Identity document photo and liveness photo
- Documents collected during EDD check, transaction monitoring or transaction IDCP.

All data can be shared via secure media and every share must be logged to the client profile. The Compliance Officer (CO) or Chief Operations Officer (COO) must approve every document share.

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