LIMASSOL, Cyprus—For years, life was good in this Cypriot seaside resort city for Russian immigrant Nataliya Yazykova. Her husband, she said, earned so much from real-estate deals that lately they have been living off the interest generated by their ample savings.

But now, the crisis engulfing this Mediterranean island nation and the harsh terms of a European Union bailout deal that will hit the bank deposits of the affluent have Ms. Yazykova and many other Russians asking whether the paradise they have built here is soon to be lost.

"Nobody expected that in just one moment, everything would stop," Ms. Yazykova said, standing with a group of Russian mothers and watching her 10-year-old daughter pirouette across a gym mat in a rhythmic gymnastics class. "If we lose the deposits, we have to start everything from the beginning."

Cyprus’s favorable tax and banking laws lured Russian money here and made it a favored home for Russian businesses. The Cypriot sun, azure seas and tranquil lifestyle encouraged many to stay and make their homes in this city of sea-view villas shaded by palm trees.

Under Cyprus’s deal with its European partners, however, the foundations underpinning the Russian enclave are crumbling. Depositors with more than €100,000 ($130,000) could face significant losses as one of the country’s biggest banks is wound down and another is restructured.

EU officials, unhappy with the large flows of Russian money—some of unknown provenance—passing through Cyprus want to see the country’s financial-services industry shrink and its status as an offshore haven end. Estimates of the amount of...
Russian money in Cyprus are in the billions of dollars.

Cyprus's central bank has said Russian deposits in Cypriot banks are believed to range from roughly €5 billion to €10 billion, but others have said the total could be twice that or more. Russian officials have been harshly critical of the bailout plan. On Monday, Prime Minister Dmitry Medvedev said the EU's policy was one of "plunder."

Ms. Yazykova's savings are likely to be hit hard. Her account is with Cyprus Popular Bank PCL, which is to be closed down under the agreement Cyprus reached with its lenders early Monday.

Many business owners in Limassol, where billboards and signs are often written in Cyrillic, said they are already feeling a downturn. Irina Athanasiou, a Russian immigrant who owns a small boutique catering mostly to Russians, says she hasn't made a sale in two weeks.

"People went into a depression," said Ms. Athanasiou, whose store stocks €900 snakeskin stiletto heels, but is modest compared to many others in the area. "When you don't know what is going to happen tomorrow, you don't spend your money on shoes or clothes."

Mayor Andreas Christou, who studied engineering in Moscow and speaks Russian, said he is worried about what the future will bring. Limassol, on Cyprus's southern coast, has come to depend on "indirect income" brought in by Russian businesses, Mr. Christou said. If Russians leave, Limassol would be "losing a very important part of our activity. It's obvious the city will suffer."

While the number of Russians living in Cyprus is hard to pin down, the mayor said he believes 10,000 permanently reside on the island, and many thousands more come for part of the year or visit as tourists.

Not all Russians in Limassol are well-off. Many who live here work in hotels and restaurants that cater to the moneyed. Even among the wealthy, lifestyles here don't approach the opulence of those of rich Russians who don't live here but have most benefited from Cyprus's tax and banking laws, locals said.

Many say they don't intend to leave—some because they are insulated from the fallout of the crisis, others because they have put down roots.

Oleg Lvov, a 50-year-old lawyer and financial consultant who originally came to Cyprus for business seven years ago, said he plans to keep enjoying life in his house with a rooftop garden and sauna. He said he believes the crisis will take a heavier toll on Cypriots than on the Russian émigrés.

Mr. Lvov said he moved the bulk of his money out of Cyprus at the end of 2011 when it became clear to him and many of his Russian clients—including some whose money, he
said, "I think is not so clean"— that Cyprus was in trouble. "A better place is Switzerland," Mr. Lvov said.

At a Russian cultural center beside a small Orthodox church near Limassol, the talk on Sunday was of staying put. "Russians have been through this many times," said Inna Orlova, one of the center’s directors. "For us, it's nothing new."

Ms. Orlova has been traveling between Cyprus and Russia for over a decade, she said, and moved to the island from Moscow in September thinking her now 13-year-old daughter would be happy here.

The Russian community, Ms. Orlova said, has been saving money for a decade so that it can build a larger church with gilt domes in the hills overlooking the sea, a spot that is home to some of the area’s most luxurious villas. Money for the project has been saved in multiple bank accounts, Ms. Orlova said, one in the Bank of Cyprus, where large deposits will suffer a hit. "The church will be built," she said, "if they don't take our money."

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